www.bancopopolare.it/en

Annual Report

2011






BANCO POPOLARE
BANKING GROUP

Annual Report
2011

This English translation of the "Relazione Finanziaria Annuale al 31/12/2011, the " ***Annual Report 2011****" is NOT an official translation. This translation is for informational purposes only, has been prepared solely for the convenience of non-Italian speaking shareholders of Banco Popolare – Società Cooperativa (the "****Issuer****") and any other recipients and is not a substitute for the original Italian document.*
The only official version of the Annual report 2011 is the Italian version which has been approved by the competent body of the Issuer, filed with the competent Register of Enteprises and published according to Italian law and can be found in printed form at the Issuer's head office, at Borsa Italiana S.p.A. premises and as well as in electronic form on the website of the Issuer and of Borsa Italiana S.p.A.
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This English translation does not contain or constitute, and should not be relied upon as, an offer or invitation to make an offer or to acquire any securities in any jurisdiction."

The 2011 annual report continues along the same artistic lines as last year's report, but brings them up to date.
In 2010, we included a series of paintings taken from Banco Popolare's private collection. This year we have decided to present you with an interpretation of the Group's trademark.
Five years ago, when Banco Popolare was founded, you first saw this symbol of three stylised people in red, blue and green. Five years on, our research indicates that our shareholders appreciate this pictogram, which portrays both Banco Popolare and the Group's banks and trademarks. That is how we came up with the idea of showing you our various interpretations of the same over the years, as well as artwork submitted as part of a competition for students of Art Academies that relate to our historic roots. Their work is both a pleasure to see and interesting, so we invite you to look through the pictures and also read the titles and wording; they recount a brief history of Banco Popolare and of its values conveyed once again in the pay-off "Your roots, your future".

Banco Popolare Società Cooperativa

Registered office and General headquarters: Piazza Nogara, 2 - 37121 Verona
Fully paid up share capital as at 31 December 2011: 4,294,145,865.63 euro
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 2011

Board of Directors

Chairman	Carlo Fratta Pasini (*)
Acting Deputy Chairman	Guido Castellotti (*)
Deputy Chairman	Maurizio Comoli (*)
Managing Director	Pier Francesco Saviotti (*)
Directors	Alberto Bauli
	Angelo Benelli
	Pietro Buzzi
	Aldo Civaschi
	Vittorio Coda
	Giovanni Francesco Curioni
	Domenico De Angelis (*)
	Maurizio Di Maio
	Maurizio Faroni (*)
	Gianni Filippa
	Andrea Guidi
	Maurizio Marino
	Enrico Perotti
	Gian Luca Rana
	Claudio Rangoni Machiavelli
	Fabio Ravanelli
	Andrea Sironi
	Sandro Veronesi
	Tommaso Zanini
	Cristina Zucchetti

(*) members of the Executive Committee

Board of Statutory Auditors

Chairman	Pietro Manzonetto
Standing Auditors	Giuliano Buffelli
	Maurizio Calderini
	Gabriele Camillo Erba
	Alfonso Sonato
Alternate Auditors	Marco Bronzato
	Carlo Sella

General Management

General Manager	Maurizio Faroni
Joint General Manager	Domenico De Angelis

Ethics and Disciplinary Committee

Standing	Giuseppe Bussi
	Marco Cicogna
	Luciano Codini
Alternate	Aldo Bulgarelli
	Attilio Garbelli

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

Independent Auditors
Reconta Ernst & Young S.p.A.

CONTENTS

BANCO POPOLARE
GRUPPO BANCARIO

Soc. Coop. - Registered office in Verona, Piazza Nogara, 2 - Share capital euro 4,294,148,212.83 fully paid up
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 SHAREHOLDERS' MEETING

NOTICE OF CALL

In accordance with art. 22 of the Articles of Association, the Ordinary Shareholders' Meeting is hereby convened for Friday 20 April 2012, on first call, at 9 am, in Novara, at the administrative office of Banco Popolare in Via Negroni 12, to discuss the following

AGENDA

1) Substitution of a member 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 2011; approval of the financial statements as at 31 December 2011; presentation of the consolidated and company financial statements; consequent legal resolutions
3) Authorisation to purchase treasury shares in order to sustain share liquidity; relevant and consequent resolutions
4) Adjustment of the fees of Independent Auditors Reconta Ernst & Young S.p.A. engaged to audit the accounts for 2007-2015
5) Decisions relating to remuneration policies; approval of the report pursuant to legislative provisions in force
6) Share allocation plan addressed to executive members of the Board of Directors and to executives of particular importance of the Banco Popolare Group; authorisation to purchase of treasury shares relating to the plan
7) Share allocation plan for employees of the Banco Popolare Group within the sphere of the Company Bonus envisaged by the national collective labour agreement (C.C.N.L.); authorisation to purchase of treasury shares relating to the plan
8) Adoption of the Shareholders' Regulation

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 21 April 2012 at 9.30 am in Novara, at the Sporting Village Novara, Piazzale dello Sport Olimpico, 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 established to arrange 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:
- **Auditorium del Centro Servizi del Banco Popolare, Via Meucci, 5 - Verona;**
- **Auditorium "BPL City" del Banco Popolare, Via Polenghi Lombardo, 13 - Lodi;**
- **Quartiere fieristico di Lucca, Lucca Fiere e Congressi, Via della Chiesa XXXII, trav. I, 237 - Lucca.**

Said connections, in accordance with the cited provision of the Articles of Association, will allow Shareholders - who do not intend to attend the meeting at the Sporting Village Novara 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.

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 Italian Legislative Decree no. 58 (CFL) of 24/02/1998 and art. 27 of the Joint Provision of the Bank of Italy and Consob of 22/02/2008, updated with the deed dated 24/12/2010 (the "Joint Provision"), at least 2 (two) working days before the date set for the first call, namely **by 18 April 2012**.

Shareholders whose shares have already been deposited in the file under the custody and administration, and which have therefore already been dematerialised, of Banco Popolare or another Group bank, 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 16 April 2012**, 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.

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 that 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.

In accordance with art. 23 of the Articles of Association, each Shareholder may only represent **no more than two other Shareholders**, with the exception of cases of legal representation.

Under art. 26 of the Articles of Association, the Chairman of the Board of Directors, as Chairman of the Shareholders' Meeting, is fully authorised 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 forward proxies to the central offices of Banco Popolare **by 17 April 2012**. Any proxies submitted after said date, or at the Shareholders' Meeting must in any event be completed and authenticated as indicated above.

INFORMATION ON SHARE CAPITAL

The share capital subscribed and fully paid up by the Company corresponds to euro 4,294,148,212.83 divided into 1,763,730,405 shares with no nominal value. No shares or any other securities with limited voting rights have been issued. On the date of this notice, Banco holds 1,742,994 treasury shares, mainly for the implementation of the above resolutions of the shareholders' meeting.

SUPPLEMENT TO THE AGENDA

A number of Shareholders, representing a share of not less than 1/40 of Shareholders with voting rights, may, by means of a written request, exercise the right to add further items to the Agenda to be discussed at the Shareholders' Meeting (with the exception of topic 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), set forth in art. 22, paragraph three of the Articles of Association, indicating the further items to be added in their request. Signatures of shareholders must be authenticated by a notary or by authorised company employees. 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 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.

SUBSTITUTION OF A MEMBER OF THE BOARD OF DIRECTORS

With regard to point 1) on the agenda, in accordance with the provisions of art. 29.11, first paragraph, of the Articles of Association, we hereby state that, as the replacement of a Board Director elected from the majority list by the Shareholders' Meeting held on 26 November 2011 has to be arranged, the Shareholders' Meeting will resolve on the basis of 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, 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 10 April 2012. The document on the quali-quantitative composition of the Board of Directors envisaged by the Note of the Bank of Italy dated 11 January 2012 containing the "Application of Supervisory provisions to the organisation and corporate governance of banks", will be provided to Shareholders with sufficient notice for the submission of the above-cited applications.

DOCUMENTATION

Prior to the date of first call of the Shareholders' Meeting, the following documents will be made available at the registered office of Banco Popolare, Piazza Nogara 2, and at Borsa Italiana, as well as published on Banco Popolare's website (www.bancopopolare.it), in the section "*Corporate Governance – Shareholders' Meetings*", in compliance with relevant law:

– at least twenty-one days before, the report on remuneration policies envisaged by art. 123-ter of Italian Legislative Decree no. 58 of 24/02/1998;
– at least fifteen days before, the other reports and the prescribed documentation relating to proposals for the agenda, including therein information on Banco Popolare's adhesion to the Code of Self-regulation of Borsa Italiana S.p.A.

Once said deposit has been made, Shareholders have the right to obtain a copy.

This notice of call is published according to the law and is available on the website of Banco Popolare.

Verona, 20 March 2012

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

Published according to Statutory provisions in the Official Gazette of the Republic of Italy - part II no. 36 of 24 March 2012

“Little men”

The thought of a Bank focusing on man’s centrality.
A real Popular Bank which belongs to everyone and is there for everyone.
Made by people for people.

Annual Report

Year 2011

REPORT ON OPERATIONS AND CONSOLIDATE FINANCIAL STATEMENTS

Banco Popolare Group structure

Aletti & C. Banca di Investimento Mobiliare
Aletti Gestielle SGR
Banca Aletti & C. (Suisse)
Efibanca
B.P.I. International (UK)
Valori Finanziaria
Aletti Fiduciaria

Banca Popolare di Verona - S.Geminiano e S.Prospero
Banca Popolare di Lodi
Banca Popolare di Novara
Credito Bergamasco
Cassa di Risparmio di Lucca Pisa Livorno
Banca Popolare di Crema
Banca Popolare di Cremona

Banca Italease
Mercantile Leasing
Italease Finance
Release

Società Gestione Crediti BP
Società Gestione Servizi BP
Holding di Partecipazioni Finanziarie Banco Popolare
Bipielle Real Estate
Immobiliare BP
Tecmarket Servizi
Bipielle International Holding
AT Leasing Romania
Banco Popolare Croatia
Banco Popolare Hungary
Banco Popolare Luxembourg

Core commercial banks

Investment & Private Banking, Asset Management

Leasing

Others

GROUP TERRITORIAL NETWORK

Branches of the Banco Popolare Group in Italy

Banco Popolare Group Branches (*)	Number
Banco Popolare	1,682
Credito Bergamasco	302
Banca Aletti	35
Total	**2,019**

(*) Excluding treasury branches

Presence abroad

Operations abroad are carried out by subsidiaries BP Luxembourg, BP Croatia, BP Hungary, AT Leasing Romania, a branch of Banco Popolare in London and Banca Aletti Suisse.

The Group's presence beyond the national borders also takes the form of Representative Offices in India (Mumbai), China (Beijing, Shanghai and Hong Kong) 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 millions of euro)	**31/12/2011**	**31/12/2010 (*)**	**Change**
Income statement figures			
Financial margin	1,802.6	1,854.7	(2.8%)
Net fee and commission income	1,273.4	1,266.8	0.5%
Operating income	3,816.6	3,719.0	2.6%
Operating expenses	2,406.6	2,448.9	(1.7%)
Income (loss) from operations	1,410.0	1,270.1	11.0%
Income (loss) before tax from continuing operations	560.9	178.0	215.1%
Income (loss) for the year	- 2,257.3	308.0	

(*) The figures have been adjusted in compliance with IFRS 5. The attachments contain a statement of reconciliation between the income statement schedule published in the annual financial report as at 31 December 2010 and that restated in this schedule.

(in millions of euro)	**31/12/2011**	**31/12/2010**		**Change**
Balance sheet figures				
Total assets	134,126.6	135,155.7		(0.8%)
Loans to customers (gross)	97,509.6	98,559.6		(1.1%)
Financial assets and hedging derivatives	19,425.2	17,726.3		9.6%
Shareholders' equity	9,037.4	11,527.5		(21.6%)
Customers' financial assets				
Direct deposits	100,200.0	104,523.7		(4.1%)
Indirect deposits	64,396.7	76,235.9	(*)	(15.5%)
- Asset management	26,511.1	31,444.6		(15.7%)
- Mutual funds and SICAVs	7,137.6	9,205.2		(22.5%)
- Securities and fund management	7,168.5	9,445.0		(24.1%)
- Insurance policies	12,205.0	12,794.4		(4.6%)
- Administered assets	37,885.6	44,791.3		(15.4%)
Information on the organisation				
Average number of employees and other staff (**)	19,280	19,872	(*)	
Number of bank branches	2,092	2,119		

(*) Adjusted figures to enable a like-for-like comparison.
(**) Arithmetic average calculated on a monthly basis which does not include the Directors and Auditors of Group companies.

Financial and economic ratios and other Group figures

	31/12/2011	31/12/2010
Profitability ratios (%)		
ROE	-20.0%	2.7%
Financial margin / Operating income	47.2%	49.8%
Net fee and commission income / Operating income	33.4%	34.0%
Operating expenses / Operating income	63.1%	65.9%
Operational productivity figures (000s of euro)		
Loans to customers (gross) per employee	5,057.6	4,959.7
Operating income per employee	198.0	187.2
Operating expenses per employee (*)	124.8	123.4
Credit risk ratios (%)		
Net doubtful loans / Loans to customers (net)	3.93%	3.05%
Net substandard loans / Loans to customers (net)	4.11%	4.59%
Net doubtful loans / Shareholders' equity	40.57%	24.98%
Banco Popolare stock		
Number of outstanding shares	1,763,729,753	640,484,006
Official closing prices of the stock		
- Maximum	2.75	4.10
- Minimum	0.81	2.30
- Average	1.66	3.28
Annualized basic EPS	- 1.280	0.346
Annualized diluted EPS	- 1.280	0.247

(*) Arithmetic average calculated on a monthly basis which does not include the Directors and Auditors of Group companies.

“Where the future is being grown”

MARTINA VANINI

“G.B. Cignaroli” Academy of Fine Arts, Verona.

The image is intended to convey the idea of a growing bank, in step with the times and open to “seasonal” changes, able to handle new technological developments and new customer needs.

Annual Report

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Group Report on operations

ECONOMIC SCENARIO

The international scenario

The positive results recorded at the end of 2010 enabled the global economy to get off to a good start in 2011. However, the situation rapidly deteriorated in the second half of the year: economic growth in advanced economies, with some exceptions relating to the USA, slowed down significantly, restrained by higher energy prices, by the continuing weak employment figures, by the more restrictive tone of budget policies, particularly in Europe, by widespread uncertainty as to the resolution of financial imbalances and by the slack economic situation of Emerging nations, which in any event continued to be a driving force for the global economy. At the end of the first quarter, the inertial progression of international growth was interrupted by two specific important events: on one hand, the sovereign debt crisis in the Eurozone regained centre stage and on the other hand, the Japanese economy was significantly damaged by a widespread natural disaster. The European sovereign debt crisis conditioned the remainder of the year. At the same time, countercyclical economic policies, mostly based on monetary leverage through quantitative easing manoeuvres, did not succeed in boosting the growth of developed countries, or in contrasting the negative impacts on emerging economies, despite the substantial resources employed. At the end of the year, according to initial estimates, global GDP had risen by 3.7% against 5.2% in 2010, and international trade had also expanded at a slower pace compared to 2010: +6.5% against +15.5% the previous year.
More specifically, the US GDP, according to initial estimates, rose 1.7% compared to the 3% recorded for the previous year. As regards income components, consumer spending made a positive contribution, recording a rise of 2.2%. Fixed investment in the private sector, assisted by tax incentives, after recording an increase of 2.6% in 2010, quickened its pace and recorded a 6.6% rise in 2011. The residential investment component continued to fall, albeit to a lesser extent than 2010 (-1.4% against -4.3% in 2010), confirming the continuing weakness of the US real estate market. Exports continued to show an upward trend, recording a rise of 6.8% against +5% of imports. Employment continued to suffer from a poor supply of jobs, but recording a gradual improvement: in December 2011, the rate of unemployment was 8.5%, against 9.6% at the end of 2010. The consumer price trend picked up considerably, rising from 1.5% in 2010 to 3% in 2011.
In Japan, GDP in 2011 did not change at all (+4.4% in 2010), in the wake of the cited negative economic repercussions of the earthquake and related nuclear accident last March. Consumer prices continued to backpedal (according to initial available estimates, the rate of inflation in 2011 was -0.3%), confirming the climate of deflation for Japan’s economy.
The growth of emerging countries suffered from the lack of vivacity of the more industrialised nations: in China, according to initial estimates, GDP rose 9.2% compared to +10.4% in 2010, supporting theories of a levelling off of growth following pressure from the Central Bank, which is determined to keep inflation under control: consumer prices rose 4.1% in 2011, up compared to 2010, after having recorded a peak of 6.5% in July. India’s GDP rose 8.4% in 2011 (+10.4% in 2010), that of Pacific countries by 4.2%, against +7.2% last year, and that of Latin America by 4.4% (+6.6% in 2010).
This global economic trend led to balanced commodity prices in 2011. After having touched 115 dollars per barrel at the beginning of the year, in the third quarter the WTI recorded a record low of around 75 dollars, while after having exceeded 1,900 dollars per ounce, in the second half of the year, gold prices started to balance out until the end of the year.

The situation in Europe and Italy

After an initial phase characterised by widespread positive expectations in the wake of the good results recorded in 2010, the Eurozone’s economy started to slow down as of the second quarter of the year, also due to the simultaneous sudden deterioration of the sovereign debt crisis in several nations. Restrictive tax policies, which sought to remedy the impaired condition of public finances in peripheral countries first and foremost, but also of their major partners, and the less expansive nature of monetary policy, aimed at countering expectations of inflation in the early part of the year, had a negative impact on both consumption and on net public spending. Growth was therefore driven by exports alone, partially boosted, from March onwards, by the renewed weakness of the Euro. On the basis of available figures, the GDP of the Eurozone (EA-17) recorded an end-of-year increase of 1.4% (+1.9% in 2010), due to the positive contribution of close to 0.6% of overall demand (resulting from a rise of 0.7% in private consumption and of 1.1% in total investment) and the positive contribution of 0.9% of net exports. Inflation recorded a substantial upward trend compared to last year: the harmonised consumer price index rose in 2011 by 2.7% against +1.6% in 2010. However the average growth of GDP was spread very unevenly: Germany, which benefited from an excellent positioning in emerging markets, recorded an increase of 3%, compared to a fall of 6.8% in Greece and of 1.7% in Portugal. The conditions of public finance started to show signs of improvement, confirming the impact of the restrictive policies adopted throughout continental Europe: the net deficit of Governments in the area fell from 6.2% of GDP at the end of 2010 to 4.3% at the end of 2011.
In this context, in 2011, the Italian economy, already characterised by a lower growth rate that than of its main European partners, suffered from the continuing weakness of domestic demand and, from the summer onwards, also from Italy’s direct involvement in the sovereign debt crisis. Any signs of economic recovery vanished at the end of the first half, as the positive trend of exports and selective tax incentives were not enough to trigger a growth cycle of consumption or investment. Economic operators suffered from the general climate of uncertainty, also fuelled by tensions in the financial and credit markets and by the initial impact of manoeuvres to rescue public finances, launched as a response to the growing confidence crisis in Italy, to guarantee the sustainability of public debt and to focus on the objective of a budget breakeven. The climate of trust of retail customers fell to the record lows recorded in the 1991-93 recession. The erosion of the purchasing power of retail customers, provoked by a weak income trend and by rising inflation, had a negative impact on consumption, also faced with a further deteriorated labour market compared to 2010. Three financial manoeuvres were

implemented in 2011, in an attempt to rescue public finances, the third of which was launched in December with the establishment of the new Monti government. The overall impact of the above provisions on the net deficit is estimated to be 5% of GDP at the end of 2014.
The estimates available today show a 0.5% rise of Italian GDP in 2011, against +1.4% in 2010. This figure reflects the negative results of the last two quarters, in which GDP fell 0.2% in the third quarter against the previous period, and 0.7% in the fourth, thus marking the start of a recession of the Italian economy. In terms of the different components, retail customer spending rose by 0.3% (+1.1% in 2010), investments in machinery and means of transport by 0.4% (+10% in 2010) and exports of goods and services - given a 0.7% rise in imports (+12.4% in 2010) - rose 6.2% (+12% in 2010), the latter representing the real driving force of the Italian economy. Government spending fell by 0.4% (-0.5% in 2010) and available income by 1.0% (-0.6% in 2010). Investment in construction continued to fall (-2.2% in 2011, after -4.1% in 2010). Despite the recessionary impact of tax measures, consumer prices rose by an average of 2.8%, against 1.5% in 2010. The conditions of the labour market remain weak and the rate of unemployment in 2011 was 8.2%, slightly lower than last year's figure of 8.4%.
Public finances, on the other hand, showed an improvement at the end of the year: the net requirement of the public sector, based on initial estimates, was euro 61.5 billion, against euro 67.0 billion in 2010, and net of interest expense, the year-end figure recorded a primary surplus of euro 15.4 billion (1% of GDP), against a deficit at the end of 2010 (-0.1% of GDP). As a result of the above trends, the deficit/GDP ratio was 3.9% in 2011, down against the 4.6% recorded for 2010, while the public debt/GDP ratio continues to increase, rising from 118.4% to 120.7%.

The situation of the money and financial markets

In 2011, US and European monetary policies followed different trends and for a certain period actually diverged: on one side, the Federal Reserve maintained a highly permissive approach to its monetary policy (the benchmark interest rate on FED funds stood unchanged at 0.25% per the entire year), with a view to promoting market stability by keeping interest rates close to zero, while the ECB, concerned with consumer price tension, raised the benchmark interest rate twice by 25 b.p. (on 7 April and 7 July 2011), bringing the main benchmark interest rate to 1.50%. However, following the appointment of Mario Draghi as the new President, in a meeting held on 3 November, given the extreme weakness of the European economy, the ECB decided to cut the benchmark interest rates by 25 b.p., bringing them back to 1.25%, envisaging a fall in inflation to below the 2% threshold in 2012. Finally, in December, the European Central Bank brought the benchmark rate to 1%, and announced two extraordinary long-term, fixed-rate refinancing operations with a maturity in excess of 36 months and full allocation of the quantities requested. These operations contrasted the impact of the substantial economic slowdown and of the Euro crisis on the European banking system.
2011 was distinguished in particular by the crisis of the peripheral Eurozone countries, one of the consequences of which was the considerable devaluation of the single currency against the major world currencies. In May, the European Authorities were forced to launch a new plan of financial aid to rescue Portugal, after those launched in 2010 to rescue Greece and Ireland. In its July meeting, the Eurogroup set in place the European Stability Mechanism (ESM), which will replace the EFSF from 2012 on a permanent basis, increasing the lending capacity to euro 500 billion, and at the same time a second rescue plan for Greece was outlined. Nevertheless, the different initiatives set in place to resolve the Euro crisis were unable to reassure the markets. The indecision, prudence and delay characterising the implementation of the first measures fuelled doubts as to their effectiveness and as to the real political will to commit significant amounts to these rescue plans. Proposals put forward by a number of parties to implement more radical reforms, such as issuing Eurobonds or giving the ECB the role of lender of last resort, were repeatedly rejected in the face of German resistance. The rating agencies first downgraded Ireland, Spain, Greece and Portugal between the end of February and the beginning of March, while Italy's downgrade came at the end of the summer. During the summer, the crisis then spread, directly involving Italy and Spain as well. The spread between the BTP and 10-year German Bund notes exceeded 300 b.p., deteriorating further in the Autumn, surpassing 500 b.p. at the peak in November.
At two meetings of the Council of Europe in October, and especially in December, an agreement of more substance was finally reached, which will coordinate economic policies and improve governance in the Eurozone. The new rules, called "Fiscal compact", which Great Britain and the Czech Republic have not joined, envisage the commitment of EU Member States to maintain balanced budgets (maximum deficit 0.5% of GDP), by encompassing the same in domestic legislation through constitutional law or equivalent, as well as semi-automatic fines for surpassing the deficit threshold of 3% of GDP, and the obligation for countries with a public debt exceeding 60% of GDP to reduce the same by at least one twentieth of said surplus each year.
The Euro crisis and the consequent increase of spreads on European government bonds against German Bund notes had repercussions on all segments of the financial markets. The credit risk of non-sovereign bond issues, measured by credit default swap contracts, rose exponentially. In particular, the banking sector was significantly impacted, also due to the large presence of government bonds of peripheral countries in the balance sheets of credit institutions: the 5-year CDS index relating to the European banking industry in the first half of September was close to 500 b.p.. In Italy, over the summer, issues of bank bonds practically stopped and substantial falls in prices on the secondary markets were recorded, particularly for subordinated instruments. The interbank funding channels dried up and the abundant liquidity provided by the ECB in many cases was 'parked' at the same Central Bank in the form of deposits. After fairly stable performance in the first half of the year, in the third quarter share indices fell spectacularly, also due to the considerable weight of bank shares in share-lists, especially in Italy's case. Share prices were also impacted by the need for the major credit institutions to make substantial share capital increases following requirements imposed by the Basel 3 agreement and, above all, the recommendation to strengthen capital made by the EBA, the new European Supervisory Authority. In Italy, the share increases made before January 2012 totalled around euro 20 billion.

The financial markets started to show signs of improvement only towards the very end of the year and even more so in the first two months of 2012. Following large-scale participation in the first extraordinary long-term refinancing operations launched by the ECB, which concluded on 22 December, Italian banks improved their liquidity status, releasing tension on their share and bond prices. In parallel, also due to the implementation of the first measures of the new Italian government, including the State's guarantee of several types of bank liabilities, the BTP/Bund spread fell from its highs and, with it, the cost of funding for Italian credit institutions. Diminishing fears of Italy's contagion, together with the resumption of talks for the second tranche of aid to Greece, to avoid its default, enabled a return to more tranquillity on the financial markets.

Domestic banking scenario

In the first half of the year, loans to retail customers and corporate loans showed a steady growth rate, assisted by a positive economic scenario: in June, the increase was 6.1% against the same period of the previous year, net of the effect due to the 're-emergence' of securitised loans. In the second half of the year, the intensity of the economic slowdown, tensions on the public debts of peripheral Eurozone nations and the intensification of the capital constraints imposed by the EBA on European banks - with the requirement to comply with a core Tier 1 ratio of 9% within the first half of 2012 and the ensuing recapitalisations - were reflected in the trends of the European banking industry and in particular of the Italian system, in terms of both supply and demand, leading to a rise in loans at year end of 3.6% compared to the corresponding period. This figure reflects the livelier trend of short-term loans (+5.4%) and the more moderated trend of medium-long term ones (+3%); loans to retail customers rose 4.3%, while corporate loans increase by 3.1%.
In terms of supply, the slowdown of the trend reflects more selective credit disbursement and pricing policies, based primarily on the perception of a high risk of the economic context, highlighted by the substantial increase of doubtful loans. The cost of funding also represented a substantial constraint, a consequence of the impact on the interbanking market of the crisis of peripheral European countries and of the higher capital constraints imposed by supervisory regulations, pushing banks further towards deleveraging.
In terms of the demand of retail customer loans, the fall of available income, the diminished trust of consumers and the worsening prospects of the real estate market, were all contributors. With regard instead to corporate customers, the demand for loans suffered mainly from frozen investment decisions and from the slowdown of production activities.
Bank deposits suffered considerably from the performance of the real economy in 2011, and in particular from difficulties experience in saving. At year end, total funding showed a downturn of 1.3%, with a change in the mix in favour of term instruments: while deposits recorded a year-end figure of -2.8% and PCT of -39%, while bonds recorded a rise of 8.4%.
In terms of interest rates, the higher selectivity in loan disbursement and in the assessment of creditworthiness, combined with the more stringent rules of capital on one side and pressure on the cost of funding on the other, led to a rise in interest income and expense rates. The cost of funding of the banking system was conditioned by more intense competition to attract the savings of ordinary customers, in the face of lesser savings, while the cost of funding of bonds was influenced by the trend of the spread between Italian and German government bonds. In December, the assignment of the above-mentioned first long-term extraordinary operation launched by the ECB contributed to alleviating tension and to improving the liquidity situation of the primary Italian bank bond market.
The combined effect of the above was a slight increase of 12 b.p. of the spread between bank interest rates - given by the difference between the average interest rate on loans to retail customers and non-financial companies and the average interest rate on deposits - which in December was 224 basis points (212 b.p. in December 2010). The mark-up - the spread between the average interest rate on loans to retail customers and to non-financial businesses and the 3-month Euribor - recorded an end-of-year figure of 280 b.p. (against 260 b.p. in December 2010), while the mark-down - the spread between the average interest rate on the 3-month Euribor and the average interest rate on bank deposits of retail customers and non-financial companies - worsened, reaching -56 b.p. on the same date (against -48 b.p. one year earlier).
As far as credit quality is concerned, draft financial statement figures indicate that as at December 2011, reflecting the marked deterioration of the economic scenario, gross doubtful loans of the Italian banking industry exceeded euro 107 billion, up euro 29.3 billion compared to December 2010 (+37.6%), corresponding to 5.44% of total loans (4.01% as at December 2010). Doubtful loans net of write-downs amounted to euro 60.3 billion as at December (+29.8% against the corresponding period of the previous year).
Lastly, the asset management segment closed 2011 with net deposits - from the beginning of the year - in Italian and foreign mutual funds down euro 33.3 billion. Assets invested in open-ended Italian and foreign mutual funds amounted to euro 419.1 billion at the end of December 2011 against euro 460.4 billion at the end of 2010.

SIGNIFICANT EVENTS DURING THE YEAR

The main events which occurred during 2011 are described below.

The new Large Cooperative Bank model is launched

On 15 July 2011, Banco Popolare's Supervisory Board and Management Board approved the guidelines for a project to create a new model for a Large Cooperative Bank (*Grande Banca Popolare*) to serve local markets, resulting from a process of integration - which involved the merger by incorporation of the following Network Banks into Banco Popolare: Banca Popolare di Verona–S.Geminiano e S.Prospero, Banca Popolare di Novara, Banca Popolare di Lodi, Cassa di Risparmio di

Lucca Pisa Livorno, Banca Popolare di Cremona and Banca Popolare di Crema. Credito Bergamasco has retained its status of listed company subject to the control, supervision and coordination of Banco Popolare.
Banco Popolare, by maintaining its legal standing as a cooperative bank, has therefore taken on the role of operational bank, structured on the basis of a territorial model that envisages the creation of Divisions in the Group's traditional historic areas, with strong ties to the local communities. More specifically, Territorial Divisions are envisaged, which are fully integrated within the Parent Bank, and substantially correspond to the historic brands "Banca Popolare di Verona-Banco S. Geminiano e S.Prospero", "Banca Popolare di Lodi", "Cassa di Risparmio di Lucca Pisa Livorno" and "Banca Popolare di Novara", which will serve the whole Central-South region.
The project seeks to achieve continuity and is fully in line with the Business Plan approved in June, in terms of its objectives to simplify the organisation and to boost the Group's commercial presence.

On completion of the project:
- the Banca Popolare di Verona Division is in charge of around 560 branches located in the North-East (Veneto, Emilia Romagna, Trentino Alto Adige, Friuli Venezia Giulia) and in Lombardy (Mantua) with over 3,200 employees;
- the Banca Popolare di Novara Division is in charge of around 590 branches located in the North-West (Valle d'Aosta, Piedmont, West Liguria), in Lombardy (Milan and Pavia), in Lazio and in Southern Italy, with around 3,200 employees;
- the Banca Popolare di Lodi Division is in charge of around 580 branches, mostly located in Lombardy, East Liguria, Tuscany and Umbria, with around 3,400 employees;
- Credito Bergamasco is responsible for around 270 branches located in Lombardy (Bergamo, Brescia, Como, Cremona, Monza Brianza, Varese) and in Lazio (Rome), with over 1,600 employees.

This reorganisation will substantially eliminate all of the territorial overlaps between the BPV, BPN and BPL Divisions.
The project confirms the Group's historic territorial vocation and strong ties with local communities, and also envisages a considerable boost to all operational areas with respect to the current model.

The business model relating to high equity customers will not change and the same will continue to be served by Banca Aletti.

The simplification of the Group's current operational structure will enable it to obtain important structural economic benefits in additional to those already envisaged in the 2011-2013/2015 Business Plan, in terms of cost savings, higher commercial effectiveness, better territorial supervision, simplification of internal governance, decision-making and operational processes and therefore a significant reduction of the execution risk related to the initiatives envisaged in the Business Plan.

On 11 October 2011, the Bank of Italy issued its authorisation for the merger transaction in line with planning that envisaged the completion of the mergers by the end of the year, with retroactive effect in terms of accounting and taxation from 1 January 2011.

On 28 October 2011, the Proposed merger by incorporation into Banco Popolare of Banca Popolare di Verona – S. Geminiano e S. Prospero, Banca Popolare di Lodi, Banca Popolare di Novara, Cassa di Risparmio di Lucca Pisa Livorno, Banca Popolare di Cremona and Banca Popolare di Crema was registered with the Company Registers of the banks participating in the mergers, drawn up pursuant to articles 2501-ter and following of the Italian Civil Code.

The Board of Directors Meeting of Banco Popolare held on 29 November and the Shareholders' Meetings of the network banks, with the exception of Credito Bergamasco, approved the proposed mergers by incorporation of the same into Banco Popolare, on the basis of the respective balance sheets as at 30 June 2011.
The incorporations of Banca Popolare di Verona – S.Geminiano e S.Prospero, Banca Popolare di Lodi, Banca Popolare di Novara and Banca Popolare di Crema were carried out according to the simplified procedure envisaged for wholly-owned companies by art. 2505 of the Italian Civil Code. The shares of these companies have been cancelled without any corresponding exchange.

In this regard, note that on 24 November, Banco Popolare purchased 1,735,412 Banca Popolare di Crema preference shares held by the *Associazione Popolare Crema per il Territorio*, for euro 11.3 million (partly paid in cash and partly in Government Bonds); in this way, at the time of the merger, Banco Popolare held 100% of the capital of Banca Popolare di Crema.

The incorporations of Cassa di Risparmio di Lucca Pisa Livorno and of Banca Popolare di Cremona were instead carried out according to the provisions of art. 2505-*bis* of the Italian Civil Code.
In this case, although the shares held by Banco Popolare were cancelled without any corresponding exchange, the shares not held by Banco Popolare were replaced by newly-issued ordinary shares on the basis of an exchange ratio, which did not envisage any cash payment, of 0.35 ordinary Banco Popolare share for each ordinary share of Cassa di Risparmio di Lucca Pisa Livorno and 1.5 ordinary Banco Popolare shares for each ordinary share of Banca Popolare di Cremona.
In this regard, note that on 16 December 2011, Banco Popolare purchased the 4,800,000 Cassa di Risparmio di Lucca Pisa Livorno shares held by the Cassa di Risparmio di Lucca Pisa Livorno Foundation, for euro 7.8 million; by virtue of this

transaction and of other minor purchases, at the time of the merger, Banco Popolare held 99.99% of Cassa di Risparmio di Lucca Pisa Livorno.
Lastly, as regards Banca Popolare di Cremona, at the time of the merger Banco Popolare held a total of 99.662% of the share capital of the same.
With reference to the merger of Cassa di Risparmio di Lucca Pisa Livorno and of Banca Popolare di Cremona, it should also be noted that in addition to withdrawal rights, minority shareholders were recognised the right to have their shares purchased ("Put Right") by the incorporating company for an amount established according to the criteria envisaged for withdrawal by art. 2437-*ter* of the Italian Civil Code.
More specifically, as regards Cassa di Risparmio di Lucca Pisa Livorno, the Put Right was exercised on a total of 4,807,834 shares, corresponding to 0.681% of share capital, at a price of euro 1.63 per share, and therefore for a total of euro 7.8 million, while no shareholder exercised withdrawal rights; lastly, as regards Banca Popolare di Cremona, the Put Right was exercised on a total of 4,906 shares, corresponding to 0.0146% of share capital, at a price of euro 7.50 per share, and therefore for a total of euro 36,795; also in this case no shareholder exercised withdrawal rights.

Therefore, in line with the Proposed Mergers and with that resolved by the Board of Directors of Banco Popolare on 29 November 2011, Banco Popolare increased its share capital by euro 474,498.15, through the issue of 194,890 ordinary shares with no nominal value, to be allocated to shareholders of Cassa di Risparmio di Lucca Pisa Livorno (24,691 shares for a total of euro 60,115.32) and of Banca Popolare di Cremona (170,199 shares for a total of euro 414,382.83).

The mergers became effective in statutory and fiscal terms as of 1 January 2011, while in legal terms, the same take effect from 27 December, the date on which the merger deeds were entered on the relevant Company registers.

From an operational/IT perspective, the transaction will be finalised in the first half of 2012, limiting the impact on customers to a minimum.

Revision of Banco Popolare's management structure

Consistent with the Group's simplification project, the guidelines for a complex review of Banco Popolare's governance model have also been approved.
The shareholders' meeting held on 26 November 2011 approved the proposal to adopt a traditional administration and control system, through the establishment of a Board of Directors with 24 members, of which a minimum of 3 and a maximum of 4 (including the Managing Director) are to be chosen from Group executives.
The composition of the Board of Directors takes the historic roots of the banks that formed Banco Popolare (Verona, Lodi and Novara) into account.
The Board of Directors manages the company's affairs with the assistance of an Executive Committee, the Managing Director and the General Management team comprised of the General Manager and a Joint General Manager.
The Chairman, the two Deputy Chairmen, the Managing Director and two of the Board directors chosen from Group executives make up the Executive Committee, which therefore has 6 members. The Board of Statutory Auditors has 5 standing members.

At the first meeting of the Board of Directors held on 29 November 2011, the same appointed Pier Francesco Saviotti as Managing Director, Maurizio Faroni as General Manager and Domenico De Angelis as Joint General Manager. As envisaged by the Articles of Association, the Board also resolved the constitution of the Executive Committee, the Internal Control and Risks Committee, the Emoluments Committee and the Appointments Committee.

The Finance and Equity Investments Departments report to the General Manager, as well as Operations, to which the Organisation, Planning and Control Department, the Products and Services Service and the Investor Relations Function report. Banca Aletti has maintained its legal identity, but is under the supervision of the Managing Director and is coordinated by the General Manager of Banco Popolare.

The Retail and Corporate Departments and the BPV, BPL and BPN Divisions report to Banco Popolare's Joint General Manager. Credito Bergamasco maintains its corporate and accounting independence, but conducts its commercial activities under the supervision of the Managing Director, with the direct coordination of Banco's Joint General Manager.

The Audit, Administration and Reporting, Human Resources, Risks, Loans departments as well as the Corporate Secretary's Office and the Communications and External Relations Service report directly to the Managing Director.

Relations with the areas of Banco's historic origins are guaranteed, in addition to the criteria on which the Board of Directors is formed, by the division structured applied to the network and by the establishment of Territorial Committees for advisory and credit services.

There are four territorial Divisions in charge of overseeing and coordinating the network:

1. Banca Popolare di Verona Division, split into two territorial departments, Banca Popolare di Verona and Banco S.Geminiano e S.Prospero;
2. Banca Popolare di Lodi Division, split into two territorial departments, Banca Popolare di Lodi and Cassa di Risparmio di Lucca Pisa Livorno;

3. Banca Popolare di Novara Division, split into two territorial departments Banca Popolare di Novara and Centre-South;
4. Credito Bergamasco Division which, although maintaining legal independence and listed company status, will coordinate its sales activities with the Sales Department of Banco Popolare and will also have a territorial department, the appointment of which will be submitted for the approval of the Board of Directors of Credito Bergamasco.

Territorial Committees have been established to provide support to each Territorial Division. The purpose of these committees, which are free of functions and management, supervisory and representation powers, is to encourage the link with the membership base and with the areas of Banco Popolare's historic roots.
The Territorial Committees are comprised by members appointed from shareholders representing the economic, professional and associative spheres of the local area.

The new governance model illustrated previously is one of the initiatives launched in the first half of the year that led to a revision of Banco Popolare's organisational chart.
More specifically, at a meeting of the Management Board and the Supervisory Board of Banco Popolare held on 27 April 2011, with a view to enhancing overall risk management and giving a further boost to the implementation and organisational governance of the business plan, introduced the positions of Chief Risk Officer (CRO) – in charge of the Risks Department - which oversees risk management in the narrow sense, legislative compliance and legal risk - and Chief Operating Officer (COO) – in charge of the Operations Department - whose task is to ensure that results are achieved in terms of cost synergies and excellence in terms of the service level offered. Furthermore, the Board of Directors Meeting held on 29 November also added the position of Chief Lending Officer to the organisational chart.

Banco Popolare's 2011-2013/2015 Business Plan approved

At the end of June, the Management Board and the Supervisory Board of Banco Popolare approved the Group's Business Plan for 2011-2013/2015.
The guidelines of the Business Plan are based on growth, confirming and reinforcing the Group's focus on areas in which it has historic presence and envisage important projects to optimise the central offices, territorial presence and commercial models to strengthen the network, to improve commercial effectiveness, to increase the customer base and the Group's profitability.
The main areas for improvement are:

- the reduction of head office resources, and the increase of network resources;
- the elimination of overlaps between the Parent Company and local offices;
- measures to simplify the company structure and the network structure;
- the improvement of network performance, entailing a significant increase in the number of managers, as well as measures to rationalise local presence and innovate service models;
- the increase of the customer base, with exclusive focus of the core segments of retail customers and SMEs.

More specifically, the initiatives envisaged by the Plan for the retail segment seek to maximise network capacity and to expand the customer base, analysing the various reference contexts and also exploiting innovative channels.
Projects focused on growth entail: reviewing the threshold for Small Business-Mid Corporate segmentation; increasing the number of resources dedicated to small business and to the management of affluent customers; introducing a specific Internet product "YouBanking"; cross-selling initiatives with Banca Aletti.
The results of these programmes will lead to the transfer of around 15 thousand business customers to branches, as well as a new service model, following the allocation of companies with a turnover of up to euro 5 million to the small businesses segment (up until now the threshold was euro 2.5 million).
The addition of 600 new small business managers and of 300 new affluent customer managers to the network will enable said changes to be adequately managed, as well as sustaining the growth of the branches in the relative socio-economic scenario.

The management of capital and of risk is a fundamental chapter of the Plan. Banco Popolare has already implemented important measures as regards capital adequacy: the issue of a soft mandatory convertible loan of euro 1 billion, the euro 2 billion capital increase, the assignment of non-core assets (Factorit, Caripe, foreign banks and other smaller banks); the Plan also envisages a series of transactions that seek to further improve the ratios with a view to reaching and sustaining the level required by European supervisory regulations, set by the parameters established by Basel III.

In an economic scenario which continues to show areas of weakness, the economic-financial performance envisaged in the Plan will benefit from higher operating income, tight control of administrative expenses and the improvement of the cost of credit.
These objectives are also confirmed by the above-cited plan to incorporate the Banca Popolare di Verona, Banca Popolare di Novara, Banca Popolare di Lodi, Banca Popolare di Cremona, Banca Popolare di Crema and Cassa di Risparmio di Lucca Pisa Livorno into the Parent Company. The plan was launched in mid-July and has led to the creation of a "Large Cooperative Bank" (*Grande Banca Popolare*).

Reorganisation of the branch network

The guidelines of the 2011-2013 Business plan also approved a project to reorganise the commercial networks of Network Banks, by reorganising the distribution network at municipal level.

The project entailed the transfer of 161 branches between Network Banks, and was due to be completed by the end of 2011, by means of a complex series of disposals, conferrals and separations of business segments (the latter under a simplified procedure) between Group banks.
The purpose of regrouping branches under a single brand name at municipal level was to obtain immediate and future benefits, including the elimination of commercial overlaps (for example neighbouring branches belonging to different Group banks), the elimination of inconsistencies in the pricing of similar products and services and a more incisive and competitive sales drive due to the compactness of the distribution network and full brand recognition within the various communities covered.
The project also envisaged the closure of around 85 branches, which represented overlaps at local level.

As already mentioned above, the mergers of the Network Banks into Banco Popolare (with the exception of Credito Bergamasco) rendered transactions between the companies to be incorporated by Banco Popolare incompatible and no longer necessary.

Instead, the transfer of the following business segments to Credito Bergamasco, effective 1 August 2011, was fully in line with the objectives of the business plan:

- transfer of a business segment comprised of 8 branches of Banca Popolare di Crema;
- transfer of a business segment comprised of 21 branches of Banca Popolare di Cremona;
- transfer of a business segment comprised of 18 branches of Banca Popolare di Lodi;
- transfer of a business segment comprised of 4 branches of Banca Popolare di Verona-SGSP;
- transfer of a business segment comprised of 1 branch of Banca Popolare di Novara.

In 2012, in line with the above objectives, the reorganisation of the network at territorial level is due to be completed by the end of the first half, while the transfer of around 35 branches from Creberg to Banco Popolare (specifically the distribution networks of the BPV-SGSP, BPN and BPL Departments) and the completion of the plan to close Branches due to any territorial overlaps that emerge as a consequence of the above is due to be completed by the end of the second half.

Share capital increase of Banco Popolare concluded

The offer under option period, which began on 17 January, of newly issued ordinary shares of Banco Popolare concluded on 11 February 2011. Overall, 1,121,091,216 shares were subscribed, corresponding to 99.832% of total shares offered, for a total equivalent value of euro 1,984,331,452.32. Unexercised rights (corresponding to 1,349,420 rights, valid to subscribe a total of 1,889,188 shares for an equivalent value of euro 3,343,862.76) were all sold at auction on 16 February 2011, the first day of offer on the Stock Market.
Following the above transaction, the share capital of Banco Popolare now amounted to euro 4,293,417,736.68 and was comprised of 1,763,464,410 shares.

"Tremonti bonds" fully redeemed

On 14 March 2011, Banco Popolare finalised the full redemption of the financial instruments pursuant to art. 12 of Italian Law Decree 185/08, converted into Italian Law no. 2 of 28 January 2009, the "Tremonti bonds", issued on 31 July 2009 in favour of the Ministry of the Economy and Finance for an amount of euro 1,450 million. At the same time, the final balance of the interest accrued from 1 July 2010 to 14 March 2011, equal to euro 86.4 million was paid, recognised in the accounts as a balancing entry of the debiting of equity reserves.
The "Tremonti bonds" were redeemed as a result of the contribution of resources deriving from the strengthening of capital carried out by Banco Popolare, described above.
The contribution provided by the "Tremonti bonds" proved to be important, as it allowed Banco Popolare, at a time of international economic crisis, to continue supporting the economy of local areas, contributing to the continuity of access to credit for retail customers and small and medium-sized enterprises.

Exchange offer on subordinated bonds of Banco Popolare

On 18 May 2011, Banco Popolare launched an Exchange Offer on the entire amount of three subordinated floating rate "Lower Tier II" bonds, amounting to euro 1.3 billion (the "Existing Securities"), through the exchange of the same with new liabilities (the "New Securities") with the same level of subordination, in order to optimise its capital structure, also with a view to Basel III. It was also envisaged that new subordinated liabilities with the same characteristics of the New Securities and belonging to the same series, could be placed with parties other than those subscribing to the offer (the "Additional Securities").
The offer period, which ended on 25 May 2011, was concluded with the allocation under the Exchange Offer of Existing Securities with a total nominal value of euro 659.1 million (50.7% of the overall nominal value), of which euro 48.9 million

regarded securities held by Group companies. More specifically, the Lower Tier II callable Step-Up 2016 loan, originally for a nominal value of euro 500 million, yielded euro 242.2 million (exchange price 97.75%); the Lower II Callable Step-Up 2016, originally for a nominal value of euro 250 million, yielded euro 65.6 million (exchange price 97.25%); the Lower II Callable Step-Up 2017 loan, originally for a nominal value of euro 550 million, yielded euro 351.3 million (exchange price 96.25%).
On the basis of this outcome, effective 31 May 2011, Banco Popolare issued, under the EMTN Programme, a new Lower Tier II subordinated bond at a price of 99.259%, with a ten year term that cannot be called before maturity, with a fixed annual coupon of 6.375%, listed on the Luxembourg Stock Market. The nominal value of the New Securities was euro 660,693,000, including euro 40,722,000 of additional securities and euro 47,660,000 of securities issued following subscription from Group companies.
The settlement, which took place on 31 May 2011, also envisaged the payment of a cash sum of euro 24.5 million, for fractions and interest matured on securities.
The profit resulting from the repurchase of the liabilities conferred under the Exchange Offer, corresponding to the difference between the offer price and the book value of the liabilities, was euro 17.6 million; transaction costs, recognised in the income statement on the date the transaction was finalised, amounted to around euro 3 million.

Amendment of the Regulation of the “soft mandatory” 2010-2014 Convertible Bond Issue

The Meeting of Bondholders of the Bond Issue called “Banco Popolare 2010/2014 4.75% convertible with an option for repayment in shares” (POC), which met on 16 December 2011, approved the resolution of the Extraordinary Shareholders’ Meeting of Banco Popolare held on 26 November 2011 regarding the increase, up to a maximum of 1,500,000,000, of the number of newly-issued shares to be used for the conversion or the redemption of the POC and regarding related changes to the Articles of Association.
The resolution was passed with votes in favour representing 97,644,745 bonds, corresponding to 60.3% of bonds issued.
The purpose of increasing the number of shares to be used for the POC is to enable the Board of Directors to have a higher quantity of shares to be used solely for the purpose of the conversion or for the possible exercise of the right of early redemption. Redemption at maturity may be fulfilled, according to the terms of the Regulation, using all or part of the shares originally envisaged (276,774,021) or, all or part in cash.

Disposal of Banco Popolare Česká Republika

On 20 June 2011, following receipt of authorisations from the Central Bank of the Czech Republic and the approval of Banco Popolare’s Management Board, the entire share capital of Banco Popolare Česká Republika was sold to Equa Group Limited (a company registered in Malta, controlled by Private Equity Funds managed by AnaCap Financial Partners LLP), for around euro 48 million, calculated on the basis of a number of parameters including the company’s capital and liquidity as at 31 October 2010 and on the effective date, preliminarily calculated by Banco Popolare, through an Audit firm engaged for this purpose, and verified by the buyer.

On the effective date of 20 June 2011, at an Extraordinary Shareholders’ Meeting, the name of Banco Popolare Česká Republika was changed to Equa Bank.
Following the above-cited audits, on 29 November 2011, the buyer challenged the calculations of Banco Popolare in writing, which the latter promptly rebutted.
Note that the above transaction had a positive impact on the consolidated income statement for the year, and the figure of euro 10 million was recorded under income after tax from discontinued operations, which includes the result recorded by the investee company up until the time of the sale.

Disposal of Bormioli Rocco & Figlio

On 20 May 2011, Banco Popolare finalised the agreement to sell the investment (95.4%) held in Bormioli Rocco & Figlio - through the subsidiaries Efibanca (14.3%) and Partecipazioni Italiane (81.1%) - to the private equity fund Vision Capital.
The value of the transaction, approved by Banco Popolare’s Management Board was equal to an equity value of euro 250 million.
As a result of the above transaction, the direct subsidiaries of Bormioli Rocco & Figlio will no longer be consolidated, as better illustrated in Part A of the Notes to the Consolidated Financial Statements in the paragraph regarding changes in the scope of consolidation.

After obtaining the authorisations required from the competent authorities, the transaction was finalised on 30 June.

This transaction reflects Banco Popolare’s strategy and operational objectives, which entail disposing of non-core assets and simplifying Group structure, and had a positive impact on the consolidated income statement for the year of euro 12.5 million, which includes the result recorded by the investee company up until the date of the disposal. In accordance with accounting standard IFRS 5, this amount has been recognised under income (loss) after tax from discontinued operations.

Merger of Efibanca

On 17 October, the deed of merger by incorporation of Efibanca into the Parent Company Banco Popolare was signed, in accordance with the resolutions of the Extraordinary Shareholders' Meeting of Efibanca and of the Management Board of Banco Popolare.
The merger and therefore the cancellation of Efibanca and the consequent termination of the relative management bodies took effect as of 1 November 2011 in statutory terms, while in accounting and fiscal terms, the effect of the merger was anticipated to 1 January 2011.
This transaction, which does not lead to any changes to the scope of consolidation, insofar as, on the effective date of the merger, the incorporated company was wholly owned by the Parent Company, is part of a wider project to rationalise Banco Popolare's organisational and corporate structure, currently in progress, as described previously.

Merger of Italfortune International Advisors SA

On 1 January 2011 the merger by incorporation of the subsidiary Italfortune International Advisors SA into Banco Popolare Luxembourg was finalised. At the time of the merger, Banco Popolare Luxembourg fully owned the merged company as a result of its transfer by Banco Popolare in November 2010. The merger was carried out without a share capital increase of the merging company and without a cash settlement.

Disposal of Istituto Centrale delle Banche Popolari Italiane shares

Following a resolution of Banco Popolare's Management Board, in the first quarter of 2011, the Parent Company completed three separate transactions regarding the partial sale of shares held in Istituto Centrale delle Banche Popolari Italiane (ICBPI).
More specifically, in the first sale transaction, which took place on 15 February 2011, Banco Popolare sold 3.36% to Banca Popolare di Cividale for a total price of euro 28.8 million; the second transaction was finalised on 25 February 2011 with the sale of 1.046% to Banca Sella Holding for a total price of euro 9.5 million; lastly, on 30 March 2011, Banco Popolare sold 1.129% of the capital of the investee company to Veneto Banca for a total figure of euro 10.2 million. In all of the above transactions, the countervalue of the transaction includes the 2010 dividend distributed in 2011.
Following the above sales, the Banco Popolare Group holds 15.376% of the share capital of ICBPI.
As a result of the above-described transactions, the Group then deconsolidated the investment previously carried at equity and recorded the residual interest at fair value under financial assets available for sale. The positive impact on the income statement for the year was euro 47.2 million, before tax (euro 41.3 million of which is attributable to the interests held). Said impact corresponds to the difference between *i)* the sum of the consideration received for the sale and the fair value of the interests held and *ii)* the consolidated book value of the entire investment.

Disposal of merchant banking equity investments

In September, Efibanca sold all of the shares it held in:

- Bio Energy International SA, wholly owned. The sale of Bio Energy International automatically entailed the transfer of the investments held by the same in Triera Power srl (30%) and Triera S.p.A. (10%);
- Pantex International S.p.A, 50% share;

and in the financial assets available for sale represented by the shares of Ponte S.p.A. and by the quotas of CPL Concordia Soc. Coop.

The above transactions did not have any impact on the income statement for the year insofar as the book values of the interests sold were substantially in line with the sale values.

Furthermore, on 1 December 2011, the sale of the investment held in Bertani Holding S.p.A., corresponding to 22.33% of share capital, valued at net equity, was completed for a figure of euro 6.5 million. The impact of the same on the consolidated income statement was around euro 1.2 million.

Winding-up of Group companies

Following the completion of winding-up procedures, on 12 May 2011, Assipromos s.r.l. was cancelled from the Livorno Company Register. The associated company therefore is no longer in the scope of consolidation of companies valued at net equity.

Furthermore, due to the early redemption of innovative equity instruments issued by Banca Popolare di Lodi Investor Trust II, a US trust company wholly owned by the special purpose vehicle, Banca Popolare di Lodi Capital Company II LLC, both the Trust company and the special vehicle company specifically established for the issue of these securities were wound-up. Following the above, the subsidiary Banca Popolare di Lodi Capital Company II LLC is no longer part of the Banco Popolare Banking Group and no longer falls within the scope of line-by-line consolidation.

Lastly, in December, the winding-up of the subsidiary BPI International (UK) Ltd was completed; therefore the sale was removed from the scope of consolidation and cancelled from the Company Register of London on 17 January 2012.

Covered bond transactions

Last year, at Group level, a long-term programme was launched that envisaged the issue of Covered Bonds ("CB"), addressed to institutional investors. The programme was renewed and extended from the initial euro 5 billion to 10 billion in February 2011. Under the programme, Banco Popolare acts as the single issuing bank of the CB and, following the merger of several network banks on 27 December 2011, acts jointly with Credito Bergamasco also as the originator bank assigning the assets (pursuant to art. 7-*bis* of Italian Law No. 130) and as lending bank. Therefore Banco Popolare plays the original role of sole Issuer of the CB as well as that of assigning originator bank and lending bank.
In February 2011, in relation to the unwinding of the BPL Mortgages 2009 ("Residential March 2009") operation, the originator bank sold a fourth portfolio of mortgage loans, with a residual debt of around euro 1.8 billion, to the Vehicle Company BP Covered Bond; in May 2011, a fifth portfolio of mortgage loans, with a residual debt of around euro 3 billion was sold, and lastly, in November 2011, a sixth portfolio of mortgage loans, with a residual debt of around euro 800 million was sold.
The overall value of the mortgage loans sold to BP Covered Bond was around euro 9,312 million as at 31 December 2011. With reference to the above-described sales, Banco Popolare successfully issued the third, fourth and fifth Series of CB, and re-opened the second series; furthermore, on 24 January 2011, a Registered Covered Bond was issued for a notional value of euro 100 million, subscribed by a foreign counterparty.
In particular, euro 950 million of the third series, totalling euro 1,250 million (fixed rate of 3.875% and maturity on 31 March 2014) was subscribed by institutional investors and euro 300 million by Banco Popolare, which used it for a REPO transaction. The fourth series was issued for a notional amount of euro 1,550 million (fixed rate of 4.75% and maturity on 31 March 2016), securities amounting to euro 1,250 million were placed with institutional investors, while the remaining euro 300 million was subscribed by Banco Popolare, which used it for a REPO transaction. Furthermore, the second series was re-opened with the issue of a third tranche of euro 300 million, subscribed by Banco Popolare, which used the securities for a REPO transaction. The fifth series issued for a notional amount of euro 1,750 million (3-month Euribor + 100 bp, maturity 31 December 2013) was entirely subscribed by Banco Popolare, the securities were used as collateral in refinancing operations.
Overall, the securities issued by Banco Popolare under the Covered Bond Programme amounted to euro 7,300 million as at 31 December 2011. Note that the securities are listed on the Luxembourg Stock Exchange (with the exception of the Registered Covered Bond, which is not listed) and that from 8 February 2012, Fitch downgraded its rating from "AAA" to "AA", while from 16 February 2012, Moody's downgraded its rating from "Aa2" to "A1" for all of the Covered Bond issues made.

Out-of-court settlement of the tax dispute of the former Banca Italease Group

On 15 March 2011, Banco Popolare, Banca Italease and its subsidiaries signed an agreement with the Tax Authority for the full settlement of almost all of the disputes contained in a series of notices of assessment and formal reports on assessment findings served to the above companies with reference to the years 2001 to 2009.
In formalising this agreement, the parties settled the individual pending disputes, the individual assessments which have not yet been disputed, and the findings of each of the formal reports through payment by Banca Italease and its direct subsidiaries Mercantile Leasing and Italease Gestione Beni of the total amount of euro 210.1 million in additional taxes (primarily VAT), fines and interest. The decision to come to out-of-court settlement of the disputes is part of a larger derisking project launched following the acquisition of control of Banca Italease. More specifically, the sole reason for the decision lies in the objective to eliminate the situation of uncertainty related to possible negative impacts of the outcome of the dispute on the Group's equity position. Coming to an out-of-court settlement does not, by its nature, imply acknowledgement of any of the claims made by the tax authority as regards the findings subject to settlement.
The out-of-court settlement of the above disputes did not lead to additional allocations in 2011, insofar as already envisaged in the consolidated financial statements as at 31 December 2010 under "provisions for risks and charges", in compliance with accounting standard IAS 10 "Events after reporting period".
Please refer to section 14 in Part B of the Notes to the consolidated financial statements for more details.

Banca Italease – Organisational rationalisation and corporate simplification

Further measures to rationalise the organisation as regards the sub-group Italease are almost complete. These will be followed by measures to simplify the corporate structure next year.
More specifically, the proposed merger by incorporation of Mercantile Leasing into Banca Italease was approved, and will be effective as of 1 June 2012, subject to obtaining the required authorisation.

Lastly, the organisational integration of the Parent Company continued. In particular, at the beginning of 2011, Security and Safety activities and the management of company vehicles were centralised into SGS-BP, while several administrative functions (supplier accounting, tax consulting and operating company accounting) were centralised within Banco Popolare. The centralisation of other functions is currently being assessed, with the objective of strengthening the appropriate control mechanisms of the Parent Company.
These reorganizations have enabled Banca Italease and its subsidiaries to benefit from the increased efficiency of the

services provided by the support and control functions integrated into the Group system, as well as achieving significant synergies and cost savings.

On 28 October 2011, Italease Gestione Beni, wholly owned by Banca Italease, signed the deed to sell its "property remarketing" business line, relating to integrated services for the management of property already under finance lease contracts, to the Cerved Group.
The transaction will take effect, in statutory, accounting and fiscal terms, from 1 November 2011.

Furthermore, on 31 October 2011, Banca Italease sold its entire interest in Itaca Service S.p.A., a company that provided services and consultancy in the IT and organisational area to the companies of the former Italease Group, to Accenture Outsourcing S.r.l., a subsidiary of Accenture. The transaction, valued at euro 1.5 million, resulted in a positive entry on the consolidated income statement for the year of euro 1.4 million, which includes the results recorded by the investee company up until the date of the sale.

Both of the above transactions, which are part of the wider project to rationalise the organisational and corporate structure of the Banco Popolare Group currently underway, will lead to economic and operational synergies, exploiting the professional expertise of the employees in question (respectively 33 employees from Itaca Service and 19 from the Italease Gestione Beni business division) due to the new specific market potential resulting from joining leading companies such as Accenture and Cerved.

Banca Italease - Derisking process

Negotiations with the leading debtors continue, aimed at closing the default positions or restoring them to performing status. In 2011, in particular, the following events took place:

<u>Assignments of receivables</u>: two separate assignments of receivables were made to specialised operators. In February, the disposal regarded 2,002 contracts classified as substandard or doubtful loans, with a total gross exposure of euro 19.5 million. In December, 483 contracts classified as doubtful loans were assigned with a gross exposure of euro 30.7 million.

<u>Coppola Group:</u>
- the transfer of a leasing contract previously held by the Coppola Group to a new counterparty, which entailed the reclassification of the exposure from substandard to performing (euro 39 million) and subsequent full redemption;
- the reclassification of an exposure of around euro 80 million from substandard to performing, with the release of funds of euro 2.6 million;
- the repossession, by means of *Datio in solutum*, of a property previously owned by a counterparty of the Coppola Group (Promar), recognised under property and equipment for a value of around euro 13.6 million;
- the repossession, by means of *Datio in solutum*, of another property previously owned by a counterparty of the Coppola Group (Marcus), recognised under property and equipment for a value of around euro 10 million;
- the repossession of a boat, cancelling a gross exposure of euro 9.2 million and recognition of the same under assets held for sale for euro 5.4 million (and subsequent sale in the first few weeks of 2012).

<u>Other debtors:</u>
- finalisation of an agreement for the full restructuring of debt of a group, with which the sub-group Banca Italease has a gross exposure of euro 176.9 million. The exposure was subsequently reclassified from substandard to restructured;
- the reclassification to restructured (from substandard) of a group whose exposure, partly assigned to Alba, was then retransferred to Banca Italease through an exchange of receivables on 30 September 2010, for a total amount of around euro 170 million;
- the reclassification from substandard to restructured of a position with an exposure of around euro 51 million;
- the reclassification of an exposure of around euro 29 million from doubtful to restructured, with the release of funds of euro 5.8 million;
- the reclassification of an exposure of around euro 11.8 million from restructured to performing, with the release of funds of euro 1.5 million.

<u>Sales:</u>
- the sale of a property located in Milan, Via Manzoni, that Banca Italease regained possession of in June 2010 following a very complex agreement to restructure exposure towards the group led by Giuseppe Statuto, which resulted in capital gains of euro 12.9 million;
- the sale of several properties owned by Italease Gestione Beni totalling euro 72 million at prices in line with their book values.

<u>Tax Authority:</u> as mentioned previously, on 15 March 2011, Banco Popolare, Banca Italease and its subsidiaries signed an agreement with the Tax Authority for the full settlement of almost all of the disputes, through the payment of a total amount of around euro 210 million.

In December 2011, a settlement was also reached for the formal report on findings served on 19 October 2010 to Mercantile Leasing regarding the application of direct taxes for 2007 and VAT for 2006 and 2007, and for the notice of assessment, previously served for 2005. The total tax liabilities - which also include notices relating to 2008 - amounting to euro 22.4 million - were settled through the payment (part of which already made) of euro 8.6 million (for taxes and fines reduced to 1/6 of the amounts covered by the settlement), obtaining a reduction of the claim, in terms of taxes and fines, of around euro 14.2 million.

Allocation of shares to executive members of the Management Board and to executives

The Shareholders' Meeting of the Parent Company held on 30 April 2011 also approved the proposal submitted by the Supervisory Committee made in accordance with recent provisions of the Bank of Italy regarding remuneration policies and practices pertaining to Management Board Members; as well as a share allocation plan addressed to executive members of the Management Board and to executives that are particularly important to the Group. The Plan envisages the assignment of ordinary shares to the afore-mentioned employees and executives of the Banco Popolare Group to the extent of at least 50% of the bonus accrued following the results of the 2011 incentive system, for a maximum corresponding amount of euro 3.3 million.
The Shareholders' Meeting therefore authorised the Management Board to purchase, in accordance with the limitations imposed by art. 2357, paragraph 1 of the Italian Civil Code and therefore to the extent of the available reserves resulting from the last approved financial statements, and within 18 months from the date of the resolution, up to a maximum 1,400,000 ordinary shares, corresponding to 0.079% of the share capital of Banco Popolare.
The purchases of the treasury shares were made according to the terms and procedures prescribed by current legislation, between 3 and 12 October 2011: in total, 1,400,000 shares were purchased for the figure of euro 1.7 million.

Allocation of shares to Banco Popolare Group employees

Following the resolution of the Shareholders' Meeting of the Parent Company held on 24 April 2010, on 13 June 2011 Banco Popolare launched a programme to purchase treasury shares to be used for the company bonus for financial year 2010 envisaged by the CCNL (national collective labour agreement), in accordance with the limitations imposed by legislation in force.
Between 13 and 22 June 2011, a total of 1,439,413 ordinary Banco Popolare shares were purchased for a total investment of euro 2.3 million.

Furthermore, note that Banco Popolare is working on the procedure for the award of the 2011 company bonus, which will be made in June 2012, in Parent Company shares, on the basis of an agreement with the Trade Unions signed on 29 December 2011.

Purchase of treasury shares

At the Shareholders' Meeting of the Parent Company held on 30 April 2011, amongst other resolutions, the same approved the proposal submitted by the Management Board regarding the purchase of treasury shares, in accordance with the timing and procedures envisaged by legislation in force, in order to sustain the liquidity of the shares and to facilitate smooth trading based on permitted market practices recognised by Consob.
The resolution regarded the purchase, in one or more tranches, of treasury shares, limited to a maximum amount of available reserves corresponding to euro 50 million and for a number of shares in the portfolio that does not exceed 2% of the shares representing share capital. Authorisation to purchase treasury shares, granted without any time constraint, is effective until approval of the 2011 financial statements.
As at the date of this financial report, no treasury share purchases have been made to sustain the liquidity of the same.

GROUP BUSINESS ACTIVITIES

The following pages provide an illustration of the Group's business activities, by operating segments, with specific reference to the products and services provided. Please refer to part L of the Notes to the Consolidated Financial Statements "Segment Reporting" for segment results and to the section regarding the performance of the Group's main companies in the Report on operations for an analysis of the main balance sheet and income statement aggregates.

Network Divisions

"Network Divisions" is the term which, within the Banco Popolare Group and vis-à-vis third parties, refers to the Commercial Divisions, which manage customer accounts and relations with the same through their Territorial Structures. The Network Divisions encompass the distribution structures of Banco Popolare (resulting from the merger of Banca Popolare di Verona e San Geminiano e San Prospero, Banca Popolare di Novara, Banca Popolare di Lodi, Banca Popolare di Crema, Banca Popolare di Cremona and Cassa di Risparmio di Lucca Pisa Livorno) and of Credito Bergamasco.

The Group operates through the direct presence of 2,044 distribution structures in 19 regions, a high percentage of which are located in Northern Italian regions (74% of the total), namely in the geographic areas in which these commercial banks originally set down roots, followed by Central Italy (16% of the total) and Southern Italy (the remaining 10%).

The breakdown by region in terms of percentage of the Group's operating branches as at 31 December 2011 is as follows:

Region	%
Lombardy	28%
Veneto	15%
Tuscany	11%
Emilia Romagna	11%
Piedmont	11%
Liguria	7%
Sicily	6%
Lazio	3%
Campania	3%
Trentino Alto Adige	1%
Friuli Venezia Giulia	1%
Umbria	1%
Marche, Molise, Puglia, Valle d'Aosta, Basilicata, Calabria and Sardinia	2%
Total	**100%**

Although the Network Division branches handle relations with customers, the Retail and Corporate Departments, each within its own scope of competence, establish and coordinate the development strategies for the reference market. Not only do the latter provide fundamental support to the Network Divisions, they are also the powerhouse where innovative products and services are developed to meet the needs of current and future customers.

At present, within the Group, Banco Popolare handles Group issues, placed both through its network divisions and through the division that is part of Credito Bergamasco.

The interest margin generated by this aggregate amounted to euro 1,916.3 million at the end of December. At the end of last year, it totalled euro 1,877.4 million.
The contribution to the interest margin of deposits and loans relating to customers of Network Divisions was euro 1,891.3 million, up 6% compared to the previous year's figure. Average assets (detailed below) also rose, as did the spreads of deposits and loans, which increased by a total of 10 bps compared to 2010, shared between the two components of loans (+8bps) and direct funding (+2 bps).
Total customer loans of this aggregate as at 31 December 2011 amounted to euro 78,145.3 million, marking a 0.1% drop compared to the figure recorded at the end of the previous year, which was euro 78,973.4 million.
Performing loans (therefore gross without doubtful loans) relating to Network Division customers recorded an annual average figure of euro 76,356.2 million, with a 2.0% rise compared to the average figure for the previous year of euro 74,841.3 million, and generated a margin of euro 1,894.3 million. Short-term loans accounted for 33% of the total, and amounted to euro 25,184.3 million, while medium/long term loans had a larger share of the total, and amounted to euro 51,172 million.
Looking more in detail at customer segments, average annual performing loans to Retail customers amounted to euro 37,424.8 million (49.0% of the total), up 7.2% against euro 34,898.8 million last year, while those to Corporate customers (49.2% of the total) amounted to euro 37,548.8 million in 2011, down 2.5% compared to the euro 38,518.1 million recorded last year.
As far as customer deposits are concerned: direct funding as at 31 December 2011 amounted to euro 70,996.2 million,

slightly below the figure of euro 71,179.1 million recorded as at 31 December 2010.

Average annual extended direct funding (therefore including bonds distributed by the network division of Credito Bergamasco and issued by Banco Popolare) for the year in question amounted to euro 69,029.0 million, recording a rise of 2.6% compared to the figure for the previous year of euro 67,247.7 million.
Looking at the retail customer segment, the average volumes of deposits, both short and medium/long term, therefore including the capital placed in Bonds, totalled euro 52,935.1 million, up 3.4% compared to euro 51,190.1 million recorded in 2010, while in the corporate customer segment, the average total was euro 11,516.0 million, a rise of 4.9% on the euro 10,982.6 million recorded in 2010.

The spread between loans and extended direct funding recorded by Network Divisions in 2011 was 2.48%, compared to 2.38% in the previous year. The loans component generated a positive mark-up (248 basis points), while the mark-down continued to be 0 (0 basis points).

Net commissions generated by Network Divisions amounted to euro 1,379.4 million in 2011, a rise of 0.3% compared to euro 1,338.3 million recorded in 2010.

Average indirect funding for the aggregate under analysis amounted to euro 47,990.2 million in 2011, down 7.4% compared to the average figure recorded in the previous year of euro 51,797.5 million.

Retail

Banco Popolare's Retail Department oversees and coordinates, at Group level, the business areas relating to Retail customers, represented by "Private" and "Corporate".
"Private customers" means all private parties whose personal assets do not exceed one million euro[1]; while "Retail business customers" includes businesses with a turnover not exceeding euro 5 million.
With regard to "Private" customers, based on asset segmentation, a further two customer segments can be identified: the "Universal" and "Affluent" segments. The first, the "Universal" segment, encompasses customers with personal assets of less than euro 100 thousand, while the second, the "Affluent" segment includes customers with assets of between euro 100 thousand and 1 million. With regard, on the other hand, to Retail Businesses, asset segmentation identified SBO (Small Business Operators) with a turnover of up to euro 100 thousand and SB (Small Businesses) with a turnover of between euro 100 thousand and 5 million.
Within the above-described segmentation of Private customers, different quality-based targets are also identified: shareholders, retail customers in the areas where Banco Popolare has its roots, students, young people, foreigners, the more senior customers. In the same way, companies can be broken down into: traders, cottage industries, farmers and freelance professionals.
Overall, the Retail division encompasses around 2.4 million customers (natural persons and companies) who are current account holders[2].
Customers can be broken down in the following main segments:

Segment	% No. of customers with a Current Account
Universal (customers with assets of under euro 100 thousand)	68%
Affluent (customers with assets of between euro 100 thousand and 1 million)	17%
Retail Companies	11%
Other Retail segments	4%
Total Retail Customers with a current account	**2.4 million**

(1) A specific type of offer and a service coordinated by the Network Banks and Banca Aletti is envisaged for private customers with assets exceeding one million euro.
(2) The change in the Group's structure, finalised on 27 December 2011, led to the merger of Network Banks, with the exception of Credito Bergamasco, into Banco Popolare. It is estimated that this had an impact, in terms of the calculation of customer numbers - due to the presence of the same customer at different banks - of not more than 0.5% of total customers.

Furthermore, the distribution of Retail customers per Network Bank is as follows:

Network Banks	% No. of customers with a Current Account
Banca Popolare di Verona – S.Geminiano e S.Prospero	26%
Banca Popolare di Novara	23%
Banca Popolare di Lodi	22%
Credito Bergamasco	14%
Banca Popolare di Crema	1%
Banca Popolare di Cremona	2%
Cassa di Risparmio di Lucca Pisa Livorno	12%
Total Retail Customers with a current account	**2.4 million**

Products, services and loans for retail customers

One of the objectives of the 2011-2013 Business Plan is to increase the customer base through the addition of 250,000 new customers, 200,000 of which private. Therefore, on one hand, we have to focus on the continuous improvement of existing products and services and on the other, propose new products to customers that are able to attract those that do not yet have a current account with Banco Popolare.

Current accounts

2011 got off to a good start with the launch of a new line of package accounts: *Premiaconto* (Reward account) and *Premiaconto Plus*, products which, beyond offering the advantages of the most popular off-the-shelf packages, have led to the gradual elimination of the monthly fee, through specific choices made by the account holder. Designed specifically to meet the increasing need for simple, inexpensive accounts stated by our account holders, these two packages have now fully replaced the *Specchio* range.
Thanks to discounts offered on the fee, the *Premiaconto* packages have encouraged cross-selling, therefore contributing to increasing customer loyalty. Customers are 'rewarded' by options such as crediting their salary or pension to their accounts, and this has enabled the Annual Percentage Rate to be optimised, based on the rules imposed in this area by the Bank of Italy. As at 31 December, almost 60 thousand *Premiaconto* accounts had been sold, meaning around 5,000 accounts were opened each month.

As regards specific target customers, Banco Popolare has always paid special attention to its Shareholders. The products designed for this target customer (such as the *Insieme Soci* current account) and the high level of appreciation demonstrated mean that we will continue to work in this direction. *Valore Insieme Soci* is the points collection programme linked to the *Insieme Soci* account and each year, the rewards and the privileges feature new design items, technological devices, trips and new discount schemes, forming a selection that keeps in pace with the latest market trends and changes in tastes and preferences. The offer reserved to Shareholders also encompasses numerous non-banking advantages, which are also updated each year.
On 31 March 2011, for legislative reasons, the *Valore Insieme Soci* rewards scheme ended its first five-year "run" and the percentage of points (carats) accumulated by Shareholders and converted into rewards was almost 70% (points actually used to request the reward by the relative customers out of the total disbursed). Since 1 April 2011, the points collection scheme has started from scratch with a new edition featuring updated rules for the allocation of carats, the most important of which is a bonus "in carats" for those that transfer a securities portfolio.
One of the new features introduced in 2011 is the opportunity to extend the *Valore Insieme Soci* loyalty scheme to all Shareholders with current accounts that do not have the *Insieme Soci* package account. An innovation that enables all Shareholders that preferred other types of current account to enjoy the advantages of the points collection scheme and the related non-banking services.

The points collection scheme for younger account holders (0-12) and linked to the *Brucoconto*, was very successful in 2011. The number of customers has now exceeded 50 thousand. The special care with which the rewards catalogue is drawn up each year means that the *Brucoconto*, which already boasts a number of interesting banking features, can also count on extraordinary added value. The 2011-2012 edition, inaugurated as always on 1 October 2011, includes 40 new rewards, carefully selected to meet the tastes and the more particular needs of children and their parents.

Instead, the *Let's Bank* range is dedicated to young target (12-29), and features three accounts (*Scoprire, Studiare, Lavorare - Discover, Study, Work*) designed specifically for this type of customer. "Event" rewards are disbursed at important moments in their lives (such as obtaining a diploma, oradegree, get married) and other rewards are allocated on the basis of the *Let's Win* competition. Together they make this product particularly suitable for the 12-17 and 18-29 age ranges. Also designed with young customers in mind, *Let's Banker* adds a whole series of subsidies: of these, in addition to specific discounts, customers enjoy a discount when they purchase fuel. An innovative plan will be released in 2012 which, in addition to some new banking features, will focus mainly on non-banking ones, raising the level of quality of this products yet again, which is now in its fourth year and boasts almost 60 thousand customers.

Of the various initiatives designed to achieve the ambitious objectives of the Business Plan is the *Invito per Due - Conto Come Noi* scheme, which was the most successful campaign of 2011. The results obtained far exceeded expectations, demonstrating the best of the Network's development potential. Associated with the "*Come Noi*" (*Like Us)* formula, the winning idea was to offer a current account that made the new account holder feel like a privileged party, treated like a bank employee. At a time when the economic climate is forcing us to make drastic choices, we wanted to respond to the needs of our customers with a current account with no fee ever, but in any event, able to provide the widest range of services included in a present-day account. The scheme succeeded in attracting customers thanks to its ability to combine the absolute novelty represented by the direct participation of all Group colleagues at all levels, encouraging their sense of belonging and involvement. The aggressive conditions of the account and of the related products, the in-depth knowledge of the product offered (each employee knows all of the advantages) and the classic "Member get Member" mechanism, which in this case represented a well-known concept (namely the favourable conditions reserved to employees), meant that this product enjoyed an unrivalled sales drive. The use of paper coupons further emphasised the exclusive nature of this type of account.
This was all combined with effective communication, both through the product's name "*Invito per Due - Conto come noi*" which proved to be simple, direct and effective. All of these aspects represented, together, added value for the Group, which combined the human potential of twenty thousand employees with the simplest form of advertising: word of mouth.
Since 24 October "*Come Noi*" has become a product that our retired colleagues can reserve for two acquaintances, to give them the opportunity to become "*Come Noi*". This latter scheme, which was extended to the first few months of 2012, was also a great success, and the rate of new accounts opened each month was increasingly higher than that of the previous year.

The combination of all of the above schemes enabled us to end 2011 with around 60,000 additional private customer current accounts, fully in line with the demanding goals of the Business Plan in terms of current accounts.

On-line channels

RendiConto Web is the savings account launched in June 2011, which represented an important innovation for the Banco Popolare Group as it was the first product to be sold online. It represented a real launching pad for Banco's whole online range, which then included the distribution model and the process. With its distinguishing features (zero costs, possibility to manage multiple restrictions with the same account, advance interest, high interest rates, the option of releasing funds at no cost, an account that can be opened and managed online), it provided the basis for creating and launching one of the products with the most impact in 2011: *YouBanking*.
Designed with the aim of setting up a new entirely online sales channel to reach a particularly evolved and innovative customer target compared to Banco Popolare's traditional customers, *YouBanking* was developed according to specific guidelines: an in-depth analysis of market best practices to establish distinctive positioning; an innovative online platform featuring the maximum levels of security and a front-end structure, designed paying attention to the smallest detail; the creation of a specialised structure to oversee the management of requests, able to work on the basis of clear-cut Service Level Agreements that can be communicated to the customer.
The *YouBanking* offer was launched in September 2011, and gave the option of opening three accounts (Current Account, Savings Account and Card Account) through the new sales portal www.youbanking.it.
The *YouBanking* current account is an account with no opening or online management costs, while at the same time letting customers use all of the services and assistance offered by the branch; the account also includes: a picture ATM card, a security card for secure access to the current account, a securities portfolio and lastly, free ATM withdrawals throughout the world.
The *YouBanking* Savings Account offers aggressive interest rates that rise along with the duration of restricted funds, and the payment of interest in advance in the case of restricted funds, no opening costs and stamp duty paid by the bank.
Lastly, *Carta KDue Web* is a prepaid, rechargeable card with its own IBAN, which enables: incoming and outgoing bank transfers, crediting of salary, utilities paying, bill paying, telephone recharges and payments and withdrawals worldwide.
YouBanking has the advantage of combining the benefits of online banking with the acknowledged pluses of a Group with the "relational" power of 2,000 branches located throughout the country. Thanks to these features, *YouBanking* immediately recorded excellent performance in the online banking sector. At the end of the year, it received its first official acknowledgement. More specifically, the *YouBanking* Current Account won first prize in the eighth edition of *Milano Finanza Innovazione Award 2011* in the "Online Accounts" category. This is a prestigious award, which acknowledges the bank's ability to meet its customers' needs, based on parameters of innovation and economic convenience.
The efforts made to further improve the "Investments" section of Online Trading for customers that use *by Web* (home banking) are also worth mentioning. The main functions have been optimised, the aesthetics have been improved, repositioning the information that customers need, where necessary. More specifically, a single "Investments" section has been created, which combines online trading and funds functions, where customers are now able to see their tax-related position over the years. A better organisation of content and revised graphics with browsing menus with icons, consistent with the other sections of *by Web*, complete the series of changes made.

Another important development in 2011 was the launch of the *by Mobile* service. This latest *by Service* was designed as a new channel offered to customers to manage their bank accounts and relations. This new service enables numerous functions to be managed (such as obtaining information on your current account or issuing bank transfers) directly from a mobile phone, without the need for a PC to access the *by Web* service, and without having to go to a branch. The *by Mobile* service is available to customers who are *by Web* customers, have the *by Services* card and have a smartphone with

internet access. The graphics and the functions of the service make it simple to use the features of this new channel to their best advantage.
From a contractual perspective, *by Mobile* is not a service in its own right at present, but can be considered as an optimised interface for browsing *by Web* (which it is dependent on) from a smartphone.

Payment instruments

Debit cards

In line with the strategies defined in the previous year, 2011 saw the consolidation of level of product penetration with customers and the continual increase of the number of transactions and usage volumes.

	Change in no. of debit cards (in thousands and %)
2007	- 13 (-1.3%)
2008	+77 (+7.6%)
2009	+ 87 (+7.9%)
2010	+ 40 (+3.6%)
2011	+ 73 (+6.2%)

Having now met the requirements related to the implementation of SEPA (Single Euro Payment Area), which has led to 97% of cards being migrated to microchip technology, for Banco Popolare, 2011 represented a time for product fine-tuning and development.

Of the projects launched in 2011 in this area, the creation of the "Picture version" of the ATM card is worth a special mention. In the world of payment cards, ATM cards are the most popular product, and most used to make withdrawals from ATM machines and to make purchases in stores. Banco Popolare therefore designed and launched the Picture version. This enables customers to personalise the front of their cards if they wish, choosing from over 70 images that cover numerous areas: environment, sport, classic and modern art, exotic destinations, fantasy and the social sphere.
The new ATM card, which complements the "immediate delivery" card, was created with the aim of maintaining the feature of an off-the-shelf product, and at the same time:

- enabling cardholders to enjoy a new simple and pleasurable experience by choosing their pictures from the wide selection available in the gallery found in "*by Web*" , Banco Popolare's home banking service;
- attracting potential customers to sign up and to use both the ATM card and the "*by Web*" service;
- gaining customer loyalty through a "unique" product;
- differentiating the offer from other competitors through an innovative card able to provide support to acquisition and retention;
- emphasising the Group's artistic heritage, the territory and relations with the related companies/entities;
- having an alternative product to the immediate delivery one, without any additional cost.

Telepass Family

With the aim of making the Telepass Family service profitable and standardising and streamlining the product's management process, at the beginning of 2011, the contracts with Telepass S.p.A. were reviewed and standardised for all Group Banks.
From February 2011, the new management process for Telepass Family, a device that enables motorway tolls to be automatically paid focused on the speed of response to customer needs through the sale of the product on an "immediate delivery" basis in branches.
The scheme enjoyed tremendous success, beyond all expectations: in 2011 over 26,000 "immediate delivery" devices were sold, with a net increase in fees at year end of around euro 800,000.

Credit cards

In order to reduce inefficiencies relating to cash management, again in 2011, the Group continued to make considerable efforts to extend the circulation of cards with its customers. To achieve these objectives, the main schemes included, for example, "*Amex per Te 2011*" (Amex for You 2011), which accompanied the reintroduction of the American Express card to the range of products offered and the "*Campagna Carta rateale Agos Ducato Extra Versione Plus*" (Agos Ducato Extra Version Plus deferred payment card campaign), which boosted knowledge of the Group's deferred payment product.

K2 White - Classic prepaid card with IBAN

Extending the e-money product range saw the introduction of prepaid card called "KDue White" to the product range.
In 2011, taking advantage of the solid internal foundations of the original product (KDue account card), KDue White was launched, an updated and renewed version of the class prepaid card. This card has been designed to meet the specific needs of current account holders (for example purchases on the Internet), and of those without a bank account (e.g. young people travelling abroad or on study holidays). Within the range of traditional prepaid cards, this one stands out due to:

- its extensive information and control services;
- the option of making contactless payments and
- the presence of a unique IBAN associated to the card, simplifying recharges via a simple bank transfer.

In the second half of the year, over 10,000 KDue White cards were sold, while in December the stock of KDue account cards had surpassed 50,000.

Instalment payment card "Extra Version Plus" campaign

In December 2010, Banco Popolare added a renewed version of the deferred payment card issued by Agos Ducato to its range of e-money products, called "Extra Version Plus", with a new pricing base and new features.
In order to promote this product on the Italian market, in 2011 specific sales schemes were launched, targeting customers that already held the Extra deferred payment card and current account holders without a deferred payment card.
The first sales scheme, called "*Animazione Portafoglio Carta Extra*" entailed outbound telemarketing on customers that already held Extra cards, managed directly by the Agos-Ducato call centre (around 100,000 customers), offering them a "withdrawal bonus" (namely a bank transfer to their current account when a sum is deducted from the maximum available amount), which generated a redemption of 23% of customers contacted.
The aim of the second sales initiative, called "Extra Version Plus Campaign" was to promote product awareness and entailed a direct mailing campaign to a group of selected names (around 40,000) who were informed in writing of the features of the Extra Version Plus card. The objective of the mailshot was to invite interested customers to come to the branch and request the card offered with no annual fee.

Private mortgage loans

The uncertainty of the financial markets and the trend of the real estate sector did not encourage disbursements of mortgage loans to private customers, resulting in a reduction of market volumes with respect to last year. As regards Banco Popolare, after an uptrend in the first few months of the year, due in particular to the continuation of the "*Mutuo Last Minute*" (Last Minute Mortgage Loan) promotion, launched at the end of 2010, disbursements fell, particularly in the second half of 2011. The overall amount of private mortgage loans disbursed in the year was euro 3.6 billion, a fall of 14% compared to the previous year. However, it is worth noting that over 50% of this was disbursed to new customers.
In terms of stock, for Banco Popolare, mortgage loan transactions to private customers at the end of 2011 amounted to around euro 20 billion (residual debt) and were distributed as follows between the various Network Banks.

Network Banks	Breakdown of residual debt
Banca Popolare di Verona – S.Geminiano e S.Prospero	27.9%
Banca Popolare di Novara	21.6%
Banca Popolare di Lodi	20.5%
Credito Bergamasco	16.7%
Cassa di Risparmio di Lucca Pisa Livorno	10.6%
Banca Popolare di Cremona	1.5%
Banca Popolare di Crema	1.2%

In terms of mortgage loans, disbursements were focused on three main areas:
- continuing to support retail customers in the current economic crisis;
- assisting retail customers hit by natural disasters (floods);
- responding to the needs of customers by proposing new products.

Action to support retail customers in difficulty due to the economic crisis

In a market that continues to be characterised by profound changes to the real economy, with inevitable repercussions on the spending power of retail customers, the Government and the country's main economic bodies have continued to take action to tackle the current situation.

Banco Popolare, as always, played an active role in this. The most important initiatives undertaken and the target of the same are listed below:
- ABI Retail customers Plan: extension to 31 December 2011 of the Agreement signed by ABI and consumer associations, the objective of which was to support retail customers with difficulties in making mortgage payments, by granting a suspension of up to 12 months on the mortgage payments, without any additional charge;
- Solidarity Fund: the MEF Regulation, which came into force in 2010, envisages the establishment of the "Solidarity Fund" for mortgage loans to purchase a first home. The Fund allows customers, who meet specific requirements and submit an application, to obtain a suspension of mortgage payments for a maximum of twice and in any event for a period of up to 18 months overall;
- SOS Retail customers: a specific scheme set in place by the BP Group, launched in May 2010 and created to support retail customers who are showing signs of difficulty in making mortgage payments (presence of unpaid

instalments), and envisages lengthening the residual repayment period and the consequent resizing of the amount of outstanding payments;

- Development Decree: Italian Decree no. 70/2011, converted into Italian Law 106/2011, which regulates the renegotiation of mortgage loans with floating interest rates, reserved to private customers with mortgage loans to purchase/renovate a first home, who meet specific requirements. By joining this scheme, Banco Popolare was able to propose the application of a fixed rate, to replace the floating rate.

Action to support retail customers hit by natural disasters (floods)

In the face of natural disasters, Banco Popolare acted rapidly, offering the customers involved solutions able to provide effective assistance in overcoming situations of difficulty.
More specifically, a series of assistance measures were drawn up to help the communities hit by floods in various Italian regions (Liguria, Tuscany, Sicily) in the last few months of 2011. These measures mainly regarded two areas:

- the granting of soft loans: specific funds were set up to be used to grant soft loans to retail and corporate customers affected by the floods;
- suspension on payments: the Group rapidly intervened to assist retail and corporate customers by suspending outstanding mortgage/loan payments for up to a maximum of 12 months.

In order to ensure that these measures reached the widest audience possible, specific communications campaigns were carried out.

New products

In the first few months of 2011, the “Last Minute” mortgage loan offer continued (launched in October 2010). This is a highly competitive promotion, which features a particularly low fixed interest rate of 2.95% for the first two years of the loan and then 4% for the remaining years. In particular, in January and February, when the Group disbursed over euro 1.2 billion to private customers, the Last Minute mortgage loan represented over 60% of total new loans, while at the end of 2011, it represented 20% of the overall amount disbursed. This extremely competitive offer enabled the Group to increase the amounts disbursed as well as attract an important customer category, with positive repercussions also in terms of new current accounts being opened and cross-selling of other types of products.
Again with a view to pursuing maximum satisfaction of the needs and requirements of our customers, we decided to revise the “Liquidity Mortgage Loans” product in order to bring the same more into line with the risk profile of these transactions. Three different versions of the product were therefore created, as follows:

- “*Mutuo Commerciale*” (*Commercial Mortgage Loan*) a real estate/generic mortgage loan to be used for investment in property for commercial use, such as shops, offices and professional studios;
- “*Mutuo Progetto*” (Project Mortgage Loan), a real estate/generic mortgage loan to be used to fund expenses/projects other than investment in property for commercial use (for example personal health expenses or health expenses for family members, purchase of equipment pertaining to an individual business, university fees for children, purchase of furniture);
- “*Mutuo Liquidità*” (Liquidity Mortgage Loan), a real estate/generic mortgage loan to be used exclusively for all other liquidity requirements.

These three new products have made Banco Popolare’s range of products particularly competitive, but above all complete and suitable to meet the different needs of its customers.

Consumer credit

As regards the Italian scenario, at macroeconomic level, the consumer credit industry contracted in 2011 due to political-economic events that affected the whole of the European Union. This drove retail customers to adopt even more cautious spending habits, and encouraging saving where possible.
As regards consumer credit, therefore, a fall was recorded in 2011, albeit not as sharp as that recorded last year. Despite the weakness shown by the consumer credit market, in line with its other major competitors, the Banco Popolare Group recorded an overall fall of around 13% compared to 2010, due to the deterioration of the economic crisis in the last quarter.
More specifically, the breakdown of personal loans disbursed by Agos-Ducato (which represents almost all personal loans disbursed) over the various Network Banks is as follows:

Network Banks	% Agos-Ducato Loans Disbursed
Banca Popolare di Verona - S.Geminiano e S.Prospero	26%
Banca Popolare di Lodi	23%
Banca Popolare di Novara	22%
Cassa di Risparmio di Lucca Pisa Livorno	14%
Credito Bergamasco	12%
Banca Popolare di Cremona	2%
Banca Popolare di Crema	1%

Again in 2011, Banco Popolare focused on product specialisation (Agos-Ducato) and on further improving the sales and after-sales models, which seek to simplify internal processes and therefore streamline transactions and relations with the customer.
It was precisely this constant focus on the coherence between the development of the product range and the needs of customers that led to a number of initiatives to extend and diversify the product range in 2011. More specifically, a new product was created, called "*Versatilo Rata Esatta*", a simple loan that features a whole figure, precise and defined instalment figure, the idea of which is to help customers remember their monthly commitments and to plan their repayment plans.

Support to retail customers (natural disasters)

In order to provide real tangible assistance to those that suffered damages resulting from the floods which, in October and November, scourged the regions of Liguria, Tuscany and the Messina area, Banco Popolare draw up a plan for extraordinary measures. Three separate funds were set up to support the communities in the three different areas, to be disbursed by means of a special loan without any fees and a competitive floating interest rate. These are unsecured loans for up to euro 5,000, to be repaid within 60 months, to be used to rebuild damaged property, replace furniture and domestic appliances and to purchase essential goods.

Young people

In 2011, Banco Popolare continued to pursue its policy to provide support to young people, especially students, by signing an agreement with the Government-Department for Young People for the disbursement of soft loans to deserving students aged between 18 and 40, guaranteed by the State. The scheme, called "Let's give them a Future" was reserved to University students, or those on a Masters, post graduate specialisation or research doctorate course with specific marks at the end of the previous academic cycle and up to date with university fee payments. The loans for a maximum amount of euro 25,000 featured an annual repayment of a minimum of euro 3,000 and a maximum of euro 5,000, and a minimum duration of 3 years and maximum of 5 years, without any fees and at a low fixed interest rate.

Photovoltaic Loans

On 5 May 2011, the Italian Ministerial Decree on the "IV Energy Account" was issued, which regulates the new subsidies and state incentives envisaged for those that install a photovoltaic system to transform solar energy into electricity. On the basis of this legislation, Banco Popolare released a new version of the unsecured loan "Photovoltaic - IV Energy Account" addressed to private customers. The objective is to exploit this continually expanding and evolving market. The purpose of the scheme was to fund the purchase and the installation of specific categories of photovoltaic systems for domestic use, up to 100% of the cost – including VAT – from a minimum amount of euro 10,000 to a maximum of 50,000, to be repaid within 15 years, choosing, at the customer's discretion, between competitive fixed and variable interest rates.

Salary/pension-backed loans

In recent years, the consumer credit market has attracted the interest of major banking groups with regard to "Salary-backed Loans", a product which, thanks to changes in legislation and increased demand, has enabled the main domestic players to compete their product ranges.
Over the past two years, the entry of the major banks has contributed to reducing the complexity of the distribution channels common to this sector and to recover considerable efficiency in terms of processes and distribution chains.
Pursuing these objectives, with a view to further improve the efforts of the sales network as regards this product, as well as to contain costs, a supplement to the distribution agreement with Agos-Ducato was signed, which entailed a review of the distribution model for Pension-backed Loans. A pilot scheme was run with a Group bank, with the idea of extending it to the whole Group in 2012 and to other products (Salary-backed Loans and Proxy Payments).
The new role played by Group branches entailed proposing and presenting the product directly to interested customers, therefore abandoning the previous approach of indicating potentially interested customers, by Soluzio Quinto Finanziaria (an Agos-Ducato Group company), extending the scope of the sales network as well.

Savings/investment products and services

This segment includes products and services addressed to Group customer savings and investment activities, such as:
- direct funding instruments: for example bonds, certificates of deposit and repurchase agreements;
- asset management products: mutual investment funds and portfolio management;
- other investment instruments: for example certificates, administered asset instruments;
- life insurance policies with financial content.

The performance of the financial markets in 2011 can be broken down into two periods: the first half of the year, characterised by relative tranquillity and by the moderate variability of market rates as regards the Italian stock market, which was still at the level of historic lows; a second half of the year characterised by a deterioration of the confidence of investors, triggered by tensions that emerged in the Government Bonds market, particularly Italian Bonds, with negative performances recorded for all European stock market indices.

Just to cite some examples, the Italian stock market index lost 25% in capitalisation, the German stock market around 14% and the Eurostoxx50 around 17%.
Volatility shot up to very high levels and investors reached a height of apprehension in the Autumn, when the European Central Bank and other European regulators, in agreement with Governments, made widespread efforts to recover conditions that would assure the sustainability of the financial markets.
Italian Government Bonds felt the impact of the country's weakness more than others: on 10-year Bonds, the spread between the returns of the same and those of the equivalent German Bonds surpassed 500 basis points on more than one occasion, namely returns exceeded 7%.
The investment decisions of customers, and, consequently, the commercial business of Group banks were impacted by this market scenario, recording increasing aversion to risk and a preference for fairly prudent, simple financial products and cash investments featuring cash payments of coupons.

Group bond issues

In 2011, Group bonds were issued aimed to meet the various requirements of Retail customers, for a total figure of around euro 10,275 million, of which around euro 6,790 million in structured products, as well as around euro 1,479 million in bonds of third party issuers.

As regards the placements made, customers continued to favour the more simple forms of investment, such as, for example, plain vanilla average maturity bonds, both fixed rate and zero coupon types, as well as several floating-rate bond issues, index-linked to the Euribor.
The Group also diversified, issuing structured bonds, the most popular type envisages stepped coupons, with the option for the Bank to redeem the same before their natural maturity (step up callable).

We draw attention also to a new type of bond issued in the first half of the year, called "*Rendicerto*", through which customers are able to invest their savings in a 5-year bond, which features the payment of coupons in a lump sum on maturity or on sale, but that can be redeemed on the request of the customer 24 months after their start date. In this way, after the first two years, customers have the certainty of knowing that they can disinvest at any time and regain the capital and interest, therefore without the interest rate risk that characterises all fixed-rate bonds.
In line with Banco Popolare's objective to increase deposits, in 2011, the standard offer of ordinary Group bond issues was accompanied by issues of securities at particularly competitive conditions aimed to acquire new customers and gather new assets; these issues reached a placement volume corresponding to around euro 3,202 million.
Efforts to attract new customers and gather new assets were strengthened by the offer of specific short-term deposit products (e.g. Repurchase agreements with maturities of 3 / 4 / 6 / 12 months).
Furthermore, in November, in view of the realignment of the taxation of financial income envisaged in 2012, the Group decided to rationalise the product range of Network banks, by offering more cautious investors Certificates of Deposit with standard short-term maturities of 6, 12 and 18 months.
As far as bonds of third party issuers are concerned, during the year, 3 issues of leading Italian and foreign banks with reliable ratings were placed, aimed to offer the utmost protection of the capital invested by investors. These bonds envisaged two alternative options: paying coupons higher than market interest rates, or coupons index-linked to the Euribor with a positive spread, depending on the market condition of the Euribor.

Other investment instruments and initiatives to benefit customers

In 2011, Banco carried out two important operations: a share capital increase and a bond issue. In addition to this, it focused on other specific needs of its customers.
In order to strengthen the Bank's capital, anticipate the requirements of the Authorities in view of Basel 3 regulations and to improve its market positioning, in mid January, Banca Popolare launched a share capital increase for an overall figure of euro 2 billion. The operation was a complete success thanks to the support of bank Shareholders/customers, as well as external investors and institutional counterparties, which fully subscribed the increase.
Furthermore, in mid December, Banco Popolare a voting proxy solicitation procedure in order to be able to count on the entire potential originally constituted by the Soft Mandatory Convertible Bond issued in 2010, which represented a potential buffer of capital of up to the sum of euro 1 billion. Said solicitation was needed for voting at the Bondholders' Meeting, in order to ratify changes in the settlement of the bond, following the resolution already passed by the Extraordinary Shareholders' Meeting at the end of November.
In order to meet the requests of a number of customers with a risk profile more oriented towards investments in shares, the Group offered these investors Aletti Certificates, namely medium-term investment certificates, usually 4-year, linked with forms of, sometimes conditional, protection to the financial markets.
More specifically, up until the Autumn, products indexed to single share indices (e.g. FTSE/MIB, Eurostoxx50, SMI), or to Italian blue-chip shares (e.g. Telecom Italia, Enel, Mediobanca, Intesa SanPaolo), were placed with Retail customers, for a total of around euro 277 million.
The structures were diversified according to the protection offered:

- "Step" and "Step Plus" certificates with stepped coupons and an early redemption option (on condition that the underlying instrument is higher than the initial value on the interim dates) and protection conditioned by the failure to reach specific barriers in the event of a marked fall in the price of the underlying securities. The version called "Quick", characterised by a very short maturity (12/18 months) was also appreciated;

- “Bonus” certificates with exposure to the rising of the underlying instrument (with a minimum guaranteed bonus) as long as the elements protecting the falling of the underlying instrument are respected during the life of the certificate;
- “Protected Stock” certificates, with a high level of protection of the capital invested and a maximum limit imposed on any increase of the underlying instrument.

Towards the end of the year, customers were offered the new Securities Lending service. This gives customers the opportunity to lend their securities to the Bank, maintaining the availability of the same if the need to sell them arises, but at the same time being able to earn an interest retrocession for the time for which the securities are loaned.
Lastly, to protect private and corporate customers with medium-long term loans, amortised and index-linked to the Euribor, the Group Banks proposed financial instruments to hedge possible rises in interest rates. These were Banca Aletti Euribor Cap covered warrants, which pay a coupon if the indexed parameter exceeds a set threshold: in this case, the mortgage payment, increased due to the rise in interest rates, will be offset by the amount of the coupon paid to the customer.

Asset management

In 2011, the downtrend of the asset management segment continued, although the new products placed by the Banks did spark some interest.
Mutual funds, SICAVs and portfolio management recorded negative net deposits of around euro 1,550 million relating to retail customers.
The largest redemptions, of around euro 700 million, regarded the portfolio management segment, and monetary and flexible funds (former Country shares), due to the bad performance of the relative markets.
Several more innovative investment solutions were particularly appreciated by the public, recording positive deposit figures, namely coupon funds and term funds.
At the beginning of the year, Aletti Gestielle SGR rationalised its product range (including also the Luxembourg Sicavs, Gestielle Investment Sicav, formerly NAS), with the most important change regarding share funds called “Country Objective”, managed from now on in a flexible way, with a positive returns objective that seeks to dampen any negative performance in the reference market.
To exploit the opportunities that emerged on the bonds market, Gestielle launched the following products over the year: *Gestielle Cedola Obbligazioni Bancarie Euro* and *Gestielle Cedola Obbligazioni Governative Euro*, term bond funds with the distribution of proceeds, that invest in the respective markets.
Arca SGR also rationalised its product range at the beginning of the year, for example making the historic BT Fund (now Cash Plus) more flexible.
The company continued to propose new funds in 2011 as well, above all coupon funds, with set durations and falling risks, which performed well in terms of deposits and met the appreciation of investors (*Arca Bond Paesi Emergenti Valuta Locale* and *Arca Cedola Bond 2016 Alto Potenziale III*).
Furthermore, in April, customers were able to benefit from the innovative service called *Arca Risparmia&Consolida*, a “dynamic saving plan” which enables the investor to increase his investment in instalments, when the reference target fund becomes more attractive and, at the same time, to allocate the proceeds to the liquidity fund, if the selected fund performs well.

Bancassurance Life

In 2011, the Banco Popolare Group continued to operate in this segment through Popolare Vita, a joint venture established with Fondiaria SAI and through the Irish subsidiary “The Lawrence Life Assurance”.
Popolare Vita’s product range underwent a process of continuous enhancement in 2011, through the marketing of new products that “fully” respond to the insurance investment needs of Group customers.
Market trends also conditioned business performance in this sector as well, which in any event generated a volume of new premiums totalling around 2,179 million over the year. The majority of the above regarded Lawrence Life Unit-Linked products (1,892 million). Instead, traditional segment I life insurance policies dropped sharply with respect to 2010, with premiums amounting to around euro 247 million.
The Group’s product range saw the restyling of the multi-segment policy called *Multicrescita* (which envisages initial investment in a separate portfolio and then during the first two years, a monthly automatic switch to the internal funds of the unit part of a percentage of the amount paid by the customer, depending on the approved risk profile) and the restyling of the unit-linked, recurring premium policy *Beldomani Valore Programma Risparmio.*
Placements of Unit-linked products resumed during the year with the issue of 5 policy windows by the Irish company Lawrence Life, which envisage Banco Popolare bonds with guaranteed capital on maturity as the underlying, a structure with fixed coupons and a 5-year term.
In September, a new Segment I policy was launched called *Orizzonte Sicuro*. This policy invests in two Separate Portfolios: the traditional *GS Popolare Vita* and the newly-established *GS Orizzonte*. The objective is to better exploit market fluctuations to give customers maximum returns, whilst guaranteeing the capital invested. The policy guarantees a minimum return of 10% at the end of the fifth year, without counting higher returns achieved in the meantime.
Towards the end of 2011, a campaign was promoted inviting customers to subscribe and pay premiums to the Company’s Supplementary Pension Plan, in order to exploit the tax benefits associated with supplementary pensions.

Bancassurance Protection

In 2011, the drive to place protection products of Avipop, a joint venture between the Banco Popolare Group and the Aviva Group, continued. The range of CPI products was completed by the introduction of new policies covering the various types of mortgage loans to private and corporate customers.
With regard to stand along policies, the *Conto Protetto* policy was restyled, entailing the addition of important guarantees.
An innovative, indemnity-based, health insurance policy was launched (*Programma Salute Light*) addressed particularly to Retail customers due to its simplicity and the clarity of its content.
The new policy was launched on the market in the second quarter and was very well received by customers, confirmed by the subscription of over 3,000 policies.
In the last quarter, work started on rationalising the product range for the new Banco Popolare, and will be completed during 2012.
The wide range of different products offered, accompanied by the increasing demand of customers for protection products, enabled the Company to achieve an overall total of premiums collected in excess of euro 270 million.

Products and services for Retail Businesses

In 2011, the Banco Popolare Group continued to meet the demand for loans and services of Retail Business customers, disbursing different types of loans to the same, based on requirements, and extending the product range with new products, optimising existing banking services and proposing sales incentives aimed to better meet their specific needs.

Current accounts

In 2011, the Banco Popolare Group continued to expand its customer base, in particular, the number of current accounts of Retail business customers rose by around 2,500 accounts, corresponding to a net increase of 1% compared to the figure as at 31 December 2010.
The range of "Idea" current accounts was entirely revised with a view to better meeting the different needs of Business customers (Small Business Operators and Small Businesses), through products customised on the basis of the business activity in question and the different types of banking transactions required.
Furthermore, to complete the product range, additional current accounts were added (the "*Provaci!*" account and the "*Sviluppo*" versions relating to the "*Idea*" range) targeting new customers, and featuring very interesting conditions, and the opportunity, for new customers, to judge the real quality of the service on a trial basis, before making a final decision and therefore keeping the accounts open. An additional interesting feature regards the reimbursement of the fees paid if customers are unhappy with the service provided.
Furthermore, to meet the needs of businesses that need to invest a part of the company's surplus "structural" liquidity, a savings account called "*Alta Liquidità*" has been launched, able to exploit the capital invested to its best advantage, also due to the short-term nature of the same (three months), featuring rewarding interest rates based on the sums invested, with the advance payment of the interest accrued.

Loans and lending

The international agreement on Bank capital requirements (Basel 2 and 3) and the ever-changing market scenario has led the banks to continuously adapt its lending and commercial policies.
Our Group has also made changes to its creditworthiness assessment procedures and in its calculation of the prices to apply to individual loan transactions for Businesses.
Given the above, the new catalogue of medium-long term loans for Retail Businesses was released for all Network Banks, which has:

- rationalised and simplified the product range, guaranteeing adequate coverage of the main financial needs of businesses (liquidity, working capital, investments etc.), with repayment plans for the debt in question, both short and medium/long term;
- standardised the offering of the various Network Banks at Group level, which now have the same range of loan products with the same characteristics (e.g. purpose, type of repayment plan, duration, index parameters, instalment frequency, etc.) and the same price lists;
- updated the content of the loans range, taking into account both market demand and that offered by our main competitors;
- enabled us to apply prices adopting a "value creation" approach, based on "risk adjusted" rationale, namely that take into account (in a different manner for each rating class) the recovery of the different cost components that the bank incurs and the expected margins.

The 15 products that comprise the catalogue are as follows:

- <u>Mortgage loan (fixed rate and floating rate) and mortgage current account</u> to sustain liquidity, finance the purchase of machinery and equipment, the construction, purchase and renovation of buildings relating to the company's business activities, for non-residential uses, also with the option of disbursements in a number of tranches (based on progress of works);
- <u>Building and renovating</u>: a "building" mortgage loan for the construction or renovation of property for residential, commercial, small or large-scale industrial use;

- Multi-Bracket: mortgage/landed property or unsecured loans with an innovative repayment mechanism, structured to generate lower payments in the first few years, which then rise progressively over time;
- Personalised *Idea credito*: an unsecured loan which is able to meet the needs of customers in terms of new investments and/or procurement of supplies and reconstitution/recomposition of stock (working capital). Thanks to the advice received from the manager, customers are able to optimise cash flows and the relative financial charges and can assess the option of possible guarantees or subscription to correlated products to obtain reductions of the spread;
- *Idea apercredito*: the opening of a credit line on a current account, with a planned repayment plan, characterised by a maximum duration of 48 months, and a maximum amount of euro 500,000. This combines the elasticity and flexibility of a cash loan and the progressive repayment of a loan in instalments;
- F24+13th/14th month wages: this meets the extraordinary cash flow needs of companies that have to pay taxes (national insurance and social security) contributions, tax demands and other types of taxes/fiscal charges, as well as the periodic payment of thirteenth and fourteenth month wages to employees. This product therefore enables customers to meet tax- and contribution-related obligations without touching company liquidity;
- *Idea fiera*: an unsecured loan to finance the expenses relating to participation in trade fairs, congresses and promotional events (rental of the stand or rooms, fitting and fixtures, registration costs, promotional material etc.);
- Employment support: this assists Small Businesses that have increased or wish to increase the number of permanent employees, or if temporary, for a minimum period of 18 months;
- Loans to hedge risk: this funds the since or advance premium paid when subscribing insurance policies in the non-life segment, or when purchasing products to hedge interest rates and exchange rates.
- Financial equilibrium: an unsecured loan for customers that wish to improve their financial structure, re-balancing the situation by consolidating short-term exposures and/or regaining liquidity;
- *Idea capitale*: sustains transactions to strengthen company capital, through a share capital increase against payment (in accordance with the ABI-MEF Common Announcement on 3 August 2009 and the subsequent Credit Agreement);
- Photovoltaic: to fund the purchase and installation of photovoltaic panels for the production of electricity through the transformation of solar energy, benefiting from the subsidies envisaged by the “Energy Account” of the Electricity Services Provider;
- POS advance idea: a credit line for customers that have a commercial business and use POS terminals. An amount is made available to the same, which will be repaid through payments made on the POS terminal;
- Unfreezing of trade receivables from the state: enables corporate customers that have certain, liquid and payable receivables due from the Public Administration to unfreeze the same.

Insurance policies

The policies, launched in June 2009, were partially restyled to optimise the insurance limits requested by customers and the market: the ceilings of the Allrisk Business policy now corresponds to that of the Allrisk Commerce policy (for “Building Fire” cover”) therefore raising it from euro 1 to 2 million, therefore increasing the number of potential insurable customers.
“Creditor Protection Insurance” (CPI) policies sold by the Network exceeded 19,000 in total, corresponding to premiums collected of euro 18 million.
In October 2011, the range of CPI policies was enhanced with a new formula: the CPI for mortgage loans with “Italian-style” repayment plans; this line was launched with the aim of offering wider solutions and opportunities to customers, also enabling types of mortgage loans that were previously excluded to be covered through CPI (such as for example the “*Multi-Bracket*” mortgage loan)

Action to support Retail Businesses

In March, the BP Group subscribed to the “Agreement for credit to SMEs”, an agreement that represents the natural “continuum” of the Common Notice, signed by: ABI, the Prime Minister’s Office, the Ministry of Economy and Finance and representatives of the main Trade Associations. The objective was to support businesses with growth prospects, despite the continuing liquidity crisis.
In this regard, the agreement envisaged various options for Small and Medium Enterprises in possession of the admission requirements established in the Common Notice:

- the extension to 31 July 2011 of the deadline to submit applications for admission to the “Common Notice” (only for businesses that had not already applied and with outstanding loans as at August 2009);
- the extension of loans already subject to moratoria, for a period not exceeding their residual life, and in any event for no more than 2 years in the case of unsecured loans and 3 years in the case of mortgage/landed loans;
- the possibility of requesting simple instruments to hedge interest rate risk;
- the possibility to request loans for amounts proportional to share capital increases made by shareholders as part of transactions to strengthen share capital.

In 2011, like last year, several Italian regions were hard hit by natural disasters, such as floods and landslides.
Banco Popolare took action in all of these cases to support its customers through targeted measures.
Following the floods in October that hit the municipalities of Lunigiana and Isola d’Elba, Tuscany’s Regional Authority launched a special initiative to help the SMEs affected. The initiative was part of the Memorandum of Understanding “Economic Emergency - Liquidity Measures” set in place by Tuscany’s Regional Authority and Network Banks, which entails

granting soft loans to businesses damaged by the disaster, assisted by:

- a direct guarantee from Fidi Toscana (the financing company of Tuscany's Regional Authority) of 80% of the amount of the loan;
- a contribution to interest payments, corresponding to 100% of interest for the first 12 months of the loan;
- lower spreads with respect to those envisaged by the "Economic Emergency" Memorandum.

Another flood hit the Liguria region, particularly the provinces of La Spezia and Genoa: in this case, Banco Popolare suspended mortgage payments for a maximum period of 12 months and allocated two funds, one of euro 15 million for new loans for businesses (to be used to recover damaged buildings, equipment and machinery) and another of euro 10 million for private customers that suffered damages.
The measures entailing the suspension of mortgage payments and the disbursement of new loans at subsidised conditions were also applied following the floods in the province of Messina at the end of November.

Guarantee instruments for enterprise

Guarantees are essential to facilitate access to credit, particularly as regards Small and Medium Enterprises. Therefore, efforts concentrated on guarantees underlying the disbursement of loans, both with a view to updating current guarantee instruments (subsidised or other) and to identify new opportunities for the benefit of customers.
By virtue of specific agreements and arrangements with guarantee managers and providers, Group banks were able to provide customers with adequate guarantee instruments.

<u>National funds</u>

- A Guarantee Fund for SMEs to protect medium-long term loans and for company investments in tangible and intangible assets. The legislative provisions adopted to tackle the economic crisis strengthen the role of the Fund in capital and operational terms. Following the recent refinancing of the Fund by the State, the range of investments admissible for guarantees was extended. The Fund benefits from the ultimate guarantee of the State (recognised against direct guarantees and "first demand" counter guarantees) and applicable in the event of the default of the Fund in question) which allows the bank to lower the costs of lending and to apply conditions to loans guaranteed by the Fund that reflect the lower risk of the transaction. In 2011, a specific guarantee measure was added to the Guarantee Fund for SMEs (implemented under Italian Ministerial Decree no. 69/2011), which seeks to facilitate access to credit of suppliers of insolvent businesses and that are in extraordinary receivership;
- ISMEA (Institution of Services for the AgriFood Market)/SGFA (AgriFood Funds Management Company) for the issue of direct or subsidiary guarantees, joint-guarantees and counter guarantees to agricultural businesses. The ISMEA/SGFA guarantee also benefits from the ultimate guarantee of the State, with the positive effects mentioned above;
- SACE (Insurance Services for Foreign Trade) for the issue of guarantees for foreign investments (JET - Joint Export Target programme).

<u>Regional financial companies</u>

- Veneto Sviluppo (the management company of the Veneto Region Guarantee Fund), to encourage investments in production by SMEs in Veneto;
- Banca Impresa Lazio (the management company of the Rome Capital Guarantee Fund), to encourage investments in production by SMEs located in the Rome area;
- Fidi Toscana S.p.A., with whom existing agreements have been updated and implemented, extending the range of admissible investments under the Memorandum of Understanding "Economic Emergency", drawn up between the Tuscany Regional Authority and the main network banks.

<u>Local associations – Confidi</u>

Banco Popolare has over 180 active agreements with the Confidi, these represent a fundamental tool to facilitate the access to credit and microcredit by SMEs.

To better grasp the opportunities that have been created as a result of the profound changes taking place as regards Guarantee Bodies, from the second half of 2010, a new function, "Confidi" was added to the "Portal for E-Services Advantage", allowing Guarantee Bodies to directly and safely interact with the integrated Pegaso Guarantees System (PGAR). The PGAR system manages the acquisition and the reporting on the guarantees issued by Guarantee Bodies (particularly Confidi and Trade Associations), with the aim of facilitating access to credit of member companies, by virtue of the Agreements drawn up with the Parent Company or with Network Banks.
Furthermore, in line with the principles of social and environmental sustainability pursued by the Group, the system has encouraged the digitisation of documents, thus saving paper.

Soft financing tools

A further critical aspect for SMEs is represented by the cost of credit. To this end, “providers” of funds at advantageous conditions were identified.
At supranational level, Banco Popolare obtained a further line of credit of euro 50 million from the European Investment Bank (EIB) to be used to grant loans to “Mid-Caps” (companies with between 250 and 3,000 employees) to be used for investments in production and for the permanent increase of working capital.
As far as existing loans are concerned, namely those granted on the basis of previous global funding conceded by the EIB, the same total 240 loans with a residual debt of over euro 215 million.
At national level, an agreement was signed with Cassa Depositi e Prestiti (the Deposits and Loans Fund), on the basis of which, a ceiling of euro 51 million was made available to Banco Popolare, to be used to grant loans to SMEs for investments in production.
At regional level, Banco Popolare subscribed to the special measures launched by Finlombarda S.p.A. (a regional financial company, partially owned by Lombardy’s Regional Authority), addressed to the start-up of new independent and freelance businesses. Joint loans are envisaged at advantageous interest rates using the financial resources of a specifically-established Regional Fund (“FRIM”) and those of Veneto Sviluppo S.p.A. (a financial company partially owned by Veneto’s Regional Authority) for investments made to support SME cooperative companies in Veneto, by allocating provisions at advantageous rates.
Loans financed by subsidised regional funds active as at 31 December 2011 totalled around 1,700 within the Group, with a residual debt of around euro 58 million.

Subsidies on contributions and guarantees

As part of the measures to assist SMEs, the Group channels the subsidies envisaged by national and regional legislation, both in terms of contributions (lower interest), and advantageous guarantees. More specifically:

- national subsidies: including soft loans to small-scale industry, those for environmental protection and technological innovation and the Guarantee Fund for SMEs. Over 900 loans were disbursed in this sector, with a residual debt of over euro 34 million;
- regional subsidies: in particular in Emilia Romagna, Veneto, Lombardy Piedmont and Tuscany; total active loans exceed 1,400 with a residual debt of over euro 66 million;
- local subsidies: in terms of specific counter-crisis measures, Group banks subscribed to the measures adopted by Local authorities. For example, in Tuscany, the Cassa di Risparmio di Lucca Pisa Livorno entered into agreements with the local Chambers of Commerce and with several town councils to grant microcredit to small and medium regional businesses assisted by the contribution to interest disbursed by the above-mentioned Bodies.

Products for agricultural enterprises

In mid-2011 “Green Credit” was launched, a new short-term loan product addressed to businesses in the agrifood chain, with a view to supporting the running expenses of a crop year. The loan, which can be used in the form of a credit line, has a maximum duration of 12 months and can feature wither a fixed or a floating interest rate. This differs from the agricultural discount on bills insofar as interest payments are deferred and due to the fact that no promissory note used as a guarantee is envisaged.

Leasing

The partnership with Alba Leasing S.p.A., a company that operates in the leasing market, was set up in 2010 and has enabled Banco Popolare’s Retail Businesses to finance investments in the auto, capital goods, property, nautical and renewable energy segments
In 2011, the range of business sectors was extended further to include specific products for agriculture.
“*Leasing Giallo*” (Yellow Leasing) is a new product which envisages formulas for:

- financing agricultural property, vehicles and machinery;
- leasing capital goods and “earth movement” machinery;
- investment in renewable sources (photovoltaic, biomass etc.) relating to the agricultural sector.

With regard, instead to the related insurance products, a new CPI Policy was launched, which insures natural persons (as legal representative, shareholder, director, co-worker or employee etc.) who have entered into a lease contract on behalf of their company.
The CPI, created in collaboration with our partner Avipop, enables the debt to be extinguished in the event of death or permanent total disability of the insured person, while in the case of temporary total disability, it covers the repayment of up to 12 instalments.

The 2011 Stability Law has simplified the taxation of property leases, by introducing a substitute tax for mortgage and land registry taxes (overall 4%) on lease contracts active as at 1 January 2011.
The substitute tax is to be paid when the lease contract is signed; for contracts underway as at 1 January 2011, the advance payment of a single lump sum of the tax still due (the first half was paid when the contract was signed to avoid double taxation) is envisaged by 31 March 2011. As it is a compulsory advance, the Law has envisaged a discount of 4% for each

year of residual duration of the contract.
On the basis of the above, the Group has set in place specific advisory and financial support services to enable all Retail Businesses to promptly pay the higher taxes due, spreading the repayment to the lending bank over time.

Special projects - Service model

In July 2011, the Banco Popolare Group, in line with that envisaged in the Business Plan, completed the activities envisaged by the PIVOT (*Piccole Imprese - Valore Obiettivi e Territorio* - Small Businesses - Value Objectives and Territory) for the entire Network. The main objectives of the project are the introduction of risk-based logic, measurement and instruments to improve the Group's internal rating system and at the same time revise the "service model" through which it intends to service Retail Business Customers.
The project involved redefining the scope of the businesses categorised as belonging to the Retail world, by raising the turnover threshold from euro 2.5 million to 5 million. This led to the transfer of around 15 thousand customers from Corporate to Retail and the transfer of 130 Corporate Managers/Employees. This new macro-segment of Retail Businesses comprises the SBO segment (Small Business Operators), namely customers with an annual turnover not exceeding euro 100 thousand, and the SB (Small Businesses) segment, with a turnover of between euro 100 thousand and 5 million.
This new type of structure will enable the Network to improve the effectiveness of its sales efforts and the efficiency of the resources available in the branch, adopting significantly different approaches to the management of the two types of customers (SB and SBO), based on their needs.
The P.I.V.O.T. Project will help a culture of "value creation" to be spread throughout the Network, as well as the management of customer portfolios based on the level of the associated costs and risks: to provide tangible support to the daily management of the same, the first instruments have been released, which enable each individual manager to keep changes in the economic-equity and risk aggregates of the customer portfolio under control. These instruments are currently being fine-tuned while others are under development, with a view to guaranteeing continuous compliance with legislation in force and with operational requirements that arise from time to time.

During the year, instruments to assist sales efforts vis-à-vis Retail Business customers were updated.
Through the "Retail Business Rating Monitor" (namely a "recurring campaign" featured in the application/relational dashboard A.G.I.Re.) and the "Quality of Retail Business Ratings" (available on the intranet portal), Branches can have an updated situation of the actual "rating" calculated on their customers.
In this way they are able to both plan measures to recover positions that show "irregularities" (e.g. out-of-date, incomplete or inaccurate financial statements or Customer Information Sheets, etc.), and to monitor positions with valid ratings but due to expire shortly, in order to organise any necessary updates.

In order to ensure the proper control and governance of the cost of credit and of absorbed capital, a specific monitoring tool has been prepared which, on a monthly basis, highlights positions of Retail Business customers that have revokable facilities which are past their review date. This project plays a very important role in bringing the "official" information on Retail Businesses up to date, enabling each branch to promptly and properly manage the "credit risks" present in their customer portfolio.

In 2011, the Customer Mission Project was also extended to "Business" customers, the aim of which is to limit the phenomenon of losing customers (attrition) due to dissatisfaction stated by customers during specific quality interviews. To this end, a sales process has been envisaged, which lead to a meeting with the customer to resolve the problems that have emerged and to fully recover the customer's confidence in the bank. The process concludes with a check, at a later date, that the reasons for the dissatisfaction have effectively been eliminated.

The Network Contract is a new type of contract that is becoming popular in Italy. Network Contracts are regulated by a provision (called "Urgent measures for financial stabilisation and economic competitiveness" - Italian Law Decree 78/2010 converted into Italian Law 122/2010). The contract allows a number of business operators to "form a network" for the specific purpose of individually and collectively increasing their ability to innovate and the competitiveness of their companies on the market.
In this regard, the Banco Popolare Group has been involved right from the start, participating in Working Groups coordinated by ABI, as well as through direct contact with Confindustria and the individual operators involved. For Group banks, it is now possible to open current accounts directly for the Network Contract, and further possible developments to support these new parties are currently being analysed.

The Banco Popolare Group also subscribed to the new Framework Agreement with the Italian Episcopal Conference (IEC) to set up a national programme of microcredit addressed to retail customers and microenterprises (one-man firms, partnerships and cooperatives) promoted by the retail customers themselves, who find themselves in a state of "economic and financial vulnerability". The agreement envisages that, after an assessment of the admissibility requirements by local Diocesan Offices, loans will be disbursed at advantageous conditions to facilitate and support the start-up of business activities (in the case of microenterprises).
In any event, the bank has the power to assess the feasibility of the business idea or freelance work, and to obtain all information needed for the loan approval procedure.
The loans in question are guaranteed by the guarantee fund set up by the IEC.

During the year, specific training courses were held on Foreign business activities relating to the Retail segment, as it is retained that these operations will increasingly become the "driver" to selecting quality customers. These courses will gradually be extended to all network staff who are responsible for managing a customer portfolio, so that the same can, in collaboration with specialist Foreign offices present in all Business Areas, use this knowledge to improve satisfaction and to develop relations with said customers.

Commercial initiatives for Retail Business customers

Also in 2011, a series of commercial initiatives were addressed to Retail Businesses, summarised below.

- *Prendi Quota*
  A scheme to encourage the early collection of trade receivables which, in various forms, companies need to re-balance their liquidity requirements.
- MLT Loyalty
  A scheme to encourage the medium-long term loyalty of customers with good track records, with medium/long term loans (unsecured or mortgage) that are close to expiry.
- Liquidity potential
  A scheme that aims to propose specific investment products for businesses and parties who, on the basis of specific ratios and transaction profile, possess structural liquidity that could be enhanced.
- F24 Taxes and Duties
  A scheme to provide support to Retail Businesses in the payment of taxes through F24 forms, at the most important tax deadlines during the year, which entail a significant financial commitment beyond the usual commitments on which ordinary treasury management is based.
  This dedicated scheme helps the enterprise to more easily manage and plan its financial requirements.
- Interest Rate Hedging
  A scheme which, by exploiting the current low level of interest rates (short and long term), offers Retail Business customers simple and competitive "hedging" solutions to protect themselves from a future rise in "interest rates", therefore limiting the negative impact of a rise in the amount of repayments on their ability to pay.
- *AvVantaggiati!*
  A campaign to encourage the awareness of Retail Business customers of "*Vantaggio*", Banco Popolare's web-based multi-bank remote banking solution.
  The campaign enjoyed with considerable success with business customers, who particularly appreciated the simplicity and ease of use of the *Vantaggio* tool (available 24h directly from the office/home), combined with its flexibility and sophistication (access to the most popular banking transactions and to evolved services which are continuously being implemented).
- *POSsiamo!*
  The increasingly wider use of e-money, as an easy-to-use and secure payment instrument, has led to the continual spread of POS devices as a privileged collection channel, above all for Retail Businesses operating in specific sectors, such as retail sales, the hotel industry, catering and tourism.
  For this reason, a specific campaign was launched which, exploiting the protection mechanism reserved to the world of POS Acquiring, targeted commercial businesses, proposing a complete and extremely competitive offer, comprised of a series of technological solutions, suited to any type of need relating to payment by credit/debit card (including the e-commerce service for on-line sales).
- RiBa Collection orders
  With a view to consolidating its role as the customer's reference bank, also by managing payments related to everyday business, a specific commercial campaign was launched to extend the use of outgoing collection orders, a standard payment instrument used to pay suppliers, at Banco Popolare branches.
- Specific provisions for collection/payment services
  Again this year, special attention was paid to the provision of collection and payment services, from the more traditional means (e.g. Italian/Foreign bank transfers, collections on portfolios), to more evolved ones (e.g. SEPA credit transfers, e-commerce, electronic invoice advances etc.). A team of specialists working in the local area provided professional support to both the commercial network and directly to Retail Business customers.

Banca Diretta products and services

Banca Diretta offers a range of "multichannel" products and services to the Group's various customer segments: Private Retail customers, Small Businesses, Corporate and Large Corporate. The key figures of the above are as follows:

Product/Service	End of 2011 figures
No. of *by Call* - Telephone Banking Customers	364,568
No. of *by Web* - Home Banking Customers	487,116
No. of On Line Web Trading Customers	40,800
No. of *by Alert* - Mobile Banking Customers	181,278
No. of Remote Banking Customers	215,421
No. of POS Terminals	65,369
No. of ATM Machines	2,358

This continuous focus on quality and on improving the product range fuelled the increase in the number of customers using direct channels. The integration between so-called "traditional" channels and direct ones was considered particularly important.

by Web - Home Banking

The *by Web* service again recorded a significant increase in the number of users (+26%) accompanied by a steady rise in usage figures.
In recent years, our online channels have been continuously improved, with a view to providing an easy-to-use, intuitive service that is in step with the times. The awareness that users increasingly browse the Internet from their smartphones and tablets led us to develop our offer to be able to better exploit the characteristics of this new "mobile" channel. The objective was achieved partially by developing a new channel, *by Mobile*, and partially by making *by Web* increasingly "touch".
by Mobile was launched in February. It enables *by Web* customers to browse while on the move using these new devices through a simple interface, paying special attention to the technical compatibility of the various smartphones available on the market (Apple, Android, Blackberry, ...).
In June, on the other hand, the graphics and the browsing features of *by Web* were updated, rendering the same increasingly iconographic, so it can be easily used from a PC and on latest generation tablets.

Other products/services that have been developed and that are related to home banking include:
- Picture ATM card, which envisages the on-line personalisation of the customer's ATM card;
- K2 Black and K2 White cards, which have seen an evolution in the management of related on-line services;
- *RendiConto Web*, the savings account for on line customers, whose technical "per entry" mechanism has been used with great success for all customers on the *YouBanking* portal;
- New Investments section;
- *YouBanking*, the *by Web* service has been extended and integrated to be able to manage and welcome new online customers following the launch of the www.youbanking.it portal.

by Alert - Mobile Banking

The by Alert service has been enhanced with new messages (SMS and e-mail), above all with a view to further simplifying it and increasing the safety of on-line channels.

Remote Banking and the Vantaggio Business Portal

In 2011, the *Vantaggio* platform saw numerous developments, confirming that it is the ideal solution for the remote management of a company's everyday accounting, administrative and financial transactions.
The main developments regard:
- the implementation of new on-line functions: Payments against notice, utilities payments, TV licence payment, Telephone recharges, which have extended the range of payment instructions available on line;
- mobile channel: the latest function "*Vantaggio Mobile*", the first platform in Italy that enables customers to use the Corporate Interbanking service while on the move, through latest generation mobile phones (Smartphones, iPhone) and Tablets, thus making access to the services offered even easier;
- on-line documents: extension of the paperless service and the storage of documents and accounting statements related to new types of accounts (foreign accounts, risk hedging products, etc.).

With the aim of improving the customer assistance service and helping customers use the *Vantaggio* portal, numerous initiatives were launched regarding:
- <u>Messaging.</u> The Vantaggio portal has various messaging tools (banners, personal messages, news) which enable us to convey technical, operational and commercial information to our customers. In 2011, these tools were also used to promote the use of the e-services available on the portal: the features were displayed, and they could be configured on line or directly accessed through a specific link. The "redemption" of these initiatives showed a substantial increase in the use of the services;
- <u>English version.</u> The English version of the portal, addressed to non-resident businesses, was fully revised, with a view to facilitating access and use for non-Italian speakers. To provide customers with additional support, a section entitled "FAQ and User manual" (in English) was introduced;
- <u>Welcome service.</u> The "welcome" service was improved: in additional to the standard telephone call, a personal message is now envisaged, which welcomes new customers and provides them with basic instructions to start using the portal.

Following the above initiatives and the work carried out, the use of the services offered by the *Vantaggio* portal is continually rising.

The *Vantaggio* Help Desk, in addition to standing out for its efficient customer care, in the first half of 2011, contributed to promoting a campaign to measure the level of customer satisfaction. The campaign confirmed our customers' satisfaction with the service, in terms of the functions offered, the level of security, ease of navigation and assistance. At the same time,

the results of the campaign provided interesting ideas for future developments of the portal, with a view to offering a service that is increasingly customised.
2011 concluded with the rationalisation of the *Vantaggio* portal price list, which led to the simplification of the pricing items.
The "traditional" Remote Banking services (active and passive) are regularly updated, in line with the continuous developments of Corporate Interbanking standards, an area in which the Group actively participates.

Physical and virtual POS, e-commerce

In 2011, this service saw a rise in the number of POS terminals (5%) and in volumes (6%), while investments were made in the POS service to be able to offer customers both traditional physical and e-commerce collection services.
In 2011, the acceptance of credit cards issued by China Union Pay was implemented, which has enabled the Group, on a par with only a very few Italian banking groups, to meet the requirements of our corporate customers located in areas that have substantial trading ties with China.
Collaboration with Amex and CartaSì continued with schemes to promote acquiring.
Lastly, important projects were undertaken relating to the assignment of the Cash and Treasury Service to the Group (for example by Health Authorities and City Councils).

Contact Centre

The Contact Centre encourages daily dialogue between customers and the Group's commercial network; its scope encompasses four macro areas:

- inbound calls, on a toll-free number, both for traditional phone banking transactions and due to the increasing need for remote customer assistance. Contact is made both with an operator and through IVR (Interactive Voice Response);
- outbound calls made as part of commercial campaigns regarding existing or potential new customers, for telemarketing (to organise appointments), cross-selling (to suggest products), customer satisfaction surveys (service satisfaction surveys) and fraud detection (to manage fraud risk on payment cards or direct channels). The above may also entail the services of external firms;
- requests for information sent via e-mail and management of reports and complaints received via the websites of the Network Banks;
- assistance to customers on specialist topics such as MiFID and Life Insurance Policies.

Over the year, the other main projects that involved the Contact Centre included:

- managing the outsourcing of customer web and mobile assistance to TecMarket, a Banco Popolare Group company that already provides the remote banking service to business customers;
- the launch of the *YouBanking* project, in which the Contact Centre assisted customers at the pre and post sales stages as well as handling applications, therefore in constant dialogue with potential new customers. To manage this new activity (defined "Middle Office"), towards the end of the year, an office with specialist operators was set up at the Guamo branch;
- increased assistance for cardholders, following the issue of the new rechargeable KDue White and "fraud prevention" schemes regarding debit card transactions made on foreign circuits.

Inbound Contact Centre activities as at 31/12/2011	
No. of calls received	1,117,087
No. of calls per operator	343,288
% calls per operator	36.26%
average length of call (seconds)	235
response %	84.75%
average response time (seconds)	94
number of e-mails handled	25,778

Corporate

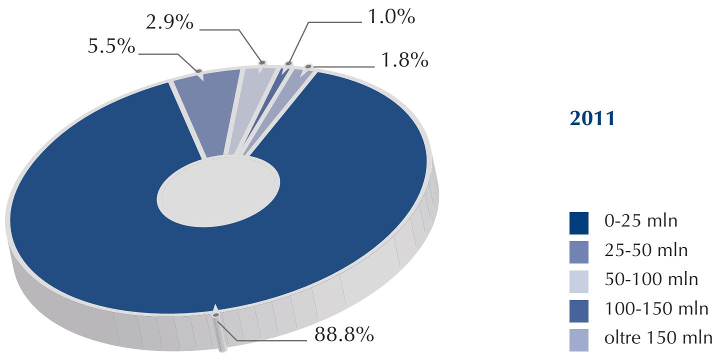
The Group's sales network dedicated to the Corporate segment, at the end of 2011, comprised 77 Business Centres accommodating 401 Corporate managers, plus the branches of Credito Bergamasco, aggregated in 11 areas. This widespread structure guarantees the right level of proximity to our local customers.

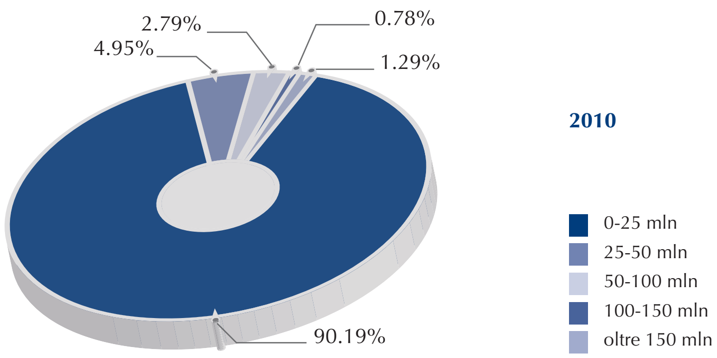
In 2011, Banco Popolare rationalised the service model for corporate customers. On one hand, the operating capacity of branches was improved as regards smaller scale customers, on the other, corporate managers focused on handling the requirements of larger-scale customers that need more specialist advice. This rationalisation led to the threshold that distinguishes different sizes of corporate customer being raised, so now businesses with a turnover of less than euro 5 million liaise with a manager located at their local branch, while businesses with a higher turnover are handled by the Corporate Manager. This threshold was also revised for agrifood businesses, as, particularly in the agricultural world, they may require more specialist advice at all levels. For this reason, the portfolio of agricultural businesses assigned to the Corporate Manager specialised in providing advice in these segments, now includes those with a turnover exceeding euro 1.5 million.

The outcome of this rationalisation exercise led to the transfer of around 8,700 accounts from business centres to retail branches, with a view to better serving SME customers.

As at 31 December 2011, the Corporate segment had around 49,439 customers, showing, on a comparable basis with 2010 (47,442) a significant rise in terms of new customers of 4%. It is important to note the continuous commitment of Corporate Management to the professional training of all corporate resources, in close collaboration with the Group's HR Department.

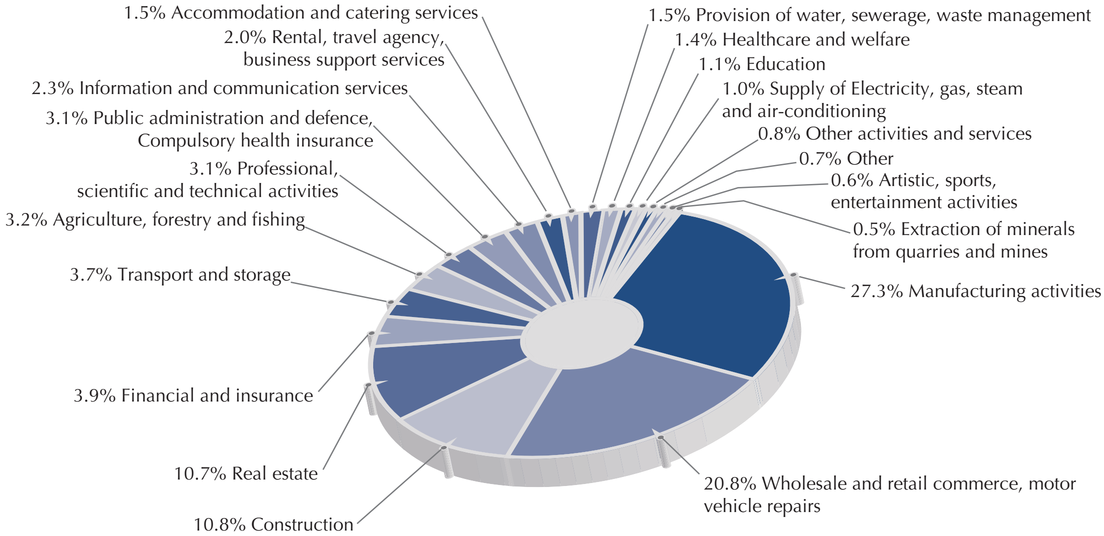
The breakdown of customers by turnover bracket confirms the substantial concentration in the turnover bracket of between 0 and euro 25 million, already recorded in 2010, showing an increase in the number of customers also in the brackets of turnover exceeding euro 25 million. (figs. 1-2).



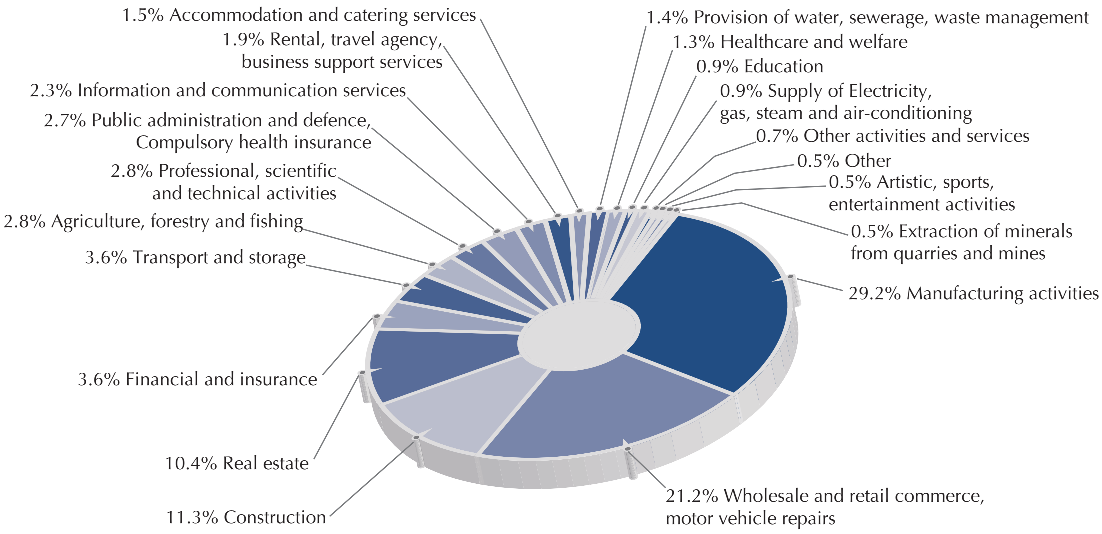


Figures 1-2. Breakdown of Corporate customers 2011-2010 (on a comparable basis) by turnover bracket.

In the breakdown of customers by production sector, the manufacturing and service and commerce sectors continue to record the highest percentages (figs. 3-4).



2011



2010

Figures 3-4. Breakdown of Corporate customers 2011-2010 (on a comparable basis) by business sector.

With regard to assets managed, the average balance of loans was euro 36.5 billion as at 31 December 2011 (fig. 5).

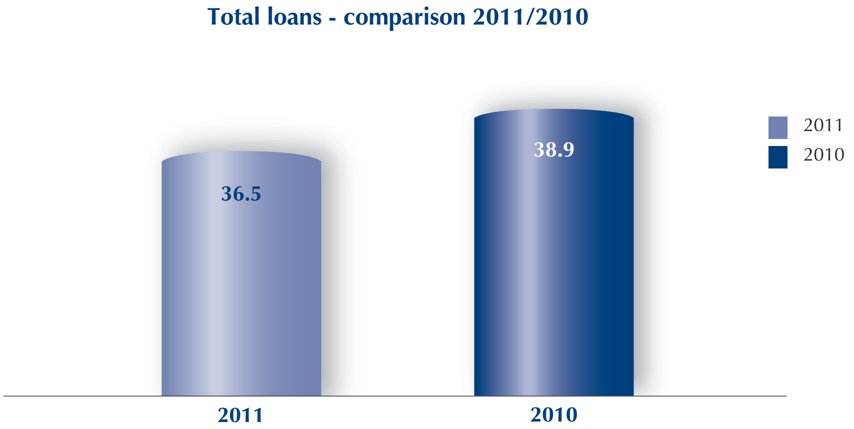


Figure 5. Comparison of the average monthly balance of total loans of the Mid Corporate segment in 2011 versus 2010 on a comparable basis with 2011 segmentation.

More specifically, the loans of the core Mid Corporate segment (turnover between euro 5 million and 250 million) amounted to euro 26.8 billion, corresponding to 73.5% of the total as at 31 December 2011 (fig. 6).

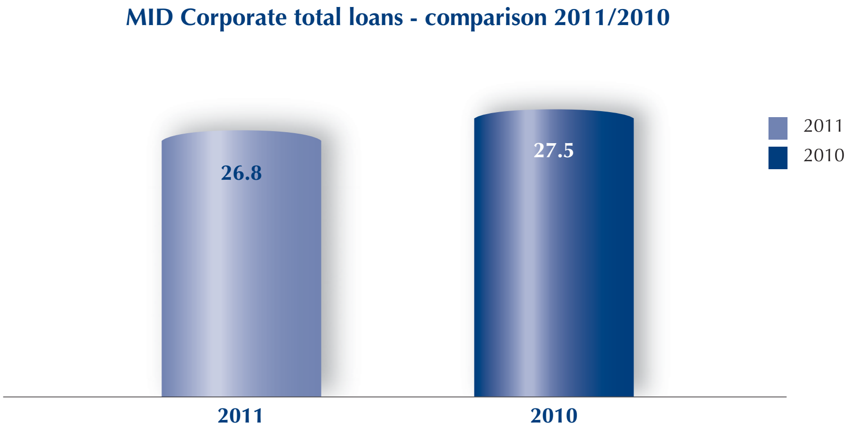


Figure 6. Comparison of the average monthly balance of total loans of the Mid Corporate segment in 2011 versus 2010 on a comparable basis with 2011 segmentation.

The breakdown by maturity of loans shows how the Medium-Long Term component remained substantially stable in terms of volumes over the year.

Short-term loans as at 31 December 2011 amounted to around euro 16.5 billion (fig. 7), with a slight fall compared to 2010 volumes, which were euro 18.1 billion. The reason for this is obviously the economic crisis, which has lasted for the entire two-year period in question.

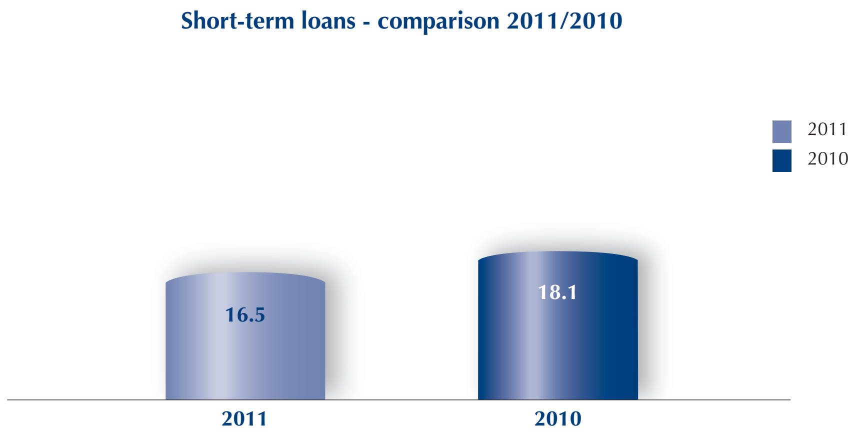


Figure 7. Comparison of the Average Monthly Balance of short term loans in 2011 versus 2010, on a comparable basis with 2011 segmentation.

Medium-long term loans totalled over euro 20 billion, and represent around 55% of the total (fig. 8).

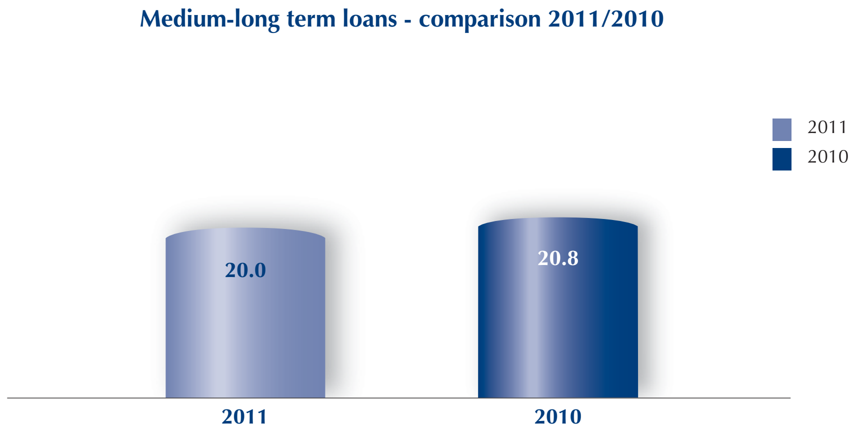


Figure 8. Comparison of the Average Monthly Balance of medium-long term loans in 2010 versus 2009, on a comparable basis with 2011 segmentation.

Extended direct funding from Corporate customers rose to euro 11.2 billion at year end (fig. 9).

Extended direct funding (EDF) - comparison 2011/2010

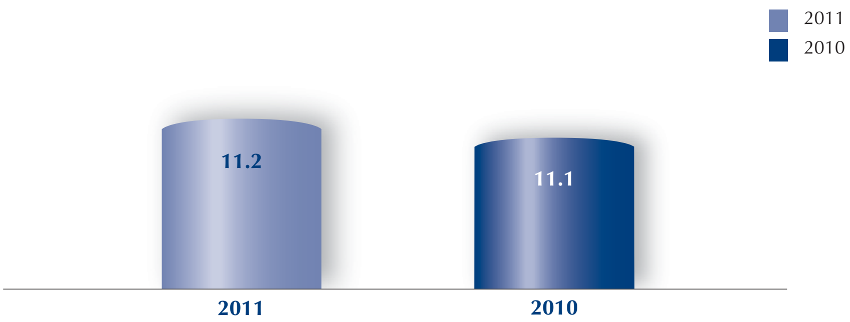


Figure 9. Comparison of the Average Monthly Balance of Extended Direct Funding in 2011 versus 2010 on a comparable basis with 2011 segmentation.

Large Corporate, Institutions and Public Entities

The Large Corporate, Institutions and Public Entities Service is in charge of dealing with Banco Popolare's customer segment that encompasses large manufacturing and commercial enterprises, Large Corporate, Italian and foreign financial institutions, Institutions, and Local Authorities and their subsidiaries. The Large Corporate segment, in turn, is organised into "Large Local", managed by the network of Business Centres, which belongs to Banco Popolare's Business Areas (coordinated by the Large Corporate Service) and "Large National", which is managed directly by the Service.

The Service's three customer groups (Large National, Institutional and Public Entities) share a common characteristic, namely that the Service manages the commercial and lending needs of the same through teams of managers and analysts, dedicated exclusively to managing customer relations.

More specifically, Large Corporate National currently has 10 teams, each comprised by a Global Relationship Manager (GRM) and by an Analyst/Assistant located in Turin, Lodi (2), Bergamo, Verona (2), Modena, Lucca and Rome (2), who are in charge of handling commercial relations with around 230 groups of customers, ensuring that standard economic conditions are applied at Banking Group level, and seeking to develop the business, while the Network Banks continue to handle operational aspects.

In accordance with the strategic guidelines established at Banking Group level, in 2011, the GRM focused their efforts from a commercial perspective on contributing to strengthening the Group's liquidity profile and on the capital absorbed by risk-weighted assets (RWA).

To achieve the above objectives, the GRM conducted an in-depth risk-return analysis on loans of customers belonging to the Large National segment, which led to the identification of economic groups for which reducing cash exposure was retained necessary; instead, as regards deposits, the search for alternative sources of funding continued.

Institutional customers are managed by 2 teams, each of which comprised of 2 managers (called Institutional Counterparty Managers) and an analyst/assistant. The first team is responsible for relations with Italian Financial Institutions (banks, insurance companies and non-banking finance companies), while the second team handles relations with International Financial Institutions from Developed and Developing countries.
In line with their role, during the year, Institutional Counterparty Managers improved coordination with the various Group entities that have relations with Institutional customers (mainly the Finance Department, Banca Aletti and the Banking Correspondent) and managed the credit risk of the reference customer segment.

Lastly, efforts to coordinate the activities of all Group Banks as regards the Public Entities segment (mainly Local Entities, Public Utilities, Healthcare Organizations and Institutions, Social Security Agencies, Welfare Agencies and Schools of all levels) continued with the support of a team of dedicated specialists.

Mid Corporate Service and Corporate Laboratory

In 2011, the organisational structure of the Service was optimised through the creation of a new office called “MID development and coordination” and through the integration of the Corporate Laboratory. In terms of the Service’s traditional activities, good results continued to be achieved both in the provision of support to Network Banks and in monitoring customers in this segment. More specifically, a system to provide information per individual company was implemented, encompassing balance sheet and income statement data, as well as providing comparisons and positioning vis-à-vis similar companies in terms of business, sector and size. When first approaching a company, this prior in-depth knowledge and information is of great assistance to the manager in identifying the potential contribution in terms of corporate relations.

Furthermore, a working group has been set up involving the Organisation Department, the Loans Department of Banca Popolare di Verona and representatives of the University of Verona (Faculty of Law) and of Confindustria Verona (with the authority of the National Confindustria to assess the need of Business Networks for financial assistance), to examine the opportunities arising from new legislation on Business Networks from a theoretical and legal perspective. The efforts of this working group have led to the launch of a new current account dedicated to the common fund of the business network.

Lastly, again this year as regards the successful collaboration with the Private Banking division of Banca Aletti, we would like to emphasise how this has enabled many entrepreneurs that are not yet customers to obtain advice on financial solutions and dedicated services, with a view to meeting the needs of the same, also from a personal perspective. This has led to a significant increase in both the number of entrepreneurs as private customers, related to companies that are already customers, and in terms of new assets acquired through the same.

Corporate Laboratory

Since 2011, the MID Corporate Service has benefited from integration with the Corporate Laboratory. The latter has historically conducted research and provided support to industrial districts, industrial supply chains and segments located in the various areas covered by Banco Popolare.
In March 2011, the results of surveys on the “Taps and fittings and valves district in Brescia and province” and on the “Textile and mechanical textile district in Val Seriana” were published, carried out on behalf of Credito Bergamasco, which allocated two sums of a maximum of euro 50 million to be made available to companies belonging to the districts in question. In April of this year, the partnership between Vinitaly and Banco Popolare was renewed, which together with the Corporate Laboratory, presented the results of the permanent observatory created for the wine production sector. In May, the Laboratory played an active role in the seminar organised by BPV-SGSP and by Confindustria Modena, with the collaboration of the Italian Company Treasuries Association (AITI), entitled “Communication, planning, controlling performance” held at the Confindustria Auditorium “Fini”. On this occasion, the importance of financial communication as a strategic aspect was emphasised, as well as the need to develop specific treasury reporting, also with a view to forging a successful and transparent relationship with credit institutions in a medium and long-term perspective. In June, a conference was held jointly with BPL-CR Imola, on the district of companies belonging to the mechanical engineering and technological sector in Bologna. Several important entrepreneurs spoke of their direct experience in terms of how the crisis has changed the competitive arena in which they operate and what strategies they have adopted to overcome the crisis. Furthermore, on 29 June, a conference organised by Banca Popolare di Verona was held at the offices of Confindustria Padova, on tools for corporate growth.

Lastly, the Corporate laboratory handled the organisation and participation of corporate customers in the second edition of the “Le Tigri 2010” award, sponsored by Banco Popolare and organised by the independent auditing firm TickMark S.p.A. The aim of this event is to reward small and medium sized companies (joint-stock companies with a turnover exceeding euro 5 million) which, in addition to representing Italy’s production base, in recent years, have demonstrated their ability to tackle the economic crisis with particularly interesting results. The event was held on 2 May at the Novara offices of AIN - the Industrial Association of Novara - during a round table entitled “Italian enterprise and the crisis: a return to competitiveness?”; 57 companies took part, 21 of which on the invitation of the Banco Popolare Group; of these, the overall winner (SMI, a customer of Credito Bergamasco) and the winner for marketing policy (NGM Italia, a customer of the Cassa di Risparmio di Lucca Pisa Livorno).

Lastly, we would like to mention the studies that were prepared in 2011 and that will be conducted in 2012. The objective of these projects is to integrate the distinguishing features of all of the Network Banks that have merged to become part of the *Grande Banco Popolare,* with a view to offering customers the best specialist expertise of the Group. In brief, these projects are focused on three different areas:

- the “Specialists Project”, which envisages an organisational model that will optimise the presence of different specialist resources, alongside the customer relationship manager for Mid Corporate customers. The aim of this combined support is to intensify relations with the customer, through an in-depth understanding of all of his needs, both strategic and operational, providing the basis for an integrated corporate offer that is better suited to the requirements of the enterprise and is in line with the need to conduct future creditworthiness assessments. Four areas of support have been identified: Foreign and Internationalisation, Risk Hedging, Corporate Finance, Non-banking, and one dedicated to the special segment of Public and Private Entities.
- the “New Business Centre Project”, which will entail the gradual implementation of the Large Cooperative Bank (*Grande Banca Popolare)* project. Three main areas of intervention have been identified: the introduction of

specialists, as briefly mentioned above, the possibility of specialising and above all of managing customer portfolios on more dimensions for groups of similar companies, organisational efforts to optimise support activities, territorial presence and technological innovation.
- the "Project to support development activities", the aim of which is to sustain the growth of the customer base, by improving quality and personalising relations, simultaneously guaranteeing capital optimisation, risk control and faster economic returns. This project seeks to facilitate building a preferential manager-customer relationship, with a view to becoming the reference bank, through new initiatives that are also available to MID Corporate customers, and applicable right from the start, focusing all of the expertise present in Banco Popolare on development and allowing maximum flexibility for the measures adopted, differentiated by local area, company and stage of the relationship.

Strategic Planning

Given the still weak economic scenario, which highlights the continuing need to strengthen relations with local enterprise, the task of the Strategic Corporate Planning Service was to direct and support the sustainable medium-term development of relations with Group customers by establishing objectives, setting in place initiatives and taking action to support the Commercial Network in collaboration with the other services of the Corporate Department.

To provide support to Network banks, the following measures were implemented to:
- further increase the Mid Corporate customer base, by focusing more on acquiring new customers in the reference area;
- refine measures to develop all existing customers with the highest growth potential, first and foremost SMEs, through targeted action to identify areas in which conditions and the offer of added-value services could be optimised based on financial needs;
- establish a system of customer "clusters", able to assist the manager in identifying financial needs and opportunities for growth within customer portfolios;

More specifically, through its dedicated services, the Strategic Planning function launched or consolidated important projects aimed to strengthen the operational capacity of the Commercial Network of Network Banks, in addition to its standard activities of objective planning, the continual analysis of the customer base and the monitoring of the segment's commercial performance.

The above included the *Gestione Valore Cliente* (Customer Value Management) programme, which has continued the work undertaken over the past 2 years, for which the "risk-adjusted" business model was developed and consolidated. The aim of the latter is to optimise RWA (Risk Weighted Assets) and the returns generated as a function of risk, through:
- the application of specific performance indicators to all of the resources dedicated to the management of the Group's Corporate segment, which explicitly take the cost of the risk into account on the basis of Basel methods (soon to be developed in the light of regulatory changes underway);
- the promotion of a risk-adjusted loan pricing management approach, aimed to ensure that the most appropriate price is applied to each customer based on the profile of the same, in this way also optimising the value generated by the overall customer portfolio;
- the completion of the range of IT tools for the Commercial Network to support the management and continuous control of efficient capital allocation during day-to-day operations;
- the continuous and targeted improvement of the skills of commercial resources through training courses and on-the-job training in collaboration with the Group's Training School.

Furthermore, to make the management of the conditions applied to customers more effective and efficient, significant efforts were made to coordinate and standardise the same at group level, represented by:
- the further rationalisation of the single delegation system for conditions aimed to boost the Network's sales efforts regarding Corporate customers, to facilitate operating procedures and response times, rationalising and harmonising the Group approach at the same time;
- monitoring and analysing the conditions applied - first and foremost to customers shared by more than one Group bank - which has enabled areas for improvement to be identified within the management of the conditions applied, both internally and externally, by aligning pricelists to market benchmarks;
- the creation of tools that are able to assist the entire sales chain in setting and managing the conditions applied to customers, in order to permit more effective and standardised price management by the Network's sales coordination units.

Corporate products and services

In 2011, the Banco Corporate Programme" was given further continuity and innovation through the introduction of new products, the aim of which is to support strategic corporate investment plans devoted to research and development, internationalisation, technological, product and process innovation, as well as to sustaining business growth and competitiveness.

Efforts were also focused on supporting commercial activities and projects in specific sectors:

- agriculture, with regard to which a dedicated service model has been developed. This model features a specific offer, rationalised at Group level and enhanced by new alternative and more flexible funding products compared, for example, to the traditional agricultural discount on bills; specific leasing products have also been identified for the sector (property investment, vehicle leasing, capital assets and renewable energy).
- Public Entities and Public Administrations, given the specific legislation associated with these counterparties, dedicated lending products and an efficient substitute document storage system have been developed for the same.

The Service also focused on diversifying funding products, with a view to increasing the effectiveness of corporate products. The introduction of new savings accounts with restrictions to entries enabled the sales force to focus their efforts on a very flexible tool, as an alternative to the more traditional repurchase agreements or time deposits, which are more in line with the returned expected by Corporate customers.

Risk Hedging

The mission of the Risk Hedging Function is to supervise the offer of derivative products to hedge business risk, managing and maintaining the product catalogue and adapting commercial processes and methodologies to changes in the market or in the regulatory/legislative framework.
In 2011, 2,288 hedging transactions against interest rate and exchange rate were set in place with customers. In terms of the type of the same, over 95% of the transactions carried out in 2011 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. With regard to the management of the existing product portfolio, the Banco Popolare Group continued to assist customers involved in transactions belonging to the Active Management category, which now represent an extremely residual component of the portfolio as a whole. As at 31 December 2011, the composition of the portfolio of existing derivatives with customers indicates the presence of 9,013 Effective Hedge transactions (-8.0% compared to 2010) out of a total of 9,262 (-9.2%), which corresponds to a notional commercial value of euro 9,887 million (-6.7%) out of a total of around euro 10,415 million (-8.3%).
In terms of processes, the Risk Hedging Function worked on the further development of the applications used to provide advice on OTC derivative products, with the aim, on one hand to bring the same in line with the requirements of MiFID legislation and on the other, to facilitate the sales efforts of network banks.

Efforts in 2011 in terms of operating platforms were focused on:
- the procedure of checking for correlation. The procedure of checking for correlation was extended to hedge transactions against exchange rate risk. Every six months, the bank checks that the hedge transaction is correlated, namely that the notional foreign currency value hedged is not higher than the customer's currency exposure. If the transaction loses correlation, the customer receives a specific notice and the hedge transaction against exchange rate risk is blocked. In 2010, the automatic checking of correlation was implemented for hedging transactions against interest rate risk;
- the implementation of the function to automatically fill in contract documents (framework agreement and confirmations), which handles the provisions of advisory service for OTC derivatives.

Banco Popolare's Foreign Operations

In 2011, significant efforts were made to assist companies that decided to use the foreign markets as a virtuous and competitive factor to sustain and develop their businesses.

The provision of qualified advice, combined with the further development of high added-value products, aimed to promote the exports of SMEs, represented an important success factor for the Group and for corporate customers. This was demonstrated by the continual growth of market share in specialist foreign transactions (compared to 2010, the share of export credit letters received rose by 5.92% to 6.14%, while the share of credit letters issued rose from 8.01% to 8.32%).

The renewal of an important partnership agreement with SACE, drawn up to sustain the process of internationalisation of Italian SMEs, which envisages funding up to an global ceiling of euro 200 million for new loans addressed exclusively to supporting their growth in foreign markets, has meant that export-oriented companies receive better financial support, also as a result of the lower capital absorption of the transactions guaranteed by SACE.

Furthermore, at Group level, the range of foreign products and services and relative prices has been harmonised, in order to allow customers better usage of the same with maximum transparency and available across the country.

Efforts to centralise several important foreign activities in Banco Popolare continued, which when completed, will enable Banco Popolare to approach international markets with better visibility and commercial strength.

In 2011, the Group continued to actively take part in the most important international conferences, with a view to offer its customers increasingly innovative and up-to-date products, which take the continual evolution of payments systems, operating systems and international legislation into account.

Communications and public relations with all spheres of the world of business, associations and institutions continued to be another area of focus.

Corporate Finance

In 2011, the process to reorganise Corporate Finance became fully operational. The project entailed assigning the Corporate Department direct operations related to supporting the origination, structuring, closing and post-closing of Corporate Finance transactions and bank agency activities[3].
The activity was carried out by two units:

- Structured Finance Office, which carries out activities to support the origination, structuring and execution of customer transactions managed by Network Banks, by BP Large Institutions and Public Entities and by BP Institutions and Public Entities function (from initial contact with the customer to the closing of the transaction);
- Bank Agency and Syndicated Loans Office, which is responsible for verifying and managing contractual for all in-pool loans and for bilateral structured loans, vis-à-vis third parties, and for coordinating and managing syndicated loans ("after sales" management).

Therefore a service model has been launched, which features teams based on technical components, favouring the specialisation of the analysts in the main areas: corporate and acquisition finance, project finance, energy, real estate, shipping finance, advisory services to SME. This model has encompassed part of the specialist resources of Efibanca, following the merger in November 2011. By virtue of the merger, the portfolio of the incorporated company was transferred to Banco Popolare, the management of which has been assigned to managers on the basis of their specialist skills.

As regards the results of the segment, the Corporate Finance department confirmed its potential to contribute to the overall margin from services.

Breakdown of revenues

Of total revenues - around 28 million in commission - structured corporate lending transactions represent around 26%, 10% related to real estate transactions; 12.3% to acquisitions, 6% to project financing and 45% to transactions in the shipping segment (higher in 2011), relates to the existing portfolio and therefore mostly to revenues associated with auditing commissions (39.2%) and recurring commissions (60.8%), the latter directly related to the nature of existing structured finance transactions and strictly related to the gradual improvement in recent years of the ability to set the prices for corporate finance transactions.

It is important to note the how the Bank Agency service has consolidated a recurrent fees mechanism relating to the management of the Group's structured loans activities.

In 2011, the Group took part in and organised several important syndication consortia, developing and highlighting, even in the current market scenario, its ability to act as the arranger of evolved financial services for its customers.

Customer segments

- The SMEs in our local areas represent the main customer segment which receives the specialist attention of the Corporate Finance service; the mid-corporate segment makes a significant contribution to results (57%). The latter segment was the target of almost all of the more structured projects, mostly regarding acquisitions and project finance (with specific focus on the renewable energy sector relating to medium/small sized companies); the structuring of the same confirms the important ties with local enterprise;
- once again, the transactions of National Large Corporate customers (29% of revenues) and Local customers (10%) made a significant contribution to revenues;
- the remaining 3% refers the transactions of the Public Entities segment.

Furthermore, in 2011, the Corporate Finance Service continued to work on harmonising segment processes, making specific technical tools available to the segment's specialists and, in particularly by working with the Group's Training School to design specific training programmes for corporate managers.

[3] Bank agency activities relate to the management of specific types of structured loans or of projects. This therefore includes activities relating to disclosures to third parties - for example financial communities in the event of market transactions - and checking the commitments made contractually by the subscriber.

Investment & Private Banking, Asset Management

Investment, Private Banking and Asset Management activities are carried out by the subsidiaries Banca Aletti (private banking and securities), Efibanca (incorporated into the Parent Company in November) (merchant banking), Aletti Gestielle (management of mutual investment funds and hedge funds) and Aletti Fiduciaria (management of fiduciary mandates).
The paragraphs below illustrate the main activities performed by the Investment & Private Banking and Asset Management services of the subsidiary Banca Aletti.

Investment Banking

Derivative Instruments and Structured Products - Financial Engineering

The main focus of the interest rate market in 2011 has been strictly linked to the spread of the bonds crisis of European nations. The increasing funding difficulties encountered by so-called peripheral nations triggered considerable “flight to quality” shifts towards countries and assets retained safer. Swap rates reflected this shift and after having risen in the first half of 2011, they fell back down to the record lows reached in 2010, while the asset swap spreads (indicators of the yield spread between swaps and German Government bonds) reached record levels (over 80bps on the 10y bond). Liquidity in both the regulatory and OTC markets has further deteriorated, given the increasingly lower number of market-makers interested in making quotations in increasingly volatile markets.
In terms of flows, in 2011, the minimum level reached by interest rates and the perception that interest rates were not going to rise in the short-term led to a fall in the demand for hedges against interest rate risk by corporate customers from around euro 4.5 billion to euro 2.6 billion, while the sale of bond issues remained at 2010 levels, around euro 8 billion.

In this situation, trading activities were characterised by the search, on one hand, for spot hedge positions on maturities and less liquid underlying instruments, in order to reduce the more complex risk positions in the portfolio, and on the other, for opportunities linked to the assumption of risk positions on the spot, volatility and correlation markets, although limited to more liquid underlying instruments. This scenario also prompted the decision to change the Bank’s role on the regulated IDEM market as regards contracts on individual shares. Since 20 June 2011, the subsidiary company Banca Aletti has become the Primary Market Maker on twenty Italian shares, with the twofold objective of finding more income generating opportunities in low-profile risk assets and reinforcing its brand on the volatility market for institutional investors. The weak signs of the increased structuring of Equity-linked products (certificates in particular) recorded in the first half of the year disappeared in the second half of the year due to greater uncertainty as to the fate of the Eurozone in general and of Italy in particular. The demand for short-term exchange hedging instruments of corporate customers was stable.

2011 saw the completion of several important projects launched in 2010. With regard, in particular, to transactions in share derivatives, the parallel comparative test of the two main and most common “grid computing” technologies used by market operators (Platform and DataSynapse) was completed. In the second half of 2011, several instruments to analyse and quote implicit volatility was developed, useful for operators in share derivatives to manage market risk. As regards transactions in interest rate derivatives, in the first half of the year, the tree pricing model was finalised and became operational. This model has extended the range of pricing functions available to trading desks.

Trading&Brokerage

2011 will be remembered as one of the most difficult years for the global financial industry. In this context, the fact that the operating result of the share and bonds portfolio made a positive contribution to Banca Aletti’s bottom line is particularly important.

Stock market

The high volatility that characterised the main international indexes, particularly the Italian one, suggested a careful approach to portfolio management, favouring long-short and neutral market strategies instead of so-called “directional” strategy. This decision enabled us to mitigate the high market fluctuations.

Also as regards third party transactions, which recorded a sharp drop, as shown in the overall figures of Borsa Italiana (-16.71%), the subsidiary company Banca Aletti improved its market positioning, increasing its share from 1.72% last year to 3.23% in 2011 (source Assosim).

During the year, Banca Aletti strengthened its presence on the IDEM Single Stock Futures market, bringing the number of underlying instruments for which it acts as Primary Market Maker to 53.

Bonds market

In the difficult market scenario, the approach adopted by operators in managing their own positions was characterised by the careful selection of the risks undertaken, a cautious interpretation of market developments and a limited stock of bonds with low duration at the worst time of the crisis. This approach meant that the amount of bonds could be increased or reduced depending on market shifts, limiting the effects of negative phases and grasping the opportunities provided by positive ones.

Despite the high level of uncertainty that characterised the majority of the year, an increase, albeit limited, of the volumes traded by customers was recorded compared to 2010; purchases were mostly concentrated on the last part of the year, due to the high returns of Government bonds and those of Italian bank issuers. Also on this front, Banca Aletti contributed to improving the quality of the prices and of the liquidity of the shares quoted on the HI-MTF market, the platform dedicated to Private and Retail customers, providing purchase and sale prices on 662 plain vanilla bonds of third party issuers and on all of the bonds issued by the Banco Popolare Group.

Capital Market

Equity Capital Market

In 2011, due to the continuing difficult market conditions, only one listing transaction was carried out on the MTA; instead 20 share capital increases by payment and 13 Public Purchase Offers were carried out.
The Equity Capital Market Office was part of the placement and guarantee consortium for the Public Offer of Salvatore Ferragamo shares, of the guarantee consortia for the share capital increases of Falck Renewables and Banca Monte dei Paschi di Siena and of the public purchase offers of Parmalat and SNAI.
In August, the subsidiary company Banca Aletti acted as intermediary responsible for grouping Investimento e Sviluppo shares.
In October, it was appointed as Financial Advisor and intermediary assigned to the voluntary Public Purchase Offer of the Minerali Maffei Group shares. The offer, which was closed in December, exceeding the 90% threshold, will continue on into the first quarter of 2012 with the procedure relating to the purchase obligation and the possible squeeze out.
In December, Banca Aletti joined the guarantee consortium for the share capital increase of Unicredit, which was concluded in February 2012, for a total amount of euro 7.5 billion, and acted as authorised intermediary for the auction of unassigned rights of KR Energy.
In March, the company acquired the mandate of specialist operator for quotas of the BNL Immobiliare Dinamico Fund; during the second half of the year, the contracts of specialist operator on the MTA relating to Marcolin and Sintesi shares and that on the MAC relating to Editoriale Olimpia shares expired.

Debt Capital Market

In 2011, the Debt Capital Market Office participated in the main issues of Banco Popolare, including:
- in March - as Joint-Bookrunner - in the 2-year bond issue, for euro 1 billion, addressed to institutional investors;
- in March - as Joint-Bookrunner - in the 5-year covered bond issue, for euro 1.25 billion;
- in May - as Co-Dealer Manager - in the exchange operation of three subordinated Lower Tier II bond issues for a total of euro 1.3 billion.

Instead, as services rendered to external customers, the Debt Capital Market Office participated in several placements, the main ones being:
- in May - June, the Public Offer of fixed-rate and floating-rate General Electric 2017 bonds for a total of euro 900 million;
- in September, the Public Offer of fixed-rate and floating-rate ENI 2017 bonds for a total of euro 1.35 billion.

In the fourth quarter of 2011, due to the worsening of the financial crisis due to the substantial deterioration of the quality of Italian public debt, the primary bond market was completely blocked.

Equity Research

With an economic cycle that was slowing down and continuing illiquidity in several asset classes, in 2011, the equity research office focused on extending the scope of its analysis and stabilising the number of counterparties. Given the Group’s customer base, the office is continuing to cover Italian companies with low/medium capitalisation, with a continuous extension to mid caps, given the higher amount of liquidity requested by institutional investors. This took place by ending the coverage of several securities with a low free float and capitalisation, as well as the arrival of new professional figures, extending coverage to new securities and new wider capitalisation sectors. Furthermore, marketing activities with the main counterparties continued.

Corporate & Institutional Sales

Group Networks Distribution

In 2011, the distribution strategies and the structuring and placement of investment products were heavily influenced by the economic scenario, in particular by the sovereign debt crisis and its repercussions on the banking system.
Of the around euro 10.4 billion of structured investment products placed (+9% compared to 2010) around 64% was represented by bonds issued by Banco Popolare, with the dual purpose of obtaining ordinary and new funding.

Third party bond issues totalled over euro 1.5 billion.
Customers continued to prefer simple products with guaranteed capital, indexed to interest rates. In the second half of the year, the renewed aversion to risk slowed down the placement of Certificates, however Banca Aletti managed to maintain a leading position in the Italian market for these financial instruments.
As regards products to hedge interest rate, the offer of Euribor Cap Covered Warrants to customers with floating rate mortgage loans recorded a downward trend over the year, due to the interest rate trend and loan dynamics.
As regards the performance of the asset management segment managed by the Network Banks, the trend of divesting these assets that began several years ago continued.

Institutional Sales

With regard to sales activities relating to non-captive customers, in the first six months of the year in particular, the market situation boosted the activity of arranger of Banco Popolare issues.
In the second half of the year, the sovereign debt crisis and its repercussions on the market restrained the banking system's interest in public issues addressed to institutional customers.
In 2011, the subsidiary company, Banca Aletti, structured four different Banco Popolare bonds, distributed to customers of the Italian Post Office and totalling around 1.5 million.
Bonds trading on the secondary market benefited from the continuation of several market trends, which led numerous institutional investors to reposition their investments on categories such as bonds. This resulted in an increase of trading volumes, as well as the acquisition of new customers in this specific business segment.
As regards Equity Brokerage addressed to Italian small&mid Caps, institutional investors continued to prefer companies with higher levels of capitalisation, therefore volumes in this segment fell.
As regards sales activities in distribution networks external to the Group, the preference for direct funding and insurance products combined with a high aversion to risk, which resulted in a preference for products with guaranteed capital, led to a fall in volumes of Certificates and of asset management products.

Large Corporate Sales

In 2011, following the gradual fall of the Euro interest rate curve, customers served by the Large Corporate Sales office increased the percentage of hedging of their medium/long term financial liabilities, setting in place interest rate risk management transactions for almost all new loans and, in many cases, also for the remaining part of loans granted in previous years.
The instruments adopted were mostly effective plain vanilla hedges; more specifically, corporate customers favoured the use of interest rate swaps or, in some cases, the purchase of Caps or Collars to exploit further short-term falls in the interest rate.
Exchange rate hedges regarded importers especially which up until the end of October exploited the particularly high levels of the Eur/Usd cross rate to set transactions in place with time horizons of 12/18 months. In the last few months of the year, in line with the gradual appreciation of the US Dollar, exporters started to show renewed interest in hedging transactions.
The instruments adopted were term transactions for the most simple or plain vanilla options.

Investment Management

Portfolio management suffered negative repercussions from the high uncertainty characterising the performance of various asset classes. The share component of portfolios was particularly affected by the higher aversion to risk and the weakness of the financial sector, while the government bond component, particularly Italian bonds, was characterised by the process of enlargement of spreads between core and peripheral Eurozone nations. Instead, diversification in currencies other than the Euro, and the corporate bonds segment, albeit to a lesser extent, made a positive contribution to results. Due to the combination of the above effects, the returns offered by managed products that are most exposed to the bond market and to currency diversification were in line with those of the reference indices. As regards products managed on a Total Return basis, absolute results were positive due to careful management of bond risk, particularly of the Italian debt, and by marked currency diversification.
As at 31 December 2011, assets under management totalled around euro 11,193 million, down by around 18.5% on the figure recorded in December 2010. With regard to the composition of funding, for most of the year negative performance was recorded for all types of managed products. As regards work carried out within the Service, efforts continued on the project to use derivative instruments in portfolio management and for currency term purchases and sales in individual portfolios.

The Advisory Desk service, which serves direct accredited Private customers, in close collaboration with the sale network, succeeded in handling 96 active contracts, with a value of around euro 233 million as at 31 December, in a highly uncertain market situations. As regards work carried out within the Service, during the year the integration of internal procedures with the order procedures of Banco Popolare was completed.

Private Banking

At the end of 2011, Banca Aletti recorded a global amount of "assets under management" (administered and managed) of euro 13.7 billion. 2011 was characterised by a slight fall in net interest and other banking income compared to the previous year: the final figure is the result of a rise in the first half of the year offset by a fall in the second half of the year. This result

should be considered in a financial and market scenario riddled with numerous difficulties.
The continuing volatility of the stock markets, accentuated by periodic tension relating to different sovereign debts of the Eurozone, drove many customers to return to defensive positions, slowing down the process of rebuilding diversified portfolios that had begun in previous periods. The simultaneous rise of interbank monetary interest rates and the decisive action taken by the Italian banking system to attract direct funding encourage short-term investments. The combination of the above therefore impacted the performance of asset management, interrupting the upward trend that started in 2009 and recording a downtrend in the second half of the year. The year was also characterised by a fall in available liquidity due to the continuing standstill of the real economy and to lower available credit: these factors led to the use of bank assets to fund company or real estate investments. In this context, action taken to increase assets in the medium terms and to extend the scope to customers offset the above-cited outflows.
Private-corporate cross selling (Pri-Corp) has reached its fifth year in collaboration with the corporate network. Results confirm steady and continual growth: from the start of the project (2006), funds of euro 3.4 billion were collected, of which euro 506 million in 2011. In the second half of the year, as part of the Group's business plan, the project phase was launched, the aim of which is to re-launch the business and its commercial effectiveness.
In organisational terms, during the second half of the year, the Crema unit was merged with the Cremona one, which will continue to oversee operations in the provincial capital. Also in the second half of the year, the "Centre South" area was reinstated, comprised of the Rome, Naples and Catania units. At the end of 2011, following the above changes, Banca Aletti's network was comprised of 8 Areas, 35 Units and 182 Private Bankers.

Asset Management

Aletti Fiduciaria and Aletti Trust

For Aletti Fiduciaria, 2011 was the first financial year following the completion of the process to reorganise the fiduciary segment as the merger by incorporation of Aletti Fiduciaria into Nazionale Fiduciaria was finalised in December 2010, with the simultaneous change of the company name from Nazionale Fiduciaria to Aletti Fiduciaria.
Following the merger, Aletti Fiduciaria is now one of Italy's key players in this segment, with managed assets of over euro 2 billion and around 1800 customers. The company possesses highly specialist internal personnel and a consolidated network of leading external professional figures, specialised in legal, contractual and tax-related areas. 2011 was distinguished by the consolidation of the process to update organisational procedures, to standardise operating and IT structures following the merger, as well as seeking operating synergies between the Milan branch, the Brescia office and the Group network.
The sector's reference economic framework has suffered the impact of the so-called "tax shield", which led to a natural fall of managed assets due to the placement of the financial resources repatriated in alternative funds.
Again in the year ending 31 December 2011, the Company provided considerable assistance to Banca Aletti's private network, to those of Network Banks, and to the so-called "pri-corp" project, which enabled Aletti Fiduciaria to continue to develop and strengthen its role as a qualified provider of fiduciary services for the Group's private and corporate customers.

In addition to the provision of fiduciary services to the private network of Banca Aletti and to the retail and corporate networks of Network Banks, Aletti Trust, a Group company whose main focus is on the protection and transfer of personal and corporate assets, acting as a trustee and providing advice on trusts and transfers between generation, adds a further level of specialisation to the services offered. 2011 was characterised by a substantial strengthening of Aletti Trust's organisational structure, essential to the strategic objectives pursued by the company in terms of risk management and commercial development.

Aletti Gestielle SGR

During the year the company was reorganised, in two stages, with a view to simplifying and streamlining business processes as well as optimising controls; with specific regard to the fulfilments relating to money laundering provisions (under Italian Legislative Decree 231/07), a Money Laundering function was set in place, which is part of the Compliance Function (then renamed the Money Laundering, Compliance and ORM Function).
Lastly, note that the SGR has moved its registered office from Via Roncaglia 12 to Via Tortona 35, Milan, effective as of 1 July 2011.
As regards the product range, the company set up a dedicated fund of funds at the Cassa di Risparmio di Volterra (*Volterra Moderato*) operational as of 1 March 2011 and two coupon funds with a placement window, specialised in bonds and called *Gestielle Cedola Obbligazioni Bancarie Euro* (offer period: 1/7/11-30/9/11) and *Gestielle Cedola Obbligazioni Governative Euro* (offer period: 26/09/11-30/11/11); finally, in October, a class of units of the *Gestielle Multimanager Absolute Return* fund (formerly *AGA Absolute Return*) was set up, addressed to retail investors.
Lastly, on 23 December 2011, the Board of Directors resolved to proceed with the merger by incorporation of several managed funds with a view to product rationalisation. The mergers, which will be effective from 1 June 2012, regard both hedge and traditional funds. In particular:

Type	Incorporated fund	Incorporating fund
HEDGE FUNDS	Gestielle Hedge Long Short World	Gestielle Hedge Concentrated Medium 1 (renamed Gestielle Alternative Selection Plus from 1/6/12)
HEDGE FUNDS	Gestielle Hedge Credit Fund	Gestielle Hedge High Volatility
UCIT NON ARM	Gestielle Harmonia Vivace	Gestielle Harmonia Dinamico
UCIT ARM	Gestielle Obiettivo Pacifico	Gestielle Obiettivo Internazionale
UCIT ARM	Gestielle Etico for AIL CL.A	Gestielle MT Euro CL A
UCIT ARM	Gestielle LT Euro CL A	
UCIT ARM	Gestielle Etico for AIL CL.B	Gestielle MT Euro CL B
UCIT ARM	Gestielle LT Euro CL B	

The same Board of Directors also resolved to change the names of several funds effective 31 December 2011 as illustrated below:

Previous name	New name
Gestielle Total Return	Gestielle Absolute Return
Gestielle Total Return Obiettivo Cash CL A	Gestielle Obiettivo Risparmio CL A
Gestielle Total Return Obiettivo Cash CL B	Gestielle Obiettivo Risparmio CL B
Gestielle Total Return Obiettivo Cedola	Gestielle Obiettivo Cedola
Gestielle Total Return Obiettivo Più	Gestielle Obiettivo Più
Gestielle Total Return Obiettivo Più II	Gestielle Obiettivo Più II
Gestielle Total Return Obiettivo Più Valore	Gestielle Obiettivo Più Valore
Laurin Money	Laurin BT
Volterra Total Return Globale	Volterra Absolute Return

Lastly, note that effective 1 January 2011, all business activities relating to the supplementary pension segment have ceased, both as regards its own assets and those on behalf of others.

As far as the performance of the funds promoted or managed is concerned, at the end of the year the Banco Popolare Group was in thirteenth place in the ranking of asset management groups published by the daily newspaper Il Sole 24-Ore on 27 January 2012, with a market share of 2%, and total managed assets of euro 16,238 million.
In 2011, the Company recorded a fall in assets from euro 7,085 million at the end of 2010 to euro 5,139 million at the end of 2011, marking a decrease of 27%.
With regard to net funding for the year, Aletti Gestielle mutual funds recorded a decrease of euro 1,446 million.

The *Gestielle Doppia Opportunità 2015* - Formula Fund, for which the company is the Promoter SGR (while Amundi SGR is the Manager SGR), recorded a fall in net assets from euro 49 million to 42 million, with redemptions of euro 5 million.

In the sphere of ethical finance, the *Gestielle Etico Fund for AIL* accrued a contribution of euro 156,037.56 for the AIL (Italian Association against Leukemia-lymphomas and myeloma).
The donation made in 2011 will contribute to the development of a project of paramount importance, launched in 2009: creating a single “AIL Home Care” model across Italy.
As regards the management and development of the non-captive market (namely sales activities promoted by banks and networks that do not belong to the Banco Popolare Group), total net funding fell (-309 million) in 2011. Assets pertaining to non-captive networks at year end totalled euro 1,091 million, maintaining around 21% of the total assets managed by the SGR.

With regard to Side Pockets, in 2011, Aletti Gestielle made the seventh distribution to customers of the available liquidity of the two closed-end funds *Gestielle Hedge Concentrated Low* – Side Pocket and *Gestielle Hedge Concentrated Medium* – Side Pocket, reaching a percentage distributed for each closed-end fund of 79.6% and 85.1% of the initial capital respectively, with a residual capital of 12.8% and 12.4% respectively, based on the performance of the funds since their launch, as at 31 December 2011. In this regard, note that on 23 September 2011, the Board of Directors, given the continuing difficult conditions relating to trading and cashing in underlying assets, despite the improvement of the liquidity of the same for the majority of the target funds, decided to approve a new plan for the disposal of the assets in the portfolio and consequently, an extension of the term of the side pocket to 22 January 2015, within the terms permitted by the Bank of Italy.

As regards infragroup activities, transactions between Banco Popolare and other Group companies regarded:

- the placement of managed funds by Banca Popolare di Verona - SGSP, Credito Bergamasco, Banca Aletti & C., Banca Popolare di Novara, Banca Popolare di Lodi, Cassa di Risparmio di Lucca Pisa Livorno, Banca Popolare di Crema and Banca Popolare di Cremona; in this regard note that effective 27 December 2011, two placement agreements were signed with Banco Popolare - one for traditional funds (harmonised and non harmonised) and one for hedge funds - following the incorporation by the latter of Banca Popolare di Verona – SGSP, Banca Popolare di Novara, Banca Popolare di Lodi, Cassa di Risparmio di Lucca Pisa Livorno, Banca Popolare di Crema and Banca Popolare di Cremona.
- activities relating to the role of Custodian Bank for all of the funds managed by Banco Popolare (with the exception of the *Gestielle Doppia Opportunità* 2015 - Formula Fund).

As regards infragroup outsourcing activities, note that:

- the outsourcing arrangement for the provision of services for IT procedures and for the management of the website by SGS BP S.c.p.A is ongoing; on 27 April 2011, the Company's Board of Directors resolved to centralise Security and Safety activities in the Group Security Department of SGS-BP, relating to the fulfilment of Italian Legislative Decree 81/2008;
- the outsourcing arrangement for the provision of services relating to the company's real estate management by BP Property Management S.c.p.A is ongoing;
- the Parent Company continues to provide Welfare, Direct Banking, Purchasing Management, Promotion and Coordination;
- the Audit function of the Parent Company continues to provide Internal Auditing services;
- the outsourcing arrangement for the provision of services of risk monitoring related to portfolio management by the SGR's Portfolio Risk Management function to Banca Aletti &C. is also ongoing.

It is worth noting that from 1 July 2011, the tax reform on UCIT came into force, Italian Law Decree 225/2010, converted into Italian Law no. 10 of 26/2/2011), which entailed a change from a withholding tax of 12.50% on the accrued amount to the application of the tax on proceeds derived from the fund, bringing the tax treatment of Italian funds in line with similar Community products. Italian Decree Law no. 138 of 13 August 2011, converted, with amendments, by Italian Law no. 148 of 14 September 2011 regarding further urgent measures for financial stability and development, amongst other things, increased the tax rate to be applied to Italian UCIT from the current 12.5% to 20% as of 1 January 2012.

Leasing

Following the transfer of production activities to Alba Leasing at the end of 2009, business activities continue to be substantially limited to fulfilling previous commitments with customers. Therefore, as at 31 December 2011, at consolidated level, Banca Italease recorded contracts amounting to euro 15.1 million, down 73.8% compared with last year, for a total of 91 contracts.

The following table illustrates the figures for new lease agreements signed in 2011, by product and contract, at consolidated level.

(numbers and thousands of euro)	Number of Contracts			Value of Contracts		
	31/12/2011	**31/12/2010**	**Change**	**31/12/2011**	**31/12/2011**	**Change**
Auto	33	194	(83.0%)	1,036	6,622	(84.4%)
Capital goods	58	519	(88.8%)	5,846	94,109	(93.8%)
Naval aviation/Rail	-	20	(100.0%)	-	8,416	(100.0%)
Real Estate	44	72	(38.9%)	73,453	112,683	(34.8%)
Total Contracts	**135**	**805**	**(83.2%)**	**80,335**	**221,830**	**(63.8%)**

At individual level, Banca Italease contributed 40.2% to the total volume of new contracts in 2011, with a figure of euro 32.3 million, down 74.1% compared to 2010.

Medium and long term loans

Again, following the transfer to Alba Leasing, new medium/long term loans were not given any priority, and were substantially limited to those disbursed under previous commitments. No transactions were recorded for the Retail component, which incidentally was already insignificant in 2010.

The following table provides a breakdown of new medium/long term loans at consolidated level.

(numbers and thousands of euro)	Number of Contracts			Value of Contracts		
	31/12/2011	31/12/2010	Change	31/12/2011	31/12/2010	Change
Corporate	7	10	(30.0%)	9,584	67,792	(85.9%)
Retail		4	(100.0%)		605	(100.0%)
Total Contracts	**7**	**14**	**(50.0%)**	**9,584**	**68,397**	**(86.0%)**

Banca Italease contributed euro 5.2 million to the total, with a share of 53.9% of disbursements of medium/long term loans at consolidated level, while Release and Mercantile contributed the remaining 46.1%, with euro 1.4 and 3 million.

Corporate Centre and Other

Foreign banks

Italian companies that wish to operate in foreign markets with a long-term perspective, alongside the more traditional business of goods and services import and export, can rely on Banco Popolare to receive information and tailored assistance, allowing them to assess possible solutions to do business abroad, exploiting developments in new markets and facilitating their access.
A network of dedicated specialists operates at local level, supported by central offices that focus in particular on markets considered of high interest to Italian companies, such as China, India, Russia and other East European Countries (specific Desks have been created for these countries).
The Banco Popolare Group also has own operating banks in Croatia, Hungary and a Leasing company in Romania, and Representative offices in China (Hong Kong, Shanghai, Peking), India (Mumbai) and Russia (Moscow), where customers can count on a bespoke service. As part of the plan to rationalise Banco Popolare's direct operations in foreign markets, the Banco Popolare subsidiary company Česká Republika was was entirely sold to Equa Group Ltd. The international network also includes the Banks in Luxembourg, Switzerland and the London branch, which are more focused on financial services, but provide also commercial services to meet the needs of the Group's Italian corporate customers.

In 2011, the efforts of the International Network Service regarded the following areas:

Agreements signed to mitigate/hedge Country and Bank Risk with important Supranational Bodies (IADB and ADB)

With a view to limiting the exposure to risk of our exporting customers vis-à-vis foreign bank counterparties, the Correspondent Banking Service signed important agreements with the Inter American Development Bank (IADB) and the Asian Development Bank (ADB), which enable the Group to share up to 100% of foreign banking commercial risks in South America and Asia for transactions made on behalf of customers, guaranteed by "Basel II compliant" commitments.

Participation in important international events

<u>March 2011 – Iadb – Inter American Development bank</u>
In 2011, Banco Popolare again participated in the 52nd edition of the event, organised by the Inter-American Development Bank (an important division of the World Bank) held in Canada between 25 and 28 March.
This prestigious event attracted around 3,500 delegates representing Central Banks, commercial Banks from Latin America and international banks. Banco Popolare, through the Correspondent Banking Service, represented Italy together with another 6 Italian banks.
For the Group, it presented an occasion for visibility and commercial opportunities with some of the most important Latin American correspondents, which led to an increase of flows with the area, as well as the opportunity to join a specific IADB programme for the assignment of foreign banking commercial risks.

<u>May 2011 – IFC – International Financial Corporation</u>
The 4th Annual meeting of banks belonging to the GTFP (Global Trade Facilitation Program) of IFC, the International Finance Corporation, affiliated with the World Bank, was held in Istanbul between 23 and 25 May.
Banco Popolare, which has been part of the GTFP programme (which permits the assignment of up to 100% of foreign banking commercial risks) since December 2009, represented Italy together with 6 other Italian banks.
For the Correspondent Banking Service, this was also an opportunity to forge contacts with several international banks in developing countries.

September 2011- Sibos
Banco Popolare participated in SIBOS, the annual event of the international banking community, which has been held every year since 1978.
Originally an event focused on payments, over the year it has become a major event for Correspondent Banking worldwide. This year saw the 34th edition, attended by 6,800 delegates representing 500 banks.
Banco Popolare has also attended this important and unique event and, since the 2007 edition in Boston, has also had its own stand.
110 meetings were held with 196 representatives of foreign banks from 41 countries.

Participation in Business Missions

October 2011 - Banks and Enterprises in India
The Representation Office in Mumbai and Banco Popolare's Banking Correspondent Service took part in the multi-sector mission organised in India by Confindustria ICE and ABI.
India is one of the most dynamic emerging economies, and with a 19.8% growth rate of GDP in 2010, is one of Italy's major markets. In 2010, Italian exports, corresponding to euro 1.51 billion, rose 23% compared to the previous year.
The mission, which took place between 30 October and 3 November in Delhi and Chennai, entailed the participation of 100 companies operating mostly in the automotive, machinery and equipment, mechanical engineering, infrastructure, logistics, systems and renewable energy sectors.
Banco Popolare, which was part of the ABI banking delegation together with 10 other Italian banks, met the customer companies through the mission, offering them the support and assistance it is able to provide in loco in India, both through the support of the Representation Office in Mumbai, and through the excellent relations forged over the years with leading local banks.

November 2011 - Banks and Enterprise in Korea
Banco Popolare's Correspondent Banking Service took part in the second industry mission organised by Confindustria ICE and ABI in 2011 to South Korea.
This Asian country was selected as it is the fourth largest economy in the area and the fifteenth in the world and it was the first Italian mission after the signature of the commercial agreement between South Korea and the European Union.
Italian exports to Korea rose by 27.6% in 2010, a figure that has no doubt further increased in 2011, following the application of the Free Trade Treaty dated 1 July 2011, which has eliminated the majority of customs duties.
The mission, which was held between 20 and 23 November 2011, saw the attendance of 60 production companies, the majority SMEs, of the consumer goods, infrastructure, machinery and energy sectors. Banco Popolare, which was part of the ABI delegation together with 6 other Italian banks, offered these companies support and assistance, made possible thanks to the excellent relations forged over time with the main representatives of the local banking system.

Performance of the main foreign subsidiaries in 2011

Banco Popolare Croatia d.d.

The Croatian subsidiary closed 2011 with a profit of around euro 1.5 million, slightly higher than last year's figure, which was a profit of euro 1.4 million.
This result was achieved partially through efforts to make the structure more efficient, and partly due to a 7% increase of loans, which led to higher revenues and a higher operating margin.
Net adjustments on customer loans, corresponding to euro 2.8 million, were slightly down compared to last year, and contributed to a before tax profit that was almost double that of 2010.
Business activities will continue to focus on the retail and small business segments in 2012.

Banco Popolare Hungary Kft

2011 proved to be a particularly difficult year for the economies of Central Eastern Europe, especially for Hungary, as it was increasingly perceived as a "country at risk" by economic and financial operators.
The bank recorded a loss for the year of around euro 3.8 million, also following the freezing of sales activities due to uncertainties relating to the Plan to rationalise Banco's presence in foreign markets.
Given the country's general situation, which continues to be critical, also in terms of domestic politics, 2012 will be fundamental for the re-launch of ordinary operations.
The strategy will continue to focus on the Small Businesses segment, and, as regards the Retail segment, on mortgage loans (from the end of 2010, local legislation prohibits the disbursement of mortgage loans in a foreign currency, a market which, incidentally, the Hungarian subsidiary had decided to approach for strategic reasons), with the aim of resuming a sustainable and prudential growth of the loans portfolio.

Banco Popolare Česká Republika a.s. (sold)

In June 2011, following the authorisation of the Central Bank of the Czech Republic, the subsidiary was sold to Equa Group Limited for around euro 48 million. As illustrated in more detail in the section relating to significant events during the year, this transaction enabled the Group to benefit from an overall contribution of euro 10 million to the consolidated income statement for the year, which includes the result achieved by the subsidiary up until the time it was sold.

AT Leasing Romania

The subsidiary closed 2011 with a loss of euro 0.2 million, a good recovery compared to last year's figure, which was a loss of euro 0.6 million, and compared to budget.
This result is due to the profound restructuring of the company and substantially relates to recoveries on the cost of lending.

Banco Popolare London Branch

In 2011, the London branch made a profit of euro 23.8 million (local budget). This particularly positive result was mainly due to the profit margins generated by several large exposures to former Italease companies and to recoveries on the loans portfolio.
The downward trend of operating costs is worth noting, which fell by 20% against last year, leading to savings of euro 0.9 million.

Banco Popolare Luxembourg S.A.

2011 closed with a profit of euro 3.3 million (based on local accounting standards), an improvement on 2010, when the profit recorded was euro 3 million.
It should be noted that although the profit is higher, lending costs of around 1.2 million were recorded.
In 2011, brokered volumes with customers fell (loans -10%, direct funding -4%) compared to last year, therefore 2012 will be a year of considerable reorganisation.

Group Services: Group Finance

Group Finance 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 & Asset Backed Funding, Capital Management & Wholesale Funding, Proprietary Portfolio Management and Group Treasury.

ALM & Asset Backed Funding

The coordination and supervision of asset items mainly regards interest rate risk and the liquidity position. In 2011, for domestic bond issues characterised by structured pay-offs and issues on the institutional market, structural interest rate risk management and containment policies envisaged timely interest rate risk hedging, similar to fixed-rate plain vanilla retail bond issues. Given the falling interest rates, the fixed-rate plain vanilla bond issues not hedged in 2010 were hedged in 2011.
Liquidity risk, generated by the time mismatch between expected cash inflows and outflows on a short time horizon, is monitored in two different ways:

- the monitoring of the cumulative operating liquidity mismatch, generated by transactions with interbank and institutional counterparties, over timeframes of overnight, 14 days, 1 month, 3 months and 6 months;
- the monitoring of any structural liquidity mismatches, generated by transactions of the whole banking portfolio, over timeframes of 14 days, 1 month, 3 months and 6 months. The measurement of structural liquidity risk is carried out on a static basis, measuring liquidity requirements by constructing the liquidity gap on single timeframes (the difference between loans and funding due to mature), and on a dynamic basis, establishing liquidity requirements in different scenarios, characterised by changes in several financial parameters able to influence the liquidity profile over time.

To manage the liquidity position, the strategy to increase the eligible and available securities portfolio set in place in 2010 was maintained.
In terms of funding, Covered Bonds totalling euro 4.95 billion were issued.

Capital Management & Wholesale Funding

Capital Management
was characterised mainly by the following events:

- in the first half of 2011, Banco Popolare launched an Exchange Offer on three of its own subordinated liabilities (Lower Tier II) with an overall nominal value of euro 1.3 billion. The total nominal value assigned to the offer represented around 50.7% of the total nominal value of existing securities. The new ten-year security offered in exchange, with the same level of subordination, was issued under the EMTN programme for a nominal value of around euro 660.69 million. This transaction enabled Banco Popolare to extend the maturity profiles of its own subordinate issues (Lower Tier II) with a view to optimising Tier 2 Capital, also considering future transition to Basel III;

- on 16 December 2011, the Meeting of Bondholders of the Bond Issue called "Banco Popolare 2010/2014 4.75% convertible with an option for repayment in shares" (POC), approved, on first call, the resolution of the Extraordinary Shareholders' Meeting of Banco Popolare regarding the increases, up to a maximum of 1,500,000,000, of the number of newly-issued shares to be used for the conversion or the redemption of the POC and regarding related changes to the Articles of Association. The resolution of the Bondholders' Meeting permits the number of shares to be used for conversion or any early redemption to be increased, maintaining the potential capital benefits resulting from the POC intact, quantifiable as an increase of Core Tier 1 capital of 107 basis points.

On 29 March 2011, the first possible date after Banco Popolare's share capital increase, the early redemption option on the innovative capital instrument (Tier 1) was exercised for euro 75 million, and on 14 December 2011, two hybrid capitalisation instruments (Upper Tier II) were redeemed on maturity, recognised in the financial statements of the subsidiary Banca Popolare di Lodi, for a total outstanding value of euro 118.25 million.
As regards the subordinate liabilities (Lower Tier II), redeemed in advance as of 2011, Banco Popolare did not exercise the advance redemption options maturing on 15 June 2011 and 22 November 2011, and Banca Italease did not exercise the advance redemption option maturing 28 June 2011.
As regards Tier 1 instruments issued by the Group, for the whole of 2011, the suspension of the payment of coupons relating to the Tier 1 instruments issued by Banca Italease for euro 150 million continues to be applied, in line with contractual conditions and the law.
The funding collected through its own EMTN programme on the institutional market was characterised by the issue, in April 2011 of a senior fixed-rate public bond of euro 1 billion with a 2 year maturity, and by the issue, in the form of a private placement, of senior fixed-rate bonds with an average maturity of 5 years for a total amount of euro 1.68 billion.
Lastly, Banco Popolare issued senior domestic bonds, distributed by Banco Posta, with maturities of between 3 and 6 years, for a total of around euro 1.53 billion.
Furthermore, on 20 December 2011, Banco Popolare issued securities guaranteed by the Italian State for a total of euro 3 billion, with a fixed-rate coupon of 3.15% and a 3 month maturity.

Proprietary Portfolio Management

As regards the management of financial asset instruments, given the situation of continuing high uncertainty and the liquidity squeeze in the financial markets, which temporarily relaxed in the first few months of the year, the Held-for-Trading component of the Parent Company's proprietary portfolio was managed with a view to reducing the level of risk of all of the main asset classes, while the investment strategy for the other accounting categories was focused on preserving the future profitability of the asset by increasing the investment, even in situations of market stress, where market opportunities were identified.

The reduction of the risk level of the HTF component was carried out mainly in the first quarter, with a view to crystallising a part of the profits accrued in the first half of the year, and in the third quarter, to prevent the worsening of the crisis having a major impact on the Group's income statement. The comparison between the end-of-year stocks in 2010 and 2011 shows a fall of 46% in the value of the Government component, which shows a very high concentration of Italian Government Bonds, but with a substantial decrease of the average residual life compared to last year. The non-Government bond component was reduced by 67%, eliminating the subordinated component entirely. We also report a fall of 73% in the amount invested in mutual investment funds and marginal share exposure, with a value of around euro 2.4 million, compared to euro 23 million last year.

In line with changing expectations regarding European monetary policy, which have shifted from a forecast of various increases of the refi-rate by the ECB to expectations of an extremely accommodating policy, the majority of hedges against the risk of a rise in returns on the HTF component has been closed and the investments made in the second half of the year were not immunised against the risk of a rise in returns.

These strategic guidelines for hedging were also applied to the Available-For-Sale (AFS) category, where the largest increase in investments was made, rising from around euro 4,800 million at the end of 2010 to the current figure of around euro 9,000 million. The increase in investments was mainly focused on Italian Government bond purchase plans: at the beginning of the year, purchases concentrated on the floating-rate segment for a nominal value of around euro 1,000 million, while in the latter part of the second half of the year, investments were made in fixed-rate securities for a nominal value of around euro 2,000 million.
Again in the AFS category, beyond the strategy to purchase Italian Government bonds, investment opportunities offered by other asset classes were not ignored, particularly, towards the end of the year, the bond issued made by major Italian Credit Institutions.
Lastly, we report a considerable increase, corresponding to just under euro 200 million, in the use of the Loan-And-Receivable category, mainly regarding short term investments.

Group Treasury

Money Market

Even in the presence of tensions relating to sovereign debt, the payments system was protected by the ECB through injections of unlimited liquidity and measures that sought to extend available collateral. The (unsecured) interbank market was extremely subdued due to the overnight deposits in the ECB which continued to rise. Short term interest rates continued to be at record lows and below the reference rate (after raising the refi rate to 1.50%, the ECB brought it back down to 1%), with a general downwards shift of the curve. In December, the extensive use of three-yearly full allotment monetary policy auctions further pushed very short term interest rates towards the level applied to savings by the ECB.
Together with the fall of the reference interest rate, in December the ECB implemented a series of schemes to support the banking industry, including:

- reducing the compulsory reserve requirement to 1%;
- activating three-month fixed-rate refinancing auctions in dollars;
- activating two three-year full allotment refinancing auctions.

These were implemented in addition to the following initiatives undertaken by the Italian Government:

- the launch of "Optes", a new account management protocol through which the Italian treasury uses its excess liquidity on the unsecured market;
- the granting of guarantees on the loans of Italian banks by the Italian Government obtained from 1 January 2012.

During the year, Banco Popolare's activities in the money market sought to optimise the management of the collateral needed to sustain the Group's liquidity requirement. Recourse to the secured money market was favoured (reducing counterparty risk by joining the CC&G), and using monetary policy as a second option. The latter was undertaken in periods in which the Group's liquidity profile had substantially deteriorated. The average daily outstanding amount used for participation in monetary policy auctions was around euro 3.2 billion in 2011 (min 1.2 - max 10.4). The peak was reached following participation in the end-of-year three-year auction for euro 10 billion, the amount of which was strategic and not related to an imminent and foreseeable liquidity requirement.
Instead financing for the securities portfolio sourced from the repo market recorded a daily average of around euro 4.7 billion (min 0.8 - max 7.2).
Funding on the NewMIC, the Collateralised section of the Interbank Deposits Market was almost entirely exhausted.
Lastly, the importance of the traditional unsecured interbank deposits market progressively diminished, eliminating its weight in the short-term funding mix.

Forex

The macroeconomic scenario penalised the Euro, boosting the role of currencies and gold which are always considered good refuge.
The Euro/Dollar exchange rate, after having reached a peak of 1.4940 last May then plunged suddenly first to 1.32 and then, after a short-lived recovery, down to 1.286 at the end of the year, a new record low for 2011. The weakness of the Euro is even more marked with regard to the Yen which, after having reached a peak of 123.25, then dropped sharply to 100 (the lowest in the past ten years). Even the Dollar/Yen exchange rate was pushed down, reaching record lows in March and then again in October, forcing the Bank of Japan to intervene. The situation of the Swiss Franc was similar; its strength forced the SNB to introduce a minimum threshold of Eur/CHF 1.2 at the beginning of September to stabilise the exchange rate.
Our market activity was mainly focused on identifying the trends created with intra/day transactions, to the detriment of short term positions, thus recording a rise in the volumes traded.

Group Services: real estate segment

Real estate assets

In 2011, measures were taken to enhance the value and rationalise the Group's real estate assets in order to obtain higher levels of synergy and efficiency.
Of these, the following are of particular note:

- the optimisation of the Group's locations in several areas (Rome, Milan) with the consequent release of several properties;
- the refurbishment of the training facilities in Milan and Lodi.

Efforts to manage and enhance the value of the Group's real estate assets continued, with a view to facilitate the marketing of assets by:

- drawing up action plans and feasibility studies;
- establishing relations with the Public Administration;
- settling outstanding disputes;
- reviewing rental agreements.

Furthermore, efforts to rationalise rental agreements with third parties continued, by means of:

- eliminating intergroup sub-rental arrangements subject to tax by transferring existing rental agreements to BP Property Management;
- renegotiating rental payments;
- optimising the allocation and the use of available space by the Group banks and companies.

RESULTS

The balance sheet 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.

Disclosures on 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 of 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.

Consolidated balance sheet

Reclassified asset items *(in thousands of euro)*	**31/12/2011**	**31/12/2010**	**Changes**	
Cash and cash equivalents	577,957	639,932	(61,975)	(9.7%)
Financial assets and hedging derivatives	19,425,247	17,726,308	1,698,939	9.6%
Due from banks	8,686,526	7,565,103	1,121,423	14.8%
Loans to customers	93,394,325	94,461,905	(1,067,580)	(1.1%)
Investments in associates and companies subject to joint control	1,180,387	1,641,429	(461,042)	(28.1%)
Property and equipment	2,147,443	2,444,749	(297,306)	(12.2%)
Intangible assets	2,354,623	5,171,742	(2,817,119)	(54.5%)
Non-current assets held for sale and discontinued operations	173,442	371,890	(198,448)	(53.4%)
Other assets	6,186,668	5,132,614	1,054,054	20.5%
Total	**134,126,618**	**135,155,672**	**(1,029,054)**	**(0.8%)**

Reclassified liabilities and shareholders' equity *(in thousands of euro)*	**31/12/2011**	**31/12/2010**	**Changes**	
Due to banks	14,429,808	9,492,950	4,936,858	52.0%
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	100,199,959	104,523,749	(4,323,790)	(4.1%)
Financial liabilities and hedging derivatives	5,089,143	3,969,498	1,119,645	28.2%
Liability provisions	1,144,039	1,448,122	(304,083)	(21.0%)
Liabilities associated with non-current assets held for sale and discontinued operations	2,962	159,407	(156,445)	(98.1%)
Other liabilities	3,837,399	3,621,551	215,848	6.0%
Minority interests	385,880	412,913	(27,033)	(6.5%)
Shareholders' equity	9,037,428	11,527,482	(2,490,054)	(21.6%)
- Capital and reserves	11,294,771	11,219,467	75,304	0.7%
- Income (loss) for the year	(2,257,343)	308,015	(2,565,358)	
Total	**134,126,618**	**135,155,672**	**(1,029,054)**	**(0.8%)**

The reclassified balance sheet is a simple aggregation of the items to be included in balance sheets set forth in the Bank of Italy circular no. 262 dated 22 December 2005.
The main aggregations regarding the balance sheet 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 "Value adjustment of financial assets subject to micro hedging", "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 "Value adjustment of financial liabilities subject to macro hedging", "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).

Consolidated income statement figures

Reclassified income statement items *(in thousands of euro)*	2011	2010 (*)	Change
Interest margin	1,810,475	1,816,141	(0.3%)
Income (loss) from investments in associates carried at equity	(7,903)	38,602	
Financial margin	**1,802,572**	**1,854,743**	**(2.8%)**
Net fee and commission income	1,273,429	1,266,836	0.5%
Other net operating income	43,357	57,871	(25.1%)
Net financial result	697,270	539,537	29.2%
Other operating income	**2,014,056**	**1,864,244**	**8.0%**
Operating income	**3,816,628**	**3,718,987**	**2.6%**
Personnel expenses	(1,509,277)	(1,540,902)	(2.1%)
Other administrative expenses	(747,922)	(759,811)	(1.6%)
Net value adjustments on property and equipment and intangible assets	(149,390)	(148,149)	0.8%
Operating expenses	**(2,406,589)**	**(2,448,862)**	**(1.7%)**
Income (loss) from operations	**1,410,039**	**1,270,125**	**11.0%**
Net adjustments on loans to customers	(759,350)	(771,123)	(1.5%)
Net adjustments on receivables due from banks and other assets	(92,381)	(96,236)	(4.0%)
Net provisions for risks and charges	(64,074)	(236,319)	(72.9%)
Value adjustments on goodwill and investments in associates and companies subject to joint control	(1,252)	(1,138)	10.0%
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	67,892	12,699	434.6%
Income (loss) before tax from continuing operations	**560,874**	**178,008**	**215.1%**
Taxes on income from continuing operations for the year	16,685	115,227	(85.5%)
Income (loss) after tax from discontinued operations	16,041	38,292	(58.1%)
Income (loss) for the year attributable to minority interests	(19,473)	(23,512)	(17.2%)
Net income before impairment	**574,127**	**308,015**	**86.4%**
Impairment of goodwill relating to the BPVN BPI business combination	(2,831,470)		
Parent Company's net income (loss)	**(2,257,343)**	**308,015**	

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

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

- the figurative cost relating to the financing of the financial assets acquired to create structured financial products for trading purposes, has been reclassified from the interest expense item (item 20) to the net financial result;
- 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 (envisaged in 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 of "Value adjustments on goodwill and investments in associates and companies subject to joint control" only includes adjustments relating to goodwill and to investments in associates and companies subject to joint control other than those recognised at the time of the acquisition of Banca Popolare Italiana; those relating to the latter category and particularly significant in 2011, have been appropriated highlighted by creating a line called "Impairment of goodwill relating to the BPVN-BPI business combination", before net income for the period;
- the revenues and expenses of the investee companies relating to merchant banking activities carried out by the

Group, which do not fall within the sphere of application of IFRS 5 but which in essence represent discontinued operations, are recorded in the reclassified income statement under Income/(loss) after tax from discontinued operations.

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 dated 1 July 2007) and 2009 (acquisition of control of the Group to which Banca Italease belongs as of 1 July 2009).
The result for 2011 was in fact influenced by "re-entries" to the income statement of the differences recorded with reference to the acquisition date between the value at which the balance sheet assets and liabilities are recorded in the respective financial statements and the fair value assigned them at the time of allocation of the cost of the business combination.

By way of additional disclosure, the impacts on the income statement as at 31 December 2011 deriving from the statement of the adjustments to the results recorded by the cash generating units acquired by the Group to which Banca Italease belongs are illustrated below:

- the impact on the income statement for 2011 comes to euro -44.8 million, and is attributable to the minor value recognised at the time of PPA for the financial liabilities issued by Banca Italease. The negative impact results from the consequent integration of the interest expense of Banca Italease in relation to the afore-mentioned financial liabilities, for the portion not re-acquired after 1 July 2009. In 2010, the impact was euro -78.2 million;
- net financial result: the impact is euro -6.1 million and is also attributable to the lower value assigned at the time of PPA to the financial liabilities issued by Banca Italease, following the repurchases of the above-mentioned financial liabilities made in the year. As at 31 December 2010, the effect of said repurchases was euro -7.2 million.

The following impacts were seen on the aggregates presented below:

- operating income: euro -50.9 million at 31 December 2011 and euro -85.3 million in 2010;
- income (loss) from operations: euro -50.9 million and euro -85.3 million at 31 December 2010;
- income (loss) before tax: euro -50.9 million and euro -113.2 million in 2010;
- income taxes: euro +16.5 million and euro +36.6 million at 31 December 2010;
- income (loss) attributable to minority interests: euro +0.2 million at 31 December 2011 and euro +0.5 million at 31 December 2010.

The overall effect on the consolidated net result therefore came to -34.2 million at the end of 2011, compared with -96.5 million in 2010.

It should also be noted that the income statement of the Banco Popolare Group also includes the economic effects resulting from the allocation of the merger difference relating to the business combination transaction with the former BPI Group as well, as analysed below:

- interest margin: the impact on the 2011 income statement was euro -82.1 million (euro -135.6 million as at 31 December 2010) and was essentially attributable to the greater value recognised at the time of PPA in relation to the receivables acquired as part of the combination transaction;
- other operating income: the effect as at 31 December 2011 was euro -41.2 million (euro -45.3 million in 2010), represented by the amortisation charges on intangible assets with a defined useful life recorded at the time of PPA (euro -37.6 million) and to the disposal of several minority investments revalued at the time of PPA (euro -3.6 million);
- value adjustments on property and equipment: the impact on the income statement as at 31 December 2011 was euro -4.7 million (-4 million as at 31 December 2010) and represents the depreciation charge on the greater value recognised at the time of PPA of the properties acquired as part of the combination transaction;
- profits (losses) on disposal of investments in associates and other investments: the 2011 income statement was affected by the recognition of lower gains of euro 6.5 million, resulting from the disposal of properties revalued at the time of PPA. In the same period of the previous year, the impact was euro -12.5 million.

The following impacts were seen on the aggregates presented below:

- operating income: euro -123.4 million in 2011 and euro -180.8 million in 2010;
- income (loss) from operations: euro -128 million as at 31 December 2011 and euro -184.8 million as at 31 December 2010;
- income (loss) before tax: euro -134.5 million at the end of 2011 and euro -197.4 million as at 31 December 2010;
- income taxes: euro +37.8 million as at 31 December 2011 and euro +60.7 million the previous year;
- income (loss) attributable to minority interests: 0 as at 31 December 2011 and euro +7 million as at 31 December 2010.

The overall effect on the consolidated net result therefore came to -96.7 million at the end of 2011, compared with -137.2 million in 2010.

Adding together the effects of the PPA relating to the former Banca Popolare Italiana Group and the group which Banca

Italease heads up, the net result recorded in the income statement as at 31 December 2011 suffered a negative impact of euro -130.9 million, compared to euro -233.7 million as at 31 December 2010.

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 valutational aspects and/or changes in parameters in the application of the valuation methods applied on an on-going basis are instead considered to be recurrent.

In the light of the above criteria, in addition to the amounts already included in items that are per se non-recurrent (e.g. income (loss) on assets held for sale), the main non-recurrent components that influenced the Group's net result as at 31 December 2011, in the order they are displayed in the consolidated income statement, are as follows:

- the positive impact of euro 464.2 million on the **net financial result**, deriving from the reduction in the book value of the financial liabilities issued by the Group, measured at fair value, due to the deterioration of the issuer's creditworthiness (in the previous year, the impact was euro +395.5 million);
- charges booked to the income statement for the year, under personnel expenses, relating to leaving incentives and charges for the activation of the redundancy fund of euro 55.1 million (euro 58 million as at 31 December 2010);
- the profits, totalling euro 67.9 million recorded under **profits (losses) on disposal of investments in associates and other investments**, resulting from the disposal of the interest held by the Group in Istituto Centrale Banche Popolari and from the revaluation at fair value of the interest held of euro 47.2 million and euro 16.8 million from disposals of property and equipment made Group companies during the half year (the figure for 2010, reclassified, was euro +12.7 million);
- the tax benefits resulting from the exemption of implicit goodwill in the recognition value of investments in associates and companies subject to joint control and those recorded in the separate financial statements of Banco Popolare following the merger of the Network Banks on 27 December 2011, for a total of euro 307.7 million, recognised under item **taxes on income from continuing operations**;
- the item **income (loss) after tax from discontinued operations** includes net income generated from the sale of the Bormioli Group (12.5 million), of Banco Popolare Česká Republika (10 million) and of Itaca Service S.p.A. (1.4 million), net of the losses linked to the sale of investments in merchant banking activities; in the corresponding period of 2010, the contribution of this item was a profit of 38.3 million, 23.6 million of which was linked to the profit from the sale of Banca Caripe.
- the most important and non-recurring impact is linked to the write-downs included in **impairment of goodwill relating to the BPVN BPI business combination**, which includes value adjustments of the investee companies Agos – Ducato of 332.3 million, Finoa of 10.1 million, as well as of the goodwill recognised following the merger transaction in 2007 of euro 2,769.5 million, net of the effect of the adjustment of deferred taxes, resulting from the above-mentioned write-downs, which led to a net benefit of euro 277.3 million and lastly effects attributable to minority interests of euro 3.1 million.

Note that last year's income statement had benefited from the extension of the scope of the "tax consolidation" scheme of Banco Popolare to Banca Italease and its subsidiaries. Thanks to the exercise of the option for group taxation, Banca Italease was able to recognise euro 285.8 million of prepaid tax receivables in its financial statements.

Reclassified consolidated income statement – Quarterly changes

To better understand the dynamics of the items that contribute to the year's income, the table below breaks down the 2011 reclassified consolidated income statement into quarters. The figures included in the same have been taken from previous periodic reports published, and may have been reclassified in order to permit a like-for-like comparison, based on the parameters used as at 31 December 2011.

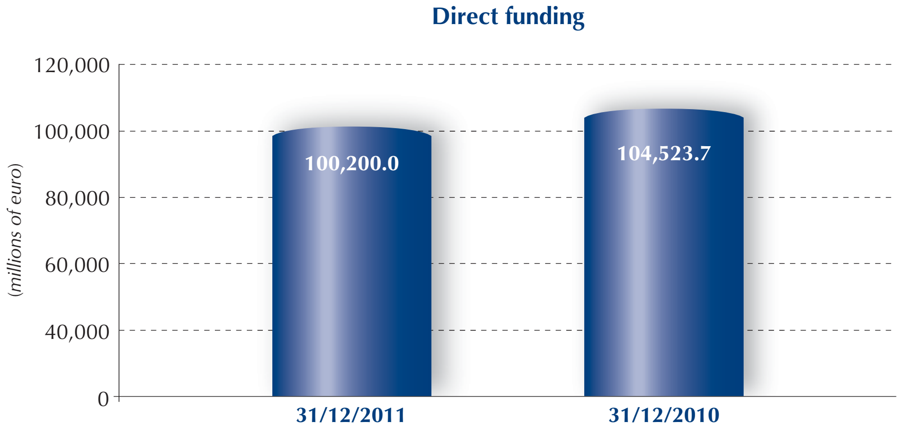
Reclassified income statement items *(in thousands of euro)*	**FY 2011**			
	Q4	**Q3 (*)**	**Q2 (*)**	**Q1 (*)**
Interest margin	457,893	461,349	444,413	446,820
Income (loss) from investments in associates carried at equity	(35,314)	4,529	13,867	9,015
Financial margin	**422,579**	**465,878**	**458,280**	**455,835**
Net fee and commission income	304,874	313,788	320,657	334,110
Other net operating income	3,567	7,596	25,201	6,993
Net financial result	142,178	267,756	220,045	67,291
Other operating income	**450,619**	**589,140**	**565,903**	**408,394**
Operating income	**873,198**	**1,055,018**	**1,024,183**	**864,229**
Personnel expenses	(381,888)	(371,542)	(378,858)	(376,989)
Other administrative expenses	(169,481)	(196,867)	(191,056)	(190,518)
Net value adjustments on property and equipment and intangible assets	(47,112)	(32,543)	(37,879)	(31,856)
Operating expenses	**(598,481)**	**(600,952)**	**(607,793)**	**(599,363)**
Income (loss) from operations	**274,717**	**454,066**	**416,390**	**264,866**
Net adjustments on loans to customers	(168,131)	(191,564)	(192,668)	(206,987)
Net adjustments on receivables due from banks and other assets	(53,998)	(11,275)	(25,525)	(1,583)
Net provisions for risks and charges	(54,775)	(7,056)	(7,652)	5,409
Value adjustments on goodwill and investments in associates and companies subject to joint control	(822)	(430)	-	-
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	2,991	2,175	14,919	47,807
Income (loss) before tax from continuing operations	**(18)**	**245,916**	**205,464**	**109,512**
Taxes on income from continuing operations for the year	260,690	(106,528)	(88,215)	(49,262)
Income (loss) after tax from discontinued operations	(3,054)	(2,765)	15,994	5,866
Income (loss) for the year attributable to minority interests	(7,104)	(4,406)	(1,883)	(6,080)
Net income before impairment	**250,514**	**132,217**	**131,360**	**60,036**
Impairment of goodwill relating to the BPVN BPI business combination	(2,831,470)	-	-	-
Parent Company's net income (loss)	**(2,580,956)**	**132,217**	**131,360**	**60,036**

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

Loan brokering activities

The trends in the main balance sheet items as at 31 December 2011 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 component at the end of the year is also shown without the contribution of the Banca Italease group of companies ("Banco Popolare stand-alone") as well as the figure for just the companies that are part of the former Banca Italease Group, compared with the figures of the previous years, rendered comparable. Both the aggregates have been stated before the effects of the infragroup transactions which took place with the Banco Popolare stand-alone Group companies and those of the former Banca Italease Group.

Direct funding



As at 31 December 2011, direct funding presented a balance of euro 100,200 million, compared with euro 104,523.7 million as at 31 December 2010, showing a fall of 4.1% (down 5.6% compared to 30 September 2011, when the figure recorded was euro 106,172.8 million). As regards the different types of funding, a significant increase in the bonds segment was recorded, which rose from euro 49,855.7 million to euro 54,434.7 million (+9.2%), mainly due to the issue, during the year, of covered bonds worth a total of euro 4.9 billion, relating to the third, fourth and fifth tranches of the Covered Bonds Programme illustrated previously, addressed to institutional investors.
Note also that the item "bonds" includes liabilities relating to securitisation transactions conducted by the Italease Group of euro 454.6 million and other bonds related to the Banca Italease group of euro 2,757.1 million, as well as a Preferred Securities transaction, issued by the Banca Italease Group, worth euro 149.2 million (nominal value of euro 150 million).
The drop in direct funding was due both to the downturn of more traditional direct funding (current accounts and deposits), which fell by euro 1,678.4 million (-4.2%) compared to the end-of-year figure, and, above all, to a fall in repurchase agreements (-58.7% compared to 31 December 2010). As regards the latter funding category, note that in the fourth quarter the Group gradually reduced this form of short-term funding, usually carried out with institutional customers, in order to use the more convenient liquidity relating to the lending opportunities promoted by the European Central Bank. Therefore, customer funding fell while that relating to central banks rose.
Excluding the share of this aggregate that refers to Banca Italease, repurchase agreements and funding represented by bonds and other securities, namely "traditional" funding, showed a rise of 0.8% against the beginning of the year. In particular, funding from retail customers and small businesses recorded a 5.2% rise compared to the end of 2010.

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Traditional funding	**40,411,831**	**41,718,430**	**(1,306,599)**	**(3.1%)**
- current accounts and demand deposits	37,923,611	39,602,043	(1,678,432)	(4.2%)
- time deposits	1,426,822	1,311,718	115,104	8.8%
- certificates of deposit and other securities	1,061,398	804,669	256,729	31.9%
Repurchase agreements	**5,353,431**	**12,949,653**	**(7,596,222)**	**(58.7%)**
Bonds	**54,434,697**	**49,855,666**	**4,579,031**	**9.2%**
Total direct funding	**100,199,959**	**104,523,749**	**(4,323,790)**	**(4.1%)**

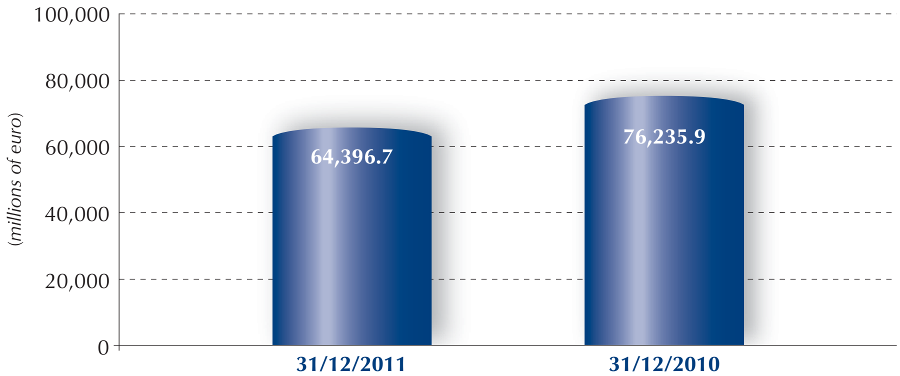
Indirect funding

2011 closed with a balance of indirect funding from Retail and institutional customers of 64,396.7 million, down 15.5% compared to the adjusted figure as at 31 December 2010, when indirect funding of 76,235.9 million was recorded. This aggregate includes inflows from Arca Previdenza from the retail customers of Network Banks.

Within the same, managed assets accounted for euro 26,511.1 million, a -15.7% fall compared to the end of the previous year, with volumes of life insurance policies going against the trend. More specifically, customers tended to favour placements of Index Linked and Unit Linked Lawrence Life policies, the Irish Company of the Fondiaria – SAI group, with which the Banco Popolare Group signed a placement agreement. The rise of euro 1,325.2 million in Lawrence Life stock compared to the end-of-year figure for 2010, brings the total of said policies to euro 4,425.7 million. The Parent Company issued bonds against these placements, which at the end of December 2011 amounted to euro 3,606 million, and which were recorded under direct funding. Overall, the general downtrend of the policies segment is linked to the fact that the number of policies maturing or to be redeemed fell during the period.
As regards funds and portfolio management, the fall is mainly due to market trends, which affected the value of financial instruments.

Administered assets fell from euro 44,791.3 million at the end of 2010 to euro 37,885.6 million at the end of 2011, down 15.4%. Again in this case, this is due to the fall in the value of the financial instruments held and in particular to the share-related component.

Indirect funding



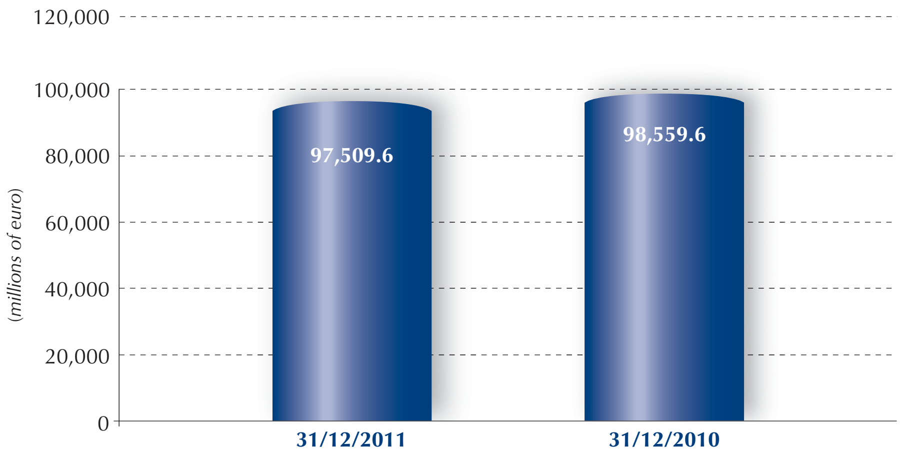
(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Managed assets	**26,511,061**	**31,444,632**	**(4,933,571)**	**(15.7%)**
- mutual funds and SICAVs	7,137,642	9,205,233	(2,067,591)	(22.5%)
- securities and fund management	7,168,466	9,444,966	(2,276,500)	(24.1%)
- insurance policies	12,204,953	12,794,433	(589,480)	(4.6%)
of which: Lawrence Life policies	*4,425,683*	*3,100,522*	*1,325,161*	*42.7%*
Administered assets	**37,885,606**	**44,791,293**	**(6,905,687)**	**(15.4%)**
Total indirect funding	**64,396,667**	**76,235,925**	**(11,839,258)**	**(15.5%)**

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 trade banking associations) from the aggregate, administered and managed assets amounted to euro 50,934.9 million, down euro 6,075.1 million compared to the figure recorded as at 31 December 2010 rendered comparable (57,010.1 million).
Total administered assets, both in the form of direct and indirect funding, amounted to euro 160,990.6 million, net of the direct funding underlying the insurance policies placed by the Group, down with respect to the balance as at 31 December 2010 rendered comparable, of euro 178,384.9 million (-9.8%).

Loans to customers

As at 31 December 2010, total gross loans for the Group as a whole had reached the figure of euro 97,509.6 million, down 1.1% compared to the figure of euro 98,559.6 million recorded as at 31 December 2010, and substantially stable compared to the situation as at 30 September 2011, when the corresponding figure, rendered comparable, was euro 97,657.3.
Also in terms of loans net of value adjustments, the figure as at 31 December 2011, of euro 93,394.3 million, fell by 1.1% compared to the corresponding figure for 2010, of euro 94,461.9 million (and was substantially stable compared to the figure as at 30 September 2011, rendered comparable, of euro 93,556.1 million).

Gross loans to customers



The following tables show the breakdown of net loans by loan type.

Banco Popolare Group

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Current accounts	15,738,676	16,555,686	(817,010)	(4.9%)
Repurchase agreements	3,826,010	1,763,763	2,062,247	116.9%
Mortgage loans	45,783,417	45,473,741	309,676	0.7%
Credit cards, personal loans and salary-backed loans	379,586	366,125	13,461	3.7%
Financial leases	5,563,148	6,434,242	(871,094)	(13.5%)
Factoring	56,511	38,373	18,138	47.3%
Other loans	21,262,036	22,917,111	(1,655,075)	(7.2%)
Debt securities	784,941	912,864	(127,923)	(14.0%)
Total net loans to customers	**93,394,325**	**94,461,905**	**(1,067,580)**	**(1.1%)**

At Group level, a rise in mortgage loans and repurchase agreements was recorded in 2011, offset by a fall in current accounts and other loans. If financial leases, which actually relate to a substantially “run-off” portfolio, and debt securities relating to specific transactions, are excluded, the customer loans portfolio was substantially stable compared to the December 2010 figure.
Looking in more detail, however, a fall was recorded in loans disbursed to Large corporate customers (-13.9% compared to the beginning of the year, -1.8% compared to September) as well as to medium sized businesses (-4.1% compared to the beginning of the year, -3.2% compared to September), contrasted by a rise in those granted to retail customers and small business operators (SBO), which rose by 9.4% and 1.5% respectively against the previous year (and by 0.3% and -2% respectively compared to September 2011).

Banco Popolare Group (stand-alone)

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Current accounts	15,765,957	16,589,363	(823,406)	(5.0%)
Repurchase agreements	3,826,010	1,763,763	2,062,247	116.9%
Mortgage loans	44,503,003	44,038,323	464,680	1.1%
Credit cards, personal loans and salary-backed loans	379,586	366,125	13,461	3.7%
Financial leases	1,982	4,583	(2,601)	(56.8%)
Factoring	56,511	38,373	18,138	47.3%
Other loans	22,909,840	24,290,138	(1,380,298)	(5.7%)
Debt securities	205,230	245,078	(39,848)	(16.3%)
Total net loans to customers	**87,648,119**	**87,335,746**	**312,373**	**0.4%**

Net of the total value adjustments and the contribution of the Banca Italease group, loans came to euro 87,648.1 million, substantially stable with respect to the euro 87,335.7 million as at 31 December 2010 (+0.4%). During 2011, given the downtrend recorded in the large corporate segment, the Group continued to guarantee support to its core customers, and above all to retail customers and small business operators.

The aggregate figure recorded a considerable increase of repurchase agreements, which rose from euro 1,763.8 million as at 31 December 2010 to euro 3,826 million at the end of 2011, while mortgage loans continue to increase, rising from euro 44,038.3 million to euro 44,503 million (+1.1%), although falling against the figure recorded in Q3 2011 of euro 45,156.1 million. Significant decreases were recorded, on the other hand, for current accounts (-5%) and other loans (-5.7%).
In general, the substantial stability of loans in 2011 is due to a more careful and selective process relating to the disbursement of new loans, which, to be approved, must meet assessment criteria in line with the Group's consequent capital absorption.

The portfolio of the Banca Italease group showed the following breakdown for the period in question:

Banca Italease Group

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Current accounts	165	519	(354)	(68.2%)
Mortgage loans	1,289,845	1,498,814	(208,969)	(13.9%)
Financial leases	5,690,174	6,584,754	(894,580)	(13.6%)
Other loans	579,378	872,814	(293,436)	(33.6%)
Debt securities	579,711	667,786	(88,075)	(13.2%)
Total net loans to customers	**8,139,273**	**9,624,687**	**(1,485,414)**	**(15.4%)**

Net loans to customers as at 31 December 2011 amounted to euro 8,139.3 million, down 15.4% with respect to the figure at the end of December 2010.
More specifically, euro 5,690.2 million refers to receivables for lease contracts, euro 1,289.8 million refers to mortgage loans, euro 579.4 million to other receivables, which include, amongst other things, assets under construction and those awaiting finance leases and euro 579.7 million, mostly relating to junior and senior notes not placed on the market, corresponding to the portfolio transferred to Alba Leasing by means of the Agreement on securitised receivables; these securities remain the property of Banca Italease.
The fall in net receivables for lease contracts and mortgage loans is linked to consensual terminations of loan agreements with large customers with loans classified as doubtful or substandard (also by means of the *datio in solutum* procedure), to the amortisation of existing loans given the reduced value of new disbursements and to the assignment of doubtful loans.

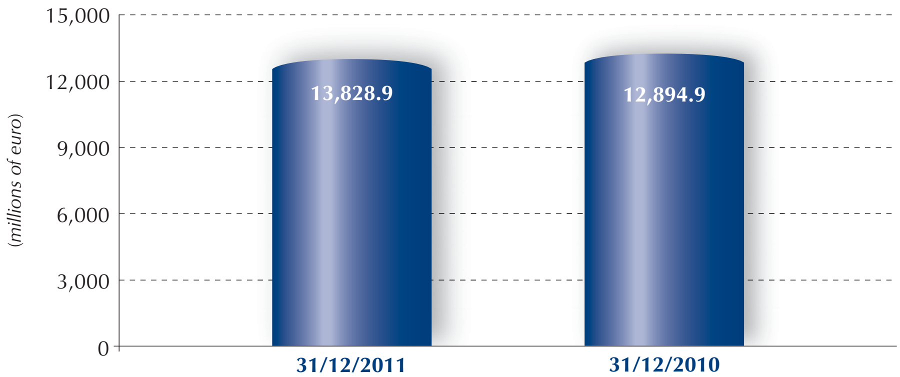
Non-performing loans

Banco Popolare Group

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Gross non-performing loans	**13,828,880**	**12,894,887**	**933,993**	**7.2%**
Doubtful loans	6,025,005	5,156,666	868,339	16.8%
Substandard loans	4,704,015	5,264,795	(560,780)	(10.7%)
Restructured loans	2,713,998	2,008,217	705,781	35.1%
Past due loans	385,862	465,209	(79,347)	(17.1%)
Gross performing loans	**83,680,738**	**85,664,735**	**(1,983,997)**	**(2.3%)**
Total gross exposure	**97,509,618**	**98,559,622**	**(1,050,004)**	**(1.1%)**
Adjustments on non-performing loans	**(3,592,144)**	**(3,540,785)**	**51,359**	**1.5%**
Doubtful loans	(2,358,739)	(2,277,289)	81,450	3.6%
Substandard loans	(861,533)	(927,810)	(66,277)	(7.1%)
Restructured loans	(342,283)	(299,404)	42,879	14.3%
Past due loans	(29,589)	(36,282)	(6,693)	(18.4%)
Adjustments on performing loans	**(523,149)**	**(556,932)**	**(33,783)**	**(6.1%)**
Total adjustments	**(4,115,293)**	**(4,097,717)**	**17,576**	**0.4%**
Net non-performing loans	**10,236,736**	**9,354,102**	**882,634**	**9.4%**
Doubtful loans	3,666,266	2,879,377	786,889	27.3%
Substandard loans	3,842,482	4,336,985	(494,503)	(11.4%)
Restructured loans	2,371,715	1,708,813	662,902	38.8%
Past due loans	356,273	428,927	(72,654)	(16.9%)
Net performing loans	**83,157,589**	**85,107,803**	**(1,950,214)**	**(2.3%)**
Total net exposure	**93,394,325**	**94,461,905**	**(1,067,580)**	**(1.1%)**

Gross non-performing loans (doubtful, substandard, restructured and past due) amounted to euro 13,828.9 billion as at 31 December 2011, recording a 7.2% increase against the beginning of the year, and were substantially in line with the comparable figure of the third quarter of 2011, of euro 13,804.6 million. The rise of this aggregate is due both to non-performing loans originated by Banca Italease , which as at 31 December 2011, amounted to euro 4,101.5 million mainly represented by lease contracts guaranteed by property (up 5.8% with respect to the beginning of the year), and to those attributable to the rest of the Group, which came to 9,727.4 million (up 7.8% with respect to the beginning of the year).

Gross non-performing loans

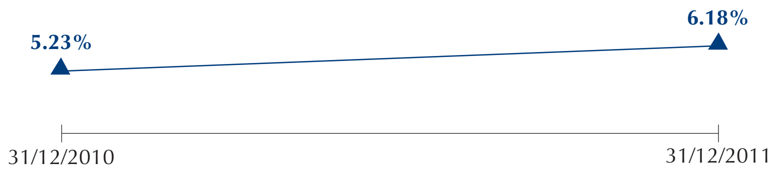


In greater detail, doubtful loans amounted to euro 6,025 million (+16.8% compared to 31 December 2010), substandard loans were euro 4,704 million (-10.7% with respect to the start of the year), while restructured loans amounted to euro 2,714 million (+35.1%) and those past due to euro 385.9 million (-17.1%). The positive fall in past due loans is linked to the significant efforts made to monitor and resolve positions showing signs of financial difficult, which contained the overall outflow due to non-performing loans up to substandard level. Furthermore, continuing efforts to settle positions that are already non-performing and substandard led to the restructuring of a considerable amount in terms of receivables. On the other hand, doubtful loans recorded a significant rise, in line with the overall trend in the banking industry.

The ratio of non-performing loans to total loans to customers – gross of adjustments – as at 31 December 2011 was 14.18%, down with respect to the figure as at 31 December 2010 (13.08%). Net of value adjustments, the ratio in question rose from 9.90% as at 31 December 2010 to 10.96% at the end of 2011.

Looking at doubtful loans only, the ratio of these to total loans, before value adjustments, was 6.18%, compared with 5.23% as at 31 December 2010. Net of value adjustments, the ratio in question rose to 3.93% compared with 3.05% as at 31 December 2010. The percentage of total loans represented by substandard loans fell instead from 4.59% to 4.11% (net of value adjustments, the same ratio was 4.82%, down from 5.34% recorded as at 31 December 2010).

Gross doubtful loans/Gross loans



Value adjustments to non-performing loans as at 31 December 2011, represented 25.98% of their total gross amount compared to 27.46% as at 31 December 2010. More specifically, value adjustments to doubtful loans as at the end of December, represented 39.15% of their total gross amount (44.16% as at 31 December 2010); taking into account the partial losses predicted for doubtful loans, the rate of coverage rises to 55.76%, against 59.35% last year.
The rate of coverage of substandard loans rose substantially, from 17.62% as at 31 December 2010 to 18.31% at the end of 2011, while that relating to restructured loans fell from 14.91% to 12.61%.
The rate of coverage of performing loans was 0.63% from 0.65% as at 31 December 2010.

Banco Popolare Group (stand-alone)

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Gross non-performing loans	**9,727,407**	**9,020,782**	**706,625**	**7.8%**
Doubtful loans	4,549,760	3,878,581	671,179	17.3%
Substandard loans	3,623,667	3,807,350	(183,683)	(4.8%)
Restructured loans	1,225,895	997,304	228,591	22.9%
Past due loans	328,085	337,547	(9,462)	(2.8%)
Gross performing loans	**81,023,304**	**81,363,614**	**(340,310)**	**(0.4%)**
Total gross exposure	**90,750,711**	**90,384,396**	**366,315**	**0.4%**
Adjustments on non-performing loans	**(2,652,091)**	**(2,565,234)**	**86,857**	**3.4%**
Doubtful loans	(1,778,969)	(1,729,224)	49,745	2.9%
Substandard loans	(656,991)	(638,915)	18,076	2.8%
Restructured loans	(191,171)	(174,254)	16,917	9.7%
Past due loans	(24,960)	(22,841)	2,119	9.3%
Adjustments on performing loans	**(450,501)**	**(483,416)**	**(32,915)**	**(6.8%)**
Total adjustments	**(3,102,592)**	**(3,048,650)**	**53,942**	**1.8%**
Net non-performing loans	**7,075,316**	**6,455,548**	**619,768**	**9.6%**
Doubtful loans	2,770,791	2,149,357	621,434	28.9%
Substandard loans	2,966,676	3,168,435	(201,759)	(6.4%)
Restructured loans	1,034,724	823,050	211,674	25.7%
Past due loans	303,125	314,706	(11,581)	(3.7%)
Net performing loans	**80,572,803**	**80,880,198**	**(307,395)**	**(0.4%)**
Total net exposure	**87,648,119**	**87,335,746**	**312,373**	**0.4%**

As at 31 December 2011, total non-performing loans (doubtful, substandard, restructured and past due/overrun), before value adjustments and excluding the contribution of the Italease Group, amounted to euro 9,727.4 million, up 7.8% with respect to euro 9,020.8 million as at 31 December 2010. Under non-performing loans, gross doubtful loans (euro 4,549.8 million) recorded a rise of 17.3% compared to 31 December 2010. On the contrary, substandard loans recorded a fall of euro 183.7 million, dropping from euro 3,807.3 million as at 31 December 2010 to euro 3,623.7 million as at 31 December 2011. Contrasting the decrease of substandard loans, restructured loans rose to the same extent, reaching a total of euro 1,225.9 million (+22.9% compared to the figure as at 31 December 2010). Past due loans were substantially stable. In general, it is worth noting that during 2011, the flow of non-performing loans showed a substantial downtrend compared to last year (euro 1.749 billion in 2011 against euro 2.340 billion last year).

The ratio of non-performing loans to total loans to customers – before adjustments – as at 31 December 2011 was 10.72%, up with respect to the figure as at 31 December 2010 (9.98%). Net of value adjustments, the ratio in question rose from 7.39% as at 31 December 2010 to 8.07% at the end of December 2011. This rise is due to the increase of doubtful loans before value adjustments; the latter did not rise at the same pace as gross loans by virtue of the fact that new doubtful loans have a higher rate of coverage, as they are fully covered by real guarantees. Indeed, doubtful loans alone, before and after

value adjustments, represented 5.01% and 3.16% respectively of total loans to customers, compared to 4.29% and 2.46% as at 31 December 2010.
As regards substandard loans, the percentage represented by the same of total loans to customers as at 31 December 2011, before and after value adjustments, was 3.99% and 3.38% respectively, and 4.21% and 3.63% respectively compared to 31 December 2010.

Value adjustments to non-performing loans as at 31 December 2011, represented 27.26% of their total gross amount compared to 28.44% as at 31 December 2010. More specifically, value adjustments to doubtful loans as at the end of December, represented 39.10% of their total gross amount (44.58% as at 31 December 2010); taking into account the partial losses anticipated for doubtful loans, the rate of coverage rises to 59.32%, against 62.97% last year. If the coverage represented by real guarantees is taken into account, the rate of coverage of doubtful loans rises to 91.83% (from 91.65% as at 31 December 2010).
The rate of coverage of substandard loans rose substantially, from 16.78% as at 31 December 2010 to 18.13% at the end of 2011, as well as that of past due loans (from 6.77% to 7.61%), while that relating to restructured loans fell from 17.47% to 15.59%.
The rate of coverage of performing loans was 0.56% from 0.59% as at 31 December 2010.

Cash loans referring to the Banca Italease group showed the following changes:

Banca Italease Group

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Gross non-performing loans	**4,101,473**	**3,875,404**	**226,069**	**5.8%**
Doubtful loans	1,475,245	1,278,085	197,160	15.4%
Substandard loans	1,080,348	1,457,445	(377,097)	(25.9%)
Restructured loans	1,488,103	1,010,913	477,190	47.2%
Past due loans	57,777	128,961	(71,184)	(55.2%)
Gross performing loans	**5,050,501**	**6,798,415**	**(1,747,914)**	**(25.7%)**
Total gross exposure	**9,151,974**	**10,673,819**	**(1,521,845)**	**(14.3%)**
Adjustments on non-performing loans	**(940,053)**	**(975,616)**	**(35,563)**	**(3.6%)**
Doubtful loans	(579,770)	(548,065)	31,705	5.8%
Substandard loans	(204,542)	(288,895)	(84,353)	(29.2%)
Restructured loans	(151,112)	(125,150)	25,962	20.7%
Past due loans	(4,629)	(13,506)	(8,877)	(65.7%)
Adjustments on performing loans	**(72,648)**	**(73,516)**	**(868)**	**(1.2%)**
Total adjustments	**(1,012,701)**	**(1,049,132)**	**(36,431)**	**(3.5%)**
Net non-performing loans	**3,161,420**	**2,899,788**	**261,632**	**9.0%**
Doubtful loans	895,475	730,020	165,455	22.7%
Substandard loans	875,806	1,168,550	(292,744)	(25.1%)
Restructured loans	1,336,991	885,763	451,228	50.9%
Past due loans	53,148	115,455	(62,307)	(54.0%)
Net performing loans	**4,977,853**	**6,724,899**	**(1,747,046)**	**(26.0%)**
Total net exposure	**8,139,273**	**9,624,687**	**(1,485,414)**	**(15.4%)**

With regard to the Italease Group, consolidated gross non-performing loans rose from euro 3,875.4 million as at 31 December 2010 to euro 4,101.5 million as at 31 December 2011. This increase is actually due to the rise of doubtful loans, while the fall of substandard and past due loans offset the rise of restructured loans.

Given the fall of total gross loans, and in particular of performing loans, the ratio of non-performing loans to total loans to customers – before value adjustments – as at 31 December 2011 was 44.82%, up with respect to the figure as at 31 December 2010 (36.31%). The same ratio after value adjustments was 38.84% against 30.13% last year.
As at 31 December 2011, the ratio of gross doubtful loans to total gross loans to customers was 16.12%, up compared to the 11.97% recorded as at 31 December 2010. After value adjustments, the ratio is 11%, compared to 7.58% as at 31 December 2010. The ratio of substandard loans to total loans, before and after value adjustments, is 11.8% and 10.76% respectively, down against 31 December 2010 (where the figures of 13.65% and 12.14% respectively were recorded).

The rate of coverage of doubtful loans fell from 42.9% at the end of December 2010 to 39.3% at the end of December 2011, while that relating to substandard loans was 18.9% (19.8% as at 31 December 2010). The rate of coverage of restructured loans fell from 12.4% to 10.2%, while that on past due loans fell from 10.5% to 8%.
Overall, value adjustments to non-performing loans as at 31 December 2011 represented 22.9% of their total gross amount (25.2% as at 31 December 2010).

The fall in the rate of coverage is mostly due to the increasingly larger share of doubtful loans represented by the real estate sector which, benefiting from consistent sale values of the underlying guarantees, reduces the entity of value adjustments. Also considering the presumed sale value of said guarantees, the overall rates of coverage are easily above 100%.

Financial assets

The Group's financial assets as at 31 December 2011 amounted to euro 19,425.2 million and recorded an increase of 9.6% with respect to euro 17,726.3 million as at 31 December 2010. The breakdown is as follows:

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Financial assets held for trading	8,745,144	11,613,306	(2,868,162)	(24.7%)
Financial assets designated at fair value through profit and loss	161,847	178,931	(17,084)	(9.5%)
Financial assets available for sale	9,822,859	5,591,176	4,231,683	75.7%
Investments held to maturity	63,403	140,926	(77,523)	(55.0%)
Hedging derivatives	631,994	201,969	430,025	212.9%
Total	**19,425,247**	**17,726,308**	**1,698,939**	**9.6%**

The percentage represented by assets held for trading on total assets fell to 45% as at 31 December 2011, compared to 65.5% last year, while those available for sale rose from 31.5% last year to 50.6% as at 31 December 2011. As illustrated in the section of the report regarding Group Financial Services, which should be referred to for more details, the held-for-trading component was managed with a view to reducing the level of risk of all of the main asset classes, while the investment strategy for the other accounting categories shown in the table was focused on preserving future profitability, by increasing the investment, even in situations of market stress, where market opportunities were identified.
The breakdown by type of assets is as follows:

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Debt securities	12,191,517	11,924,364	267,153	2.2%
Equity instruments	822,002	954,480	(132,478)	**(13.9%)**
UCIT units	935,521	1,273,519	(337,998)	(26.5%)
Derivative trading and hedging instruments	5,476,207	3,573,945	1,902,262	53.2%
Total	**19,425,247**	**17,726,308**	**1,698,939**	**9.6%**

Cash assets (debt securities, equity instruments and UCIT units) represent 71.8% of the total financial assets held by the Group. This percentage is substantially stable compared with the comparable figure as at 31 December 2010 (of 79.8%).
As regards debt securities (62.8% of total financial assets), the main components is represented by Government securities of around euro 10,092.3 million, euro 9,751.9 million issued by Italy, euro 202.6 million by Spain and euro 24.2 million by Greece.

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Debt securities	3,362,546	7,025,443	(3,662,897)	(52.1%)
Equity instruments	210,346	329,138	(118,792)	(36.1%)
UCIT units	328,039	886,749	(558,710)	(63.0%)
Financial and lending derivatives	4,844,213	3,371,976	1,472,237	43.7%
Total	**8,745,144**	**11,613,306**	**(2,868,162)**	**(24.7%)**

As regards the debt securities component of financial assets held for trading, euro 2,415.4 million (nominal euro 2,480 million) is represented by Italian Government securities and euro 17.4 million (nominal euro 67.5 million) by Greek Government securities, while the remainder is comprised by corporate securities issued mainly by Italian and foreign banks. The fall is due to the above-mentioned drive to reduce risk.

The trading share portfolio instead contains euro 129.5 million in securities relating to leading companies and Italian banks.

Financial assets designated at fair value through profit and loss, detailed in the following table, are mainly represented by 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 SIRPE paid to some executives.

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Debt securities	4	4	-	-
Equity instruments	976	2,069	(1,093)	(52.8%)
UCIT units	160,867	176,858	(15,991)	(9.0%)
Total	**161,847**	**178,931**	**(17,084)**	**(9.5%)**

The breakdown of financial assets available for sale is shown below. In 2011, this portfolio saw investment made through three Italian Government Bond purchase plans, which focused on the floating-rate segment at the beginning of the year, while regarded fixed-rate bonds with residual terms of between 2 and 3 years and maturing 2025-2026 in the second half of the year. In this regard, please refer to the paragraph on Group Services: Group Finance in this report.

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Debt securities	8,765,564	4,757,991	4,007,573	84.2%
Equity instruments	610,680	623,273	(12,593)	(2.0%)
UCIT units	446,615	209,912	236,703	112.8%
Total	**9,822,859**	**5,591,176**	**4,231,683**	**75.7%**

As at 31 December 2011, the portfolio of debt securities included Italian Government securities with a total book value of euro 7,309.7 million, euro 6,027.9 of which with a fixed rate (with interest rate risk hedged through financial derivatives) and euro 1,281.8 million with a floating rate. The maturities of this portfolio relate to 2012 for a book value of euro 719 million, to 2013-2015 for euro 4,768.3 million and beyond 2015 for the remainder of the portfolio amounting to euro 1,822.4 million.
The portfolio of debt securities also include foreign Government securities with a total book value of euro 299 million (nominal 309.3 million), of which euro 202.6 million (nominal 200 million) refer to Spanish securities maturing between 2014 and 2015, euro 6.8 million (nominal 28.6 million) are Greek securities maturing between 2014 and 2019, and the remainder relate to German Länder for euro 24.6 million (nominal 25 million), of the USA for euro 30.5 million (nominal 24.7 million), of Switzerland for euro 24 million (nominal 22.2 million) and lastly of Croatia for euro 10.5 million (nominal 8.8 million).
The remainder of the debt securities portfolio is comprised of securities issued by international organisation (EIB, IBRD etc.) worth euro 94.6 million (nominal 166.4 million), by Italian banks for euro 712 million (nominal 845.9 million), by foreign banks for 203.8 million (nominal 215.5 million), and by financial companies for euro 262.8 million (nominal 502 million), and by other non-financial companies for the remainder.

Le UCIT units include hedge funds with a book value of euro 16.8 million, real estate funds of euro 37.2 million, share funds of euro 102.4 million and bond funds of euro 36.9 million. The share relating to funds of the Gestielle Group amount to euro 102.8 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 the Istituto Centrale delle Banche Popolari Italiane amounting to euro 139.6 million. This investment was reclassified to the financial assets available for sale portfolio, following the sale of a part of the shareholding, which reduced the share of ownership to below 20%. Other interests refer to the Dexia Crediop for euro 105.4 million, Palladio Finanziaria for euro 45 million, to the investment in the Bank of Italy for euro 36.4 million, to Venice for euro 22.7 million, to Earchimede for euro 19.8 million, to Aedes for euro 4.8 million, to Azimut Holding for euro 18.6 million, to A4 Holding for euro 17.7 million, to Factorit for euro 16.1 million, to Autostrade del Brennero for euro 15.7 million, to SACBO for euro 14.6 million, to Miro Radici AG for euro 12.7 million, and lastly to Banca Nuova Terra for euro 10.1 million.

Investments held to maturity are represented exclusively by debt securities, a part of which is used to fund repurchase agreement transactions. The reduction of this item in 2011 is mainly due to the redemption of securities that matured.

(in thousands of euro)	31/12/2011	31/12/2010	Absolute change	% change
Debt securities	63,403	140,926	(77,523)	(55.0%)
Total	**63,403**	**140,926**	**(77,523)**	**(55.0%)**

This item includes a BTP (Italian government bond) with a book value of euro 25.3 million, maturing in October 2012, a Lehman security with a notional value of euro 35 million, recognised in the financial statements as euro 7 million, which led to impairment losses of euro 3.5 million being recorded in 2011, as well as a short-term Hungarian Government bond held by the subsidiary Banco Popolare Hungary (euro 22 million) and lastly, corporate bonds held by the subsidiary Aletti Suisse for euro 8.7 million.

Investments in associates and companies subject to joint control

Investments in associates and companies subject to joint control as at 31 December 2011 amounted to euro 1,180.4 million, compared with 1,641.4 million as at 31 December 2010.
Details of the companies subject to significant influence are provided in the Notes to the Financial Statements, Part B, Section 10.

The main changes recorded in 2011 refer to payments made to cover the losses of the associated company Popolare Vita (euro 110 million), to pay the share relating to the share capital increase of Avipop Assicurazioni (euro 10 million); as well as the partial disposal of the interest held in Istituto Centrale delle Banche Popolari Italiane (euro 28.7 million), which resulted in capital gains of euro 47.2 million, and the transfer of the residual portion to financial assets available for sale (for euro 161.2 million).

During the year, the interest held in Agos-Ducato was written down by around euro 332.3 million following impairment testing.

Lastly, note that the book value of equity investments held for sale is shown under "Non-current assets held for sale and discontinued operations"; as at 31 December 2011, this item also included the consolidated book value of the equity investment in Finoa, corresponding to euro 49.9 million, written down for impairment by euro 10.1 million following impairment testing.

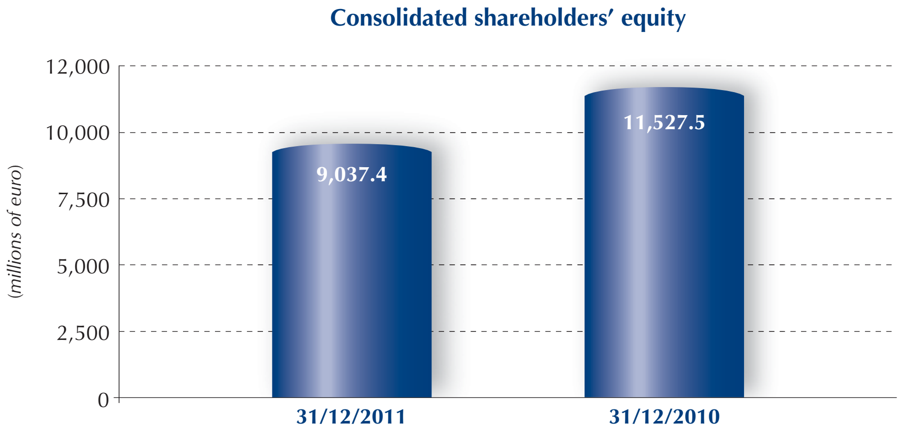
Property and equipment

At the end of December 2011, property and equipment amounted to euro 2,147.4 million, compared with euro 2,444.7 million recorded as at 31 December 2010. This change is mainly due to the loss of the contribution of the real estate assets of the Bormioli Group (which as at 31 December 2010 amounted to euro 252.5 million) following the sale of the same at the end of June. During the year, other real estate disposals were made, mainly by the subsidiary company Bipielle Real Estate and by former Italease group companies, which also recorded the inclusion, under assets held for investment purposes, of three properties with a total book value of euro 24 million by Release, due to the acquisition, following the consensual termination, as full and final settlement, of two lease contracts with the Coppola group. Furthermore, a property, previously recorded in Release's discontinued operations as at December 2010 for a figure of euro 73.2 million, was reclassified under property and equipment as the conditions envisaged by IFRS 5 were no longer fulfilled.

It should also be noted that non-current assets held for sale as at 31 December 2011 include euro 108.5 million of property and equipment, euro 85.1 million of which refers to Banca Italease; this item is lower than the euro 152.2 million recorded as at 31 December 2010 due both to the cited transfer of property and equipment, and to the disposal transactions finalised in the year, mainly relating to Banca Italease and its subsidiaries.

Capital and solvency coefficients

The Group's consolidated shareholders' equity as at 31 December 2011, including valuation reserves and net income for the year, amounted to euro 9,037.4 million, compared to the figure at the end of 2010, of euro 11,527.5 million. The change observed in the period is mainly due to the share capital increase finalised in February, which led to the recognition of an increase of shareholders' equity, net of directly attributable costs, of euro 1,954.8 million, and to the full redemption of the financial instruments set forth in art. 12 of Italian Law Decree 185/08 (Tremonti Bonds) worth euro 1,450 million, plus the return due on the same amounting to euro 86.4 million. It should also be noted that shareholders' equity as at 31 December 2011 reflects the impact of the distribution of net income as at 31 December 2010 (of euro 52.9 million in dividends and euro 10.8 million in free disbursements) and includes total losses for the year pertaining to the Group of euro -2,842.2 million (of which euro -2,257.3 million as the loss for the year and euro -584.9 as a decrease in valuations reserves as at 31 December 2011).



Capital ratios

As at 31 December 2011, the Group's Core Tier 1 ratio was 7.1%, the Tier 1 ratio was 8.3% and the Total capital ratio was 11.7%. They also include the impact of operations in 2011 as a whole, both in terms of changes in capital components and in risk-weighted assets. As a result of the capital management operations concluded in the first half of the year (share capital increase and subsequent full redemption of the financial instruments set forth in art. 12 of Italian Law Decree 185/2008) and the positive impact of the merger of the Network Banks into Banco Popolare (with the exception of Credito Bergamasco), the Group's capital rations as at 31 December 2011 showed a marked improvement against the situation as at 31 December 2010.

In the light of the recommendation of the European Banking Authority (EBA), which required banks that had participated in stress testing, to ensure that the Core Tier 1 capital had reached 9% by 30 June 2012, Banco Popolare, through the Bank of Italy, sent a plan to the EBA that illustrates a series of further measures to increase the capital ratio in question. In brief, the target level will be achieved by:

- reducing the risk-weighted assets that are envisaged could result from the adoption of Advanced IRB models for market risk (the application for authorisation was sent to the Bank of Italy on 31 January 2012);
- reducing the risk-weighted assets that are envisaged could result from the adoption of Advanced IRB models for credit risk (the application for authorisation was sent to the Bank of Italy on 20 March 2012);
- reducing risk-weighted assets, which could be achieved by measures to "optimise" the weightings assigned to risk assets;
- generating internal capital in the first half of 2012.

The measures described, when implemented, would enable the group to achieve the target 9% within the deadline. In addition to said measures, as an extra buffer, Banco Popolare has asked if the Soft Mandatory bond issue can be included in the calculation of Core Tier 1 capital, without the same having to be converted into shares. To this end, the Board of Directors would be willing to undertake a binding resolution, on the basis of which the Board would undertake to convert the bond issue by the extent necessary to be able to restore the Core Tier 1 ratio, if the latter should fall below a threshold to be established.

The plan to strengthen capital submitted is subject to the authorisation of the EBA, whose approval is reliant on specific verifications and assessments conducted by national Supervisory Bodies.

Reconciliation between the Parent Company's shareholders' equity and consolidated net income (loss)

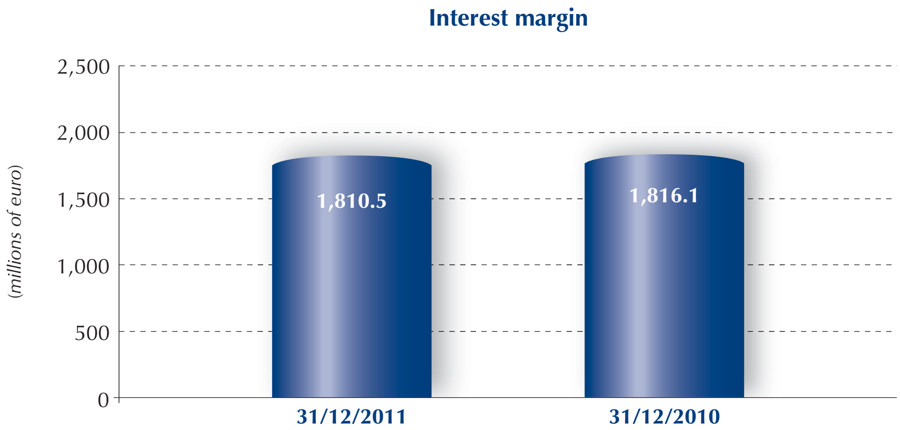
(in thousands of euro)	Shareholders' equity	Net income (loss)
Balance as at 31/12/2011 as per the Parent Company's financial statements	**7,755,998**	**(2,187,994)**
Impact of the consolidation of subsidiaries	964,516	277,043
Impact of the valuation at net equity of subsidiaries	61,244	(119,127)
Cancellation of the dividends received during the year by subsidiaries and associates	-	(227,265)
Cancellation of the impact of business combination transactions controlled jointly:		
- of which: disposals of business divisions	(157,348)	-
- of which: mergers	413,018	-
Balance as at 31/12/2011 as per the consolidated financial statements	**9,037,428**	**(2,257,343)**

Consolidated income statement figures

The trends in the main income statement items as at 31 December 2011 are illustrated below, compared with the figures for the previous year.
In particular, note that, in order to provide a like-for-like comparison, the figures relating to last year have been appropriately reclassified to reflect the retroactive effects of business divisions sold or being sold relating to investments held in Itaca Service, in Banco Popolare Hungary Zrt. and in its subsidiary BP Service Kft and in Bio Energy International S.A.

With regard to the investment held in Bormioli Rocco & Figlio, which was sold in 2011, note that no adjustment was needed to the balances of the reclassified income statement of the previous year insofar as the criteria used to prepare reclassified financial statements envisage that the revenues and expenses of investee companies relating to merchant banking activities, which in essence represent discontinued operations, such as Bormioli Rocco & Figlio, are recorded under "Income/(loss) after tax from merchant banking investments and from discontinued operations".
More specifically, the contribution to the income statement and the profit (loss) from the sale of the investments are shown under "Income (Loss) after tax from discontinued operations"; both as at 31 December 2011 and for the corresponding period of 2010.
The attachments to this annual financial report contain a statement of reconciliation between the reclassified income statement published and the same restated for comparative purposes.

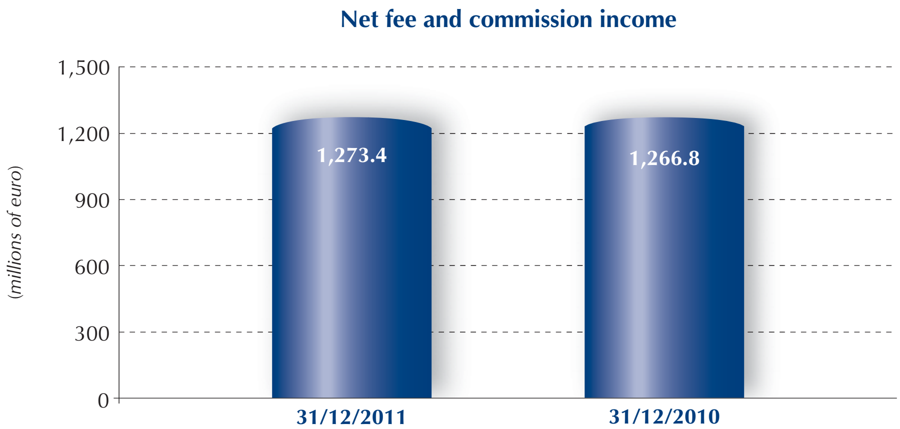
The **interest margin** was euro 1,810.5 million, down 0.3% compared to euro 1,816.1 million recorded in 2010, rendered comparable. The contribution of the fourth quarter (euro 457.9 million) was substantially unchanged compared to the figure of euro 461.3 million recorded in the third quarter, due to a "repricing" campaign conducted by the sales network, which offset the higher cost of funding.
Banco Popolare's contribution to the margin, without Italease, was euro 1,787.2 million, represented by the contribution of the companies of euro 1,869.3 million (euro 1,923.7 million last year), net of a PPA recovery of euro 82.1 million (euro 135.6 million last year). Therefore, in 2011, the lower contribution of the companies was offset by a lesser negative impact relating to the recovery of the PPA. As regards the various group companies, despite an unfavourable interest rate trend, the contribution of Network Banks and of other companies offset the higher cost of institutional funding, which, on the basis of market performance, discounted the Parent Company (the average spread rose from 110 b.p. in December 2010 to 150 b.p. at the end of 2011).
The Italease Group made a positive contribution of euro 23.3 million, which includes the contribution of euro 68 million of the companies belonging to the Banca Italease group (euro 104.2 million last year), net of the recoveries of the PPA of euro 44.8 million (euro 78.2 million last year), relating to the lower value assigned to the financial liabilities issued by Banca Italease as part of the business combination transaction. The lower margin is related to the decrease of the loans portfolio, also due to limited new loans: as illustrated in the paragraph commenting on the performance of loans relating to Banca Italease and its subsidiaries, gross performing loans recorded a fall of 25.7%.



Income (loss) from investments in associates carried at equity recorded a loss of euro -7.9 million and includes the portion of the results reported by the main associated companies which include euro 19.3 million from Agos-Ducato (euro 49.5 million in 2010), euro 1.5 million from Popolare Vita (euro -5.7 million in 2010), euro -1.9 million from Arca SGR (euro +1.7 million in 2010), euro -0.4 million from Renting Italease, euro -13.9 million from Avipop Assicurazioni (euro -17.5 million in 2010) and euro 0.7 million from Energreen (-3.9 million in 2010). Note also that the 2011 income statement includes the contribution of the associated company Alba Leasing of euro 13.3 million (euro -4.4 million in 2010), related to the pertinent portion of the result, adjusted to align the same with the Group's accounting principles, recorded by the investee as at 31 December 2011, based on the last approved financial statements.
The contribution of the companies carried at equity in 2010 was euro 38.6 million. The lesser contribution of this item to the 2011 consolidated income statements is mostly due to Agos-Ducato, which last year made a positive contribution of euro 49.5 million, as well as to the fact that no contribution was made by the Istituto Centrale delle Banche Popolari Italiane (which last year contributed euro 19.8 million), insofar as the latter is no longer subject to significant influence, following the partial disposal in the first half of 2011, as illustrated in the section regarding Significant events during the year in the Report.

Given the above performance, the **financial margin** was euro 1,802.6 million, and shows a fall of 2.8% compared to euro 1,854.7 million, which represents the comparable figure for 2010, and is mostly attributable to the lower contribution to the result of investments in associates carried at equity.

Net fee and commission income was euro 1,273.4 million and recorded a 0.5% rise against the euro 1,266.8 million recorded in 2010. Maintaining the level of fee and commission income in 2011 was achieved by an increase of loan brokerage activities (+10.3% increase in commission relating to loans granted and the holding of current and deposit accounts), and from commission on collection and payment services, which were able to offset the fall in management brokerage and advisory services.
More specifically, the significant increase in the number of current accounts and the innovation and development of payment services and of credit cards in particular, described in the section relating to "Group business activities" led to a rise in the amounts of commission paid for maintaining and managing current accounts and to those paid for collection and payment services.
Other fee and commission income showed a fall, due to the lower disbursements made by Banca Italease, as well as to lower commission on the merchant banking transactions of the former subsidiary Efibanca and Banco Popolare.



(in thousands of euro)	31/12/2011	31/12/2010	% Change A / B
Management, brokerage and advisory services	571,916	605,655	(5.6%)
Maintenance and management of current accounts and other loans of ordinary customers and loan arrangement commission (CDC)	468,953	425,005	10.3%
Collection and payment services	126,251	113,889	10.9%
Guarantees given	51,954	57,555	(9.7%)
Other services	54,355	64,732	(16.0%)
Total net fee and commission income	**1,273,429**	**1,266,836**	**0.5%**

The following table provides a breakdown of net management, brokerage and advisory commission.

(in thousands of euro)	31/12/2011	31/12/2010	% Change A / B
Portfolio management	149,755	153,420	(2.4%)
Distribution of third party services	264,966	298,476	(11.2%)
Placement of securities	74,747	76,509	(2.3%)
Custodian bank	11,918	14,761	(19.3%)
Acceptance of orders	56,947	48,376	17.7%
Financial instrument trading	8,780	11,863	(26.0%)
Currency trading	2,318	1,673	38.6%
Custody and safekeeping of securities	7,279	4,583	58.8%
Advisory activities	1,307	2,629	(50.3%)
Door-to-door sales of securities, products and services	(6,101)	(6,635)	(8.0%)
Total	**571,916**	**605,655**	**(5.6%)**

The fall in net fee and commission income from management, brokerage and advisory services (-5.6%) is related to the downtrend of asset management which, again in 2011, recorded lower net deposits, with substantial redemptions, both in terms of portfolio and funds management. This decrease is also attributable to the placement of life insurance products, where, given the expansion of policies placed through “Lawrence Life Assurance”, a significant fall in traditional segment I life policies was recorded. This situation reduced the volumes of commissions linked to portfolio management and to the distribution of third party services; as regards the latter, the consumer credit segment also made a negative contribution, as in 2011, new consumer credit fell 13% with respect to 2010, as did commission margins (due to falling interest rates).
Commission on the placement of third party securities was in line with the figure for 2010, due to participation in the sale of bonds issued by several institutional operators.

Other net operating income presented a positive balance of euro 43.4 million, compared to euro 57.9 million recorded for the same period of the previous year. Both of the periods compared benefit from the recognition of out-of-period income resulting from the collection of sums originating from settlements (euro 15.1 million in 2011 and 45.9 million in 2010). In particular, in 2011, income of euro 12.5 million resulted from the settlement with Union Bancaire Privèe, and euro 6.2 million from settlements with representatives of the former Banca Popolare Italiana, as well as the payment of charges relating to the settlement of Mercantile Leasing’s previous tax dispute. Net of these extraordinary components, the increase of the aggregate is mainly due to the income generated by properties under lease contracts that were repossessed under Banca Italease’s derisking exercise, totalling euro 52.3 million (euro 33.6 million in 2010). The item in question also includes the amortisation charges on intangible assets with a definite useful life recorded at the time of the “Purchase Price Allocation (PPA)” of the former Banca Popolare Italiana of euro -37.6 million (euro -40.1 million in 2010).

The **net financial result** was euro 697.3 million, compared to euro 539.5 million in 2010 (+29.2%). When comparing these results, it is worth noting the particularly significant impact on the same resulting from the valuation at fair value of liabilities issued consequent to the changes in the creditworthiness of Banco Popolare (“fair value option”). In 2011, the explosion of sovereign risk led to a generalised deterioration of the creditworthiness attributed to the entire banking system. In this context, the quotations of Banco Popolare’s credit default swaps grew significantly. The full application of that envisaged by international accounting standards resulted in the recognition of a positive impact on the income statement of euro 464.2 million before tax. A deterioration of creditworthiness has also been recorded in 2010, but the positive impact on the income statement was euro 395.5 million, again before tax. We also draw attention to the different quarterly results recorded in 2011: a negative impact of euro 114.6 million recorded in the first quarter was followed by a positive contribution of euro 153.3 million in the second quarter, of euro 367.4 million in the third quarter and lastly of euro 58.1 million in the fourth quarter.
Excluding the impact of the change in creditworthiness, the net financial result for 2011 was euro +233.1 million, compared to euro 144 million recorded in the previous year (+61.8%).

The components of the financial result are presented below:

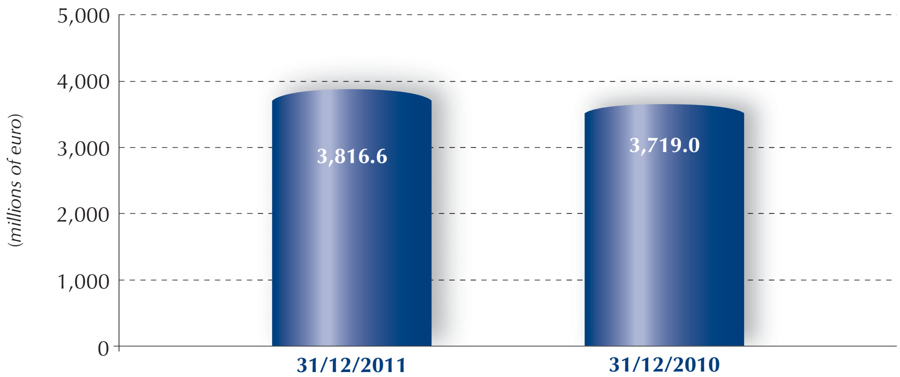
(in thousands of euro)	31/12/2011	31/12/2010	% change A / B
Financial liabilities designated at fair value through profit and loss and the result of the repurchase of other financial liabilities	584,234	449,186	30.1%
of which: creditworthiness	464,184	*395,497*	17.4%
Net result on trading and own portfolio	107,142	64,951	65.0%
Dividends and income (loss) on non-core shareholdings	10,432	14,107	(26.1%)
Fair value adjustments in hedge accounting	(4,538)	11,293	
Total	**697,270**	**539,537**	**29.2%**

As can be seen in the table above, the better result recorded in 2011 is due partially to the higher result of financial liabilities designated at fair value through profit and loss and the repurchase of other financial liabilities, which, net of the change in creditworthiness, was euro 120 million in 2011, compared to euro 53.7 million last year, and is linked to the profits from the repurchase of bond issues included under debt securities issued (euro 44.3 million) and to financial liabilities designated at fair value for the remainder. As regards the result of trading and own portfolio, it is worth bearing in mind that the losses of the Government bonds portfolio amounted to euro -88 million, compared to -155.9 million in 2010, while the remainder of the trading portfolio recorded a worse result in 2011 by around 20 million compared to 2010. It is worth noting that 2010 suffered the negative impact of the public exchange offer on Icelandic policies of around euro 14.5 million (an event that did not occur in 2011), in contrast, the UCIT units held in the portfolio of assets designated at fair value had made a positive contribution of euro 2.8 million, against a negative contribution in 2011 of euro -17.3 million; lastly, it should be noted that the result from trading includes write-downs for impairment losses on the Lehman securities held to maturity of euro 3.5 million in 2011, while in 2010, said impact was euro 9.9 million, and on debt securities issued by an Irish bank.
However, fair value adjustments in hedge accounting and dividends collected on shareholdings of less than 20% partially offset the positive net financial result of 2011 compared to 2010.

Other operating income (operating income other than from the financial margin) therefore amounted to euro 2,014.1 million, compared to 1,864.2 million in 2010.

Total **operating income** (financial margin + other operating income) therefore totalled euro 3,816.6 million, recording a 2.6% improvement on the figure of euro 3,719 million recorded as at 31 December 2010. Excluding the impact of the change in the creditworthiness of its financial liabilities (fair value option) from the results of both years, operating income amounts to euro 3,352.4 million and is substantially in line with the income generated in the corresponding period of the previous year, amounting to euro 3,323.5 million (+0.9%).

Operating income



Personnel expenses totalled euro 1,509.3 million, down with respect to the euro 1,540.9 million as at 31 December 2010 (-2.1%).
In both years, non-recurring charges were included in the income statement relating to leaving incentives and redundancy funds of euro 55.1 million in 2011 and euro 58 million in 2010 respectively. Personnel expenses relating to the companies in the Banca Italease group were euro 23.1 million (euro 33.1 million in 2010).

Other **administrative expenses** amounted to euro 747.9 million, compared to euro 759.8 million in 2010 (-1.6%).
If the contribution of the Banca Italease group of companies, amounting to euro 49.7 million (against euro 43.9 million last year), is excluded, this item would be euro 698.1 million, against euro 715.1 million in 2010 and therefore marking a decrease of around euro 17 million (-2.4%), relating to infragroup savings on VAT (27.4 million) following the merger by incorporation performed in 2011, net of the higher costs relating to the above-mentioned extraordinary transaction of around euro 14.4 million.

The increase of the costs relating to Banca Italease of around euro 5.8 million, compared to the 2010 figure, is due to higher charges for legal advice, used to settle the tax dispute underway at the time, as already illustrated in the section entitled “Significant events” during the year.

Net value adjustments on property and equipment and intangible assets totalled euro 149.4 million, compared to the figure of euro 148.1 million in 2010, and therefore substantially unchanged (+0.8%). If the component relating to the Banca Italease group of euro 26.1 million (euro 27.4 million in 2010) is excluded, this item amounts to euro 123.3 million, compared to euro 120.9 million in 2010, and therefore marking an increase of 2%. It is worth noting that this item includes charges for write-downs of properties recovered as part of credit collection activities by Banca Italease worth around euro 8.7 million and accelerated amortisation on IT procedures being replaced of Banco Popolare worth around euro 3.7 million. Without said charges, totalling euro 12.4 million, the figure for 2011 would have been euro 137 million, marking a decrease of euro 11.1 million compared to the figure for last year (-7.5%).

Total **operating expenses** therefore amounted to euro 2,406.6 million, down 1.7% on the figure for 2010 of euro 2,448.9 million. Excluding personnel expenses relating to leaving incentives and redundancy funds, the higher advisory fees, as well as those relating to the write-downs of properties and advance amortisation, the figures for 2011 and 2010 would have been euro 2,332.4 and 2,390.9 million respectively, marking an overall reduction of euro 58.5 million (-2.4%).

The **income (loss) from operations** therefore amounted to euro 1,410 million and was 11% higher than the euro 1,270.1 million recorded in 2010. Excluding the impact of the “fair value option” from both of the periods compared, the income (loss) from operations would have been euro 945.8 million, 8.2% higher than the figure for the corresponding period of the previous year of 874.6 million. If the non-recurring operating expenses mentioned previously are also excluded from income (loss) from operations, the latter would have been over euro 1 billion, with an increase of 9.5% compared to the corresponding figure of 2010.

Net adjustments on loans to customers were euro 759.4 million, compared to euro 771.1 million recorded in 2010. Excluding the adjustments made by the Banca Italease group of euro 74.9 million (euro 41.5 million last year), they total euro 684.5 million, compared to the figure for 2010 of euro 729.6 million. The cost of credit measured by the ratio of net value adjustments on loans to gross loans on an annual basis comes to 78 basis points, down on the figure recorded in 2010. The figure for the Group without the Banca Italease group companies was 75 b.p., while that relating to the latter was 82 b.p.

The **net adjustments on receivables due from banks and other assets** totalled euro 92.4 million (96.2 million as at 31 December 2010), with Banca Italease’s contribution amounting to +0.1 million (+0.8 million last year). This item includes the full recognition of the losses resulting from the alignment to market quotations at 31 December 2011 of the entire amount of Greek Government securities held in the financial assets available for sale portfolio, totalling euro 25.4 million, the write-downs of the Risanamento security of euro 5.5 million (euro 22.6 million last year following the measures taken to cover losses), the fees for subscription to the interbank deposit guarantee fund of euro 3 million, recoveries from the assignment of receivables due from Icelandic and Danish banks of euro 3.1 million (in 2010, said banks were written down by a total of euro 12.7 million), as well as from the impairment of other securities included in the portfolio of financial assets available for sale, for a residual amount of euro 61.7 million (euro 61.8 million in 2010).

Net allocations to provisions for risks and charges amounted to euro 64.1 million, euro 57.6 of which is Italease’s contribution; in the previous year, net allocation of euro 236.3 million were made, euro 219.8 of which referred to Italease; the latter included the provision for the full amount required to settle almost all of the outstanding tax disputes of Banca Italease and of its subsidiaries (euro 208.8 million). Excluding the amount relating to Banca Italease, the net allocation in 2011 relating to the Group, of euro 6.5 million, includes euro 4.6 million in costs relating to the closure of several branches envisaged in 2012, as illustrated in the section on “Significant events during the year” in this report; the portion relating to Italease, instead regards allocations to cover legal disputes that are not tax related.

Value adjustments on goodwill and investments in associates amounted to euro 1.3 million, compared to euro 1.1 million recorded last year and refer to adjustments made to investments in associates valued under equity. The figure relating to 2011 refers to the write-down of the investments held in the associated companies Estates Capital Venture (0.8 million) and Health Finance (0.4 million).

Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments recorded a positive balance of euro 67.9 million, euro 14.5 million of which refer to the contribution of Italease. In 2010, gains had amounted to euro 12.7 million, of which euro 6.7 million referred to Italease. Profits on disposal of investments in associates and companies subject to joint control in 2011 amounted to euro 51.1 million, and are mainly due to the partial sale of the interest held in the Istituto Centrale Banche Popolari Italiane (euro 47.2 million) and to the sale of the Pantex investment (euro 2.4 million). The remaining profits instead refer to the gains made on the sale of property and equipment and in particular, note gains, net of losses, made by Banca Italease of euro 12.8 million most of which resulted from the sale of properties acquired following the termination of lease contracts and the simultaneous repossession of the leased asset.

Income (loss) before tax from continuing operations amounted to euro 560.9 million, compared to euro 178 million in 2010. Without the negative contribution of Italease of euro -179.6 million (euro -300 million last year), the income (loss) from continuing operations would have been euro 740.5 million, compared to euro 475.5 million in 2010. If the impact of the change in the creditworthiness of the Group's liabilities designated at fair value (fair value option) is also excluded, without Italease's contribution, the figure would have been euro 276.3 million, compared to euro 80 million in 2010.

Income/(loss) after tax from discontinued operations recorded a positive balance of euro 16 million, euro 14.6 million net of Italease's contribution; this item includes the contributions of the Bormioli Group (euro 12.5 million) and from Banco Popolare Česká Republika (euro 10 million), following the disposals made during the year, net of losses relating to disposals of investments in merchant banking activities. The profit recorded by Italease of euro 1.4 million, refers instead to the disposal of the investment in Itaca Service. In the previous year, discontinued operations had provided a positive contribution of euro 38.3 million, which included the impact resulting from the disposal of Banca Caripe of euro 23.6 million.

Taxes on income from continuing operations generated a positive balance of euro 16.7 million, against the positive figure, rendered comparable, of euro 115.2 million in 2010. Net of the tax relief relating to the companies of the Banca Italease group of euro +46.2 million (euro +361.9 million last year), taxes recorded a tax burden of euro -29.5 million. The latter figure benefits from the positive impact resulting from the exemption of the goodwill included in the value of the investments recorded under balance sheet assets; this is provided for by Italian Law Decree 185/2008, and totalled euro 203 million, resulting from the recognition of prepaid taxes of euro 395 million, net of substitute tax paid of euro 192 million. Furthermore, again based on an option provided for by Italian Law Decree 185/2008, the tax benefit resulting from the exemption of intangible assets (trademarks, customer relationships, and goodwill) recorded in the separate financial statements of the Parent Company following the merger of the Network Banks on 27 December 2011, to the extent of the higher values recorded in the consolidated financial statements. The benefit was calculated on the intangible assets recorded in the balance sheet, net of the write-downs made following annual impairment testing, and amounted to euro 104.7 million, resulting from the recognition of prepaid taxes of euro 202.9 million, net of the tax to be paid in 2012 of euro 98.2 million. Without said benefits, which total euro 307.7 million, the tax burden for the year was euro 337.2 million.
It is worth recalling that in 2010, euro 285.8 million of Italease's tax relief regarded the recognition of prepaid tax credit relating to previous years, whose recoverability was made possible by the extension of Banca Popolare's scope of "tax consolidation" to Banca Italease and to the companies controlled by the same.

Considering the portion of the result pertaining to minority interests, totalling euro -19.5 million (euro -23.5 million in 2010), **the net income for the period before the impairment of goodwill relating to the BPVN BPI business combination** was euro 574.1 million, against net income of euro 308 million in 2010. Italease and its subsidiaries made a negative contribution of euro -126.5 million (euro +52.5 million in 2010, following the tax relief of euro 285.8 million cited above). The net income of Banco Popolare alone therefore amounted to euro 700.7 million (euro 255.5 million last year); net of the tax benefits of the exemptions, the net income in question was euro 393 million, up around 54% on the figure for last year.

The impairment of goodwill relating to the BPVN BPI business combination amounted to euro 2,831.5 million, and includes the write-down of the value of the investments in Agos – Ducato of euro 332.3 million, in Finoa of euro 10.1 million, and the value adjustments relating to the goodwill allocated to the "Network Banks" CGU of euro 2,660.5 million, to the "Asset Management" CGU of euro 16.8 million, to the investee companies Popolare Vita of euro 77.2 million, Avipo Assicurazioni of euro 6.1 million and lastly to BRF Property of 9 million. The relative prepaid and deferred taxes were adjusted in line with said write-downs, which total euro 3,111.9 million, resulting in a positive contribution to the income statement of euro 277.3 million, plus the allocation of the adjustments pertaining to minority shareholders of euro 3.1 million.

After the adjustments made to goodwill as described above, the **net loss** for the period amounted to euro 2,257.3 million.

Ratings and share performance

Group ratings

In 2011, changes were made to the ratings of Banco Popolare and to those of several Group subsidiaries, essentially relating to changes to Italy's ratings, as described in more detail below.

On 16 June 2011, **Fitch Ratings** changed its long-term rating of Banco Popolare from 'A-' (with a negative outlook) to 'BBB+' (with a stable outlook). The short-term rating was confirmed as 'F2'. Subsequently, on 11 October 2011, following the downgrade of Italy's long-term rating to 'A+' with a negative outlook by Fitch Ratings on 7 October 2011, the latter confirmed Banco Popolare's long and short term ratings as 'BBB+' and 'F2', but changing the long term outlook from 'stable' to 'negative'. As the same time, Banco Popolare's Individual Rating was confirmed as 'C'. Lastly, on 20 December 2011, as a direct consequence of having placed Italy's ratings (A+/F1) on negative Rating Watch on 16 December 2011, Fitch Ratings placed the long and short term ratings of Banco Popolare (BBB+/F2) on negative Rating Watch.

On 5 October 2011, **Moody's Investors Service**, after having downgraded Italy's rating to 'A2' with a negative outlook and after having reduced the level of systemic support envisaged for the national banking system on 4 October 2011, changed its long term rating for Banco Popolare from 'A2' (under 'Review for possible Downgrade' from 23 June 2011) to 'Baa2' (with a negative outlook). At the same time, the short-term rating was changed from 'P-1' (also under 'Review for possible Downgrade') to 'P-2'.

On 18 October 2011, **Standard & Poor's**, following the downgrade of Italy's rating to 'A' with a negative outlook on 19 September 2011, and based on the opinion of the same rating agency regarding the recent deterioration of the national economic scenario, downgraded Banco Popolare's long term rating (as well as those of the subsidiaries Credito Bergamasco and Banca Aletti) from 'A-' to 'BBB'. At the same time, the outlook of said ratings was changed from 'negative' to 'stable', while the short-term rating was confirmed as 'A-2'. Lastly, on 7 December 2011, after having placed Italy's ratings (A/A-1) on negative Credit Watch on 5 December 2011, Standard & Poor's placed the long and short term ratings of Banco Popolare (BBB/A-2) and those of the subsidiaries Credito Bergamasco and Banca Aletti, on negative Credit Watch.

The table below compares the Group's ratings as at 31 December 2011 with those as at 31 December 2010.

Rating company	Type of rating	Rating as at 31/12/2011	Rating as at 31/12/2010
Fitch Ratings	Long term (IDR)	BBB+ (Negative rating watch)	A- (Negative outlook)
	Short term (IDR)	F2 (Negative rating watch)	F2
Moody's	Long term	Baa2 (Negative outlook)	A2 (Negative outlook)
	Short term	P-2	P-1
S&P	Long term	BBB (Negative credit watch)	A- (Negative outlook)
	Short term	A-2 (Negative credit watch)	A-2

The following table summarises the end of year ratings of the Banco Popolare Group and those required for its main subsidiaries, including ratings other than those for short and long-term debt.

		Banco Popolare	Credito Bergamasco	Banca Aletti	Banca Italease
Fitch Ratings	Long term (IDR)	BBB+ (Negative rating watch)			BBB+ (Negative rating watch)
	Short term (IDR)	F2 (Negative rating watch)			F2 (Negative rating watch)
	Individual	C			(*)
	Support	2			2
Moody's	Long term	Baa2 (Negative outlook)			Baa3 (Negative outlook)
	Short term	P-2			P-3
	Financial Strength	D+			E+
S&P	Long term	BBB (Negative credit watch)	BBB (Negative credit watch)	BBB (Negative credit watch)	
	Short term	A-2 (Negative credit watch)	A-2 (Negative credit watch)	A-2 (Negative credit watch)	

The required ratings of Group companies that have debt issues are indicated.
Long term ratings refer to senior debt.
(*) The individual rating of Banca Italease was confirmed as "E". On 7 May 2010, the same was withdrawn by Fitch Ratings following the completion of the integration of Banca Italease into the Banco Popolare Group.

In 2011, the Group maintained continuous dialogue with all three rating agencies. In particular, annual due diligence meetings were organised with each of the same, during which the financial profile, risk profile and strategy of the Banco Popolare Group were examined in depth.

Subsequently, at the end of 2011, and on 6 February 2012 to be precise, Fitch Ratings, as a direct consequence of the downgrade of Italy's ratings from "A+/F1" to "A-/F2" on 27 January 2012, changed Banco Popolare's long term rating from "BBB+", on Rating Watch with negative implications, to "BBB", with a stable outlook. At the same time, the short-term rating was changed from "F2" to "F3". It should also be noted that on 25 January 2012, the Individual Rating of "C" assigned to Banco Popolare by Fitch Ratings was withdrawn and replaced with a Viability Rating, assigned for the first time on 20 July 2011 and also changed on 6 February from "bbb+" to "bbb".
Furthermore, on 10 February 2012, as a direct consequence of the downgrade of Italy's rating from "A/A-1" to "BBB+/A-2" on 13 January 2012 and of the revision of Italy's "Banking Industry Country Risk Assessment" (BICRA) from category "3" to category "4", Standard & Poor's changed Banco Popolare's long and short term ratings, as well as those of Credito Bergamasco and Banca Aletti from "BBB/A-2", on negative Credit Watch, to "BBB-/A-3". The ratings have been given a negative outlook, in line with the outlook given to Italy.

Lastly, on 15 February 2012, as part of an intervention on European banks, following the downgrade of Italy's ratings from "A2/P-1" to "A3/P-2" on 13 February 2012, Moody's Investors Service, placed Banco Popolare's long and short term ratings (Baa2/P-2), as well as the Standalone credit assessment (BFSR Indicator "D+") under review for a possible downgrade.

Banco Popolare stock

Banco Popolare's stock is listed on Borsa Italiana; trading started on 2 July 2007 following the merger of the BPVN Group and the BPI Group.

The table below summarises the weight of Banco Popolare in several of the main Italian and European indices, where the stock is listed, in January 2012.

Index	% weight
FTSE Italy All-Share	0.703
FTSE Italy All-Share Banks	3.850
DJ Euro Stoxx	0.986
Stoxx Europe 600 Banks	0.293

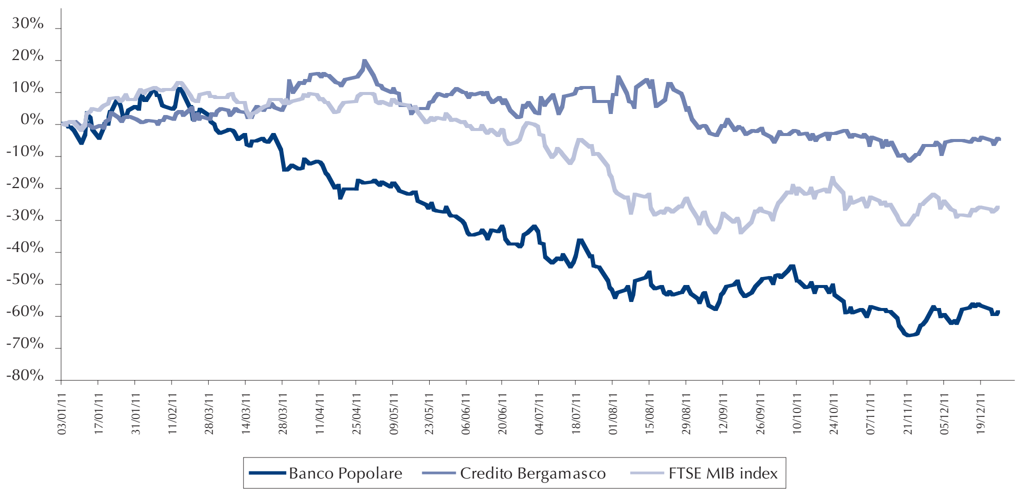
NB: Figures are updated to 16 January 2012 (source: Bloomberg)

Share price performance in 2011 was particularly negative in all European stock markets, due both to the worsening of the economic crisis, and to the dizzying escalation of sovereign risk following growing fears that Greece's default could spread to the so-called peripheral countries (including Italy, given its high deficit/GDP ratio). The FTSE Italy all-shares index (an index representing all of the stock listed on the Italian stock market) closed 2011 with a loss of -25%, dragged down by banking securities, which suffered considerable repercussions from the crisis that hit Italian public debt securities. In fact, the FTSE Italia Banks index closed 2011 with a loss of -46%.

Banco Popolare stock closed 2011 with a loss of -59%. The underperformance with respect to the sector index is mainly due to the share capital increase of euro 2 billion that the Group successfully completed in the year, whose option period started on 17 January 2011 and ended on 11 February 2011.
The stock touched a record high during the year on 18 February 2011 of 2.77, and then gradually fell (consistent with the rest of the banking sector) during 2011, to reach a record low on 25 November 2011 of 0.794, at the same time as the spread of the 10-year Italian BTP reached its maximum.
The price of the stock then rose to euro 1 in early December, and remained there until the end of 2011.

The following graph shows the performance of Banco Popolare shares and of those of Credito Bergamasco (77% of which is controlled by Banco Popolare, and whose shares are also listed on the stock exchange) compared with the performance of the FTSE MIB index (which represents the 40 major Italian shares).

Share performance of Banco Popolare and Credito Bergamasco and comparison with the FTSE MIB index on a 100 basis (03/01/2011 – 30/12/2011)



It should also be noted that on 17 January 2011, an adjustment factor of 0.72498606 was applied to Banco Popolare stock, following the detachment of rights to subscribe the share capital increase of euro 2 billion announced on 24 October 2010. The last day of trading of rights was 4 February 2011.
Shares issued as at 16 January 2012 numbered 1,763,730,165 (of which 1,122,980,404 issued under the share capital increase). The capitalisation of the stock corresponded to around euro 1.6 billion (closing prices on 13 January 2012).

RISK MANAGEMENT

Generic risks

Main risks and uncertainties facing the Group

The following paragraphs illustrate the main types of risk the Group is exposed to when conducting its traditional business activities.

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) does not fulfil his obligations or that the creditworthiness of the same deteriorates. Concentration risk is very closely connected to credit risk, even to the extent of being considered a component of the same. Concentration 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 assessment of the amount of possible losses that could be incurred with regard to a single credit exposure or to the total loan portfolio depends upon many factors including the general economic scenario, or the economic situation of specific production sectors, a change in the rating of individual counterparties, structural and technological changes within borrowing companies, a deterioration of the competitive position of counterparties, the possible mismanagement of businesses or of the borrowing counterparties, the growing indebtedness of retail customers and other external factors, such as legal and regulatory requirements.
The lending policy adopted by the Group concentrates, in particular, on containing risk through careful credit analysis during the approval stage, geographical and sector diversification of loans, obtaining guarantees, where necessary, to secure the approved loan and close monitoring of the evolution of the credit relationship. In general, the Group's lending transactions mostly take place in areas characterized by a diversified business structure, therefore loan portfolio risk is spread across various business sectors. The Group also continuously monitors its loan portfolio, analysing the trends of risk profiles, lines of credit, and utilization by economic sector, region, customer segment and type of loan.
To better manage credit risk, the Group uses ratings, developed internally, in Credit processes (granting/renewal of a loan, approval powers, credit monitoring and management), in commercial policies (pricing, incentive system and loan catalogue) and in risk governance (measurement and management control of risks and risk management reporting).
One of the Group's key priorities is to have internal rules and regulations that clearly define the corporate functions/units in charge of managing risk determinants and the procedures to be adopted to monitor and contain risk within preset levels in line with assigned objectives.
As regards guarantees, the Group manages the residual risk associated with the possibility that generally accepted techniques to mitigate credit risk used by banks may be less effective than expected. Internal regulations have been developed to handle this risk, which govern the processes of acquisition, finalization and management of guarantees in a standardised way throughout the entire Group.
The Banco Popolare Group concentrates in particular on assessing the creditworthiness of banks and institutional counterparties (investment banks and financial companies), especially with regard to financial transactions (trading of derivatives and money market instruments, lending, investments in bonds).
The key principles underlying the management of risk originated by these counterparties are as follows:

- centralisation of the lending process in the Parent Company;
- internal system for the assignment and periodic review of ratings (in addition to those issued by international agencies);
- systems that measure and control credit exposure and compliance with ceilings on a daily basis;
- minimisation of the risk generated by OTC derivative contracts by making extensive use of mechanisms for the issue of collateral (Credit Support Annex agreements with all main counterparties).

Market risk: regards the possibility 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 adverse changes in market conditions, in particular interest rates, share prices, exchange rates, and the associated volatilities (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. In the latter case, the same can also be referred to as the Market risk of the banking book regarding the possible impairment of financial instruments, mostly bonds and not trading related (classified as Available for Sale, Held to Maturity, Carry Fair Value and Loans & Receivables) and relative hedging, in relation to market volatility or to the situation of single issuers, as the Interest rate risk of the banking book, meaning the possibility of losses caused by potential changes in interest rates, in the presence of an unbalanced structure of assets and liabilities in terms of the maturities of the same, duration and the level of coverage of risks, and the Equity instrument risk of the banking book, meaning the possibility of a fall in the fair value of equity instruments in the banking book in relation to market volatility or to the situation of single issuers.
As regards the trading books, the market risk stemming from the commercial activities performed by Group banks are systematically transferred to the subsidiary Banca Aletti. The risk exposures of the Parent Company are associated to investment portfolios (the residual exposures of commercial banks are marginal). The two main risk factors are the interest rate, associated with bond portfolios, the majority of which have a floating interest rate or are hedged by asset swap structures and have a very limited duration, plus the credit spread risk associated mainly with positions in Italian government bonds. The main market

risks of Banca Aletti are associated with exposure to changes in interest rates and share prices, as part of trading in the cash and derivatives market. The exposure to exchange rate risk is marginal.
Market risk is measured by specific estimation models, and by a control process that entails the use of specific risk limits - established for each Group bank and assigned to the function involved in the management of the same - and the use of adequate verification procedures.
Consistent with the level of financial innovation in the market, particularly in the area of derivative instruments, the Group seeks to continuously develop methods and systems to assess financial instruments and to estimate the relative risks, especially as regards the more complex instruments and their relative market parameters.
The Group has also adopted a system of prudential limits for the interest rate risk associated with banking books, differentiated for individual banking companies, as well as for the group's aggregate, approved by the competent management bodies, with the aim of containing the impact of sudden rises or falls in market interest rates on the interest margin and on the value of equity within certain limits.

Liquidity risk: is represented by a possible situation of instability caused by a negative mismatch between incoming and outgoing cash flows, which can occur in particular in the short term, if not adequately covered by liquidity reserves represented particularly by available for sale securities and eligible for refinancing with the European Central Bank. Special attention is paid to the management of this risk, which is most likely to materialize in the presence of exceptional events, such as market liquidity crunches, and may result in the banks being unable to fulfil payment obligations. This risk is managed and mitigated by diversifying sources of funding and increasing the reserves of securities eligible for refinancing to counter unexpected cash outflows. Right from its incorporation , the Group has adopted a set of limits, both for the so-called operating or treasury liquidity, and for the structural liquidity generated within the banking book, which is constantly monitored and fine-tuned. Furthermore a Liquidity Policy is in place, accompanied by a specific Liquidity Contingency Plan, the aim of which is to guarantee timely and efficient management in the event or a liquidity crisis or stress. In particular, the Plan envisage specific early warning indicators that can forewarn of liquidity stress conditions associated with market crises or Group-specific crises; these indicators are monitored and controlled on a daily basis.

Operational risk: is the risk of incurring losses as a result of the inadequacy or the malfunctioning of company procedures, of mistakes or shortcomings of human resources and internal systems, or external events. It also includes legal risk, but not strategic or reputational risks. The main sources of operational risk include: the instability of operational processes, insecure information systems, a growing use of automation, the outsourcing of corporate functions, the use of a small number of suppliers, operational changes, fraud, mistakes, personnel recruitment, training and retention, and lastly social and environmental impacts. It is not possible to identify a prevailing source of operational risk as said risk is inherent in all business processes and activities. This has led the Group to implement widespread risk mitigation and management measures, in particular by transferring the risk by way of insurance instruments and/or outsourcing, by constantly improving process efficiency (control enhancement and re-engineering) and by checking that the latter are compliant with regulations.

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.

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.

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 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 management and control of compliance risk, please refer to the specific paragraph in this report.

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.

Risk-taking, management and hedging objectives and policies

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 (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 very severe situations of stress (so-called stress capital).
In line with its propensity to risk, the Group and its subsidiaries pursue the following objectives:

- stable growth that is sustainable over time, namely characterised by a limited variability of results and of company value;
- creation of added value for shareholders as regards financial investments with comparable risk-return profiles;
- high credit risk distribution, in line with the objective of mainly lending to small and medium enterprises and retail customers;
- exposure to structural interest rate risk at a level roughly in line with industry best practice;
- market risk-taking strictly in relation to commercial requirements;
- exclusion of risks that are unrelated to core activities and an accurate assessment of initiatives that entail new types of risk;
- development of increasingly accurate and complete risk monitoring methods, also with a view to the validation of internal models for supervisory purposes;
- an active approach to the management of corporate risk, by using the most advanced hedging and mitigation techniques;
- growing transparency of risk exposure as regards the market.

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 financial solidity and reputation against undesired events.
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 risk management, control and hedging process operates at different levels of the organisational structure.
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.
As regards preparatory and advisory activities relating to the internal control and monitoring of corporate risks, the Board of Directors has the support of the Committee for Internal Control and Risks, set up within the same.
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.
The Board of Directors of subsidiary companies, on the basis of Group guidelines, establish management and operational

procedures for their company risks.
Risk Management policy is developed through the Group Risk Committee and the Finance and ALM Committee of the Parent Company. An important role is played by the Risk Management Service and by the Group Audit Service, that are part of the Parent Company's Governance structure.
In particular, 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 Finance and ALM Committee meets periodically and oversees market and liquidity risk management measures, defining the Group's funding policies.

Assessment of capital adequacy

Each quarter, the Group assesses its own capital adequacy with relation to a set of wider risks that those envisaged by First Pillar regulations, in ordinary conditions and conditions of stress.
This assessment is carried out using, for the most part, management-type risk measurement tools, primarily based on statistical-quantitative methodologies relating more specifically to the VaR (Value at Risk) technique.
The results of these tests are illustrated in a specific report submitted to the management bodies and to the competent corporate functions of the Parent Company, in a specific structured document (*Risks – Report on the Banco Popolare Group's exposure to risk*).
The same techniques are used, both for current analyses and for forecasts, to produce the ICAAP (Internal Capital Assessment Process) Report, sent annually to the Bank of Italy.
This document, submitted to the approval of the Board of Directors, contains an assessment of capital adequacy at consolidated level and for the main companies of the Group, as a well as an analysis and assessment of the organisational systems in place, namely the assessment, for each risk, of the organisational structures set in place, the supporting IT systems, internal regulations, controls, reporting etc. aimed to control and mitigate said risks.
The report also contains a formal map of important risks, a description of the measurement models used to integrate quantifiable risk, as well as the techniques underlying the stress tests conducted to assess vulnerability to exceptional, but plausible, events.

The governance of risks via the system of limits

The undertaking of corporate risks is specifically disciplined by the system of risk limits or ceilings.
With the exception of liquidity risk, 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.
Two categories of limits are envisaged:

- an overall Group risk limit, defined with reference to the overall exposure to corporate risks;
- specific limits, envisaged for the main Group risks (credit, counterparty, market, operating, interest rate on the banking portfolio).

The specific limits are structured into detailed sub-limits which refer, according to the case in question, to the individual Group banks, to portfolios (retail and corporate) and to the areas of operations (human resources, systems and procedures). 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 liquidity risk, the exposure limits are defined by means of the maturity ladder tool, where the future cash flows generated by the expiry of financial and loan brokerage transactions are placed within the corresponding time brackets, measuring the liquidity imbalances and ensuring sustainability, via adequate liquidity reserves (*in primis* securities available and eligible for refinancing with the European Central Bank), even in possible situations of tension.

Market disclosures

Since April 2009, the public disclosure document has been published annually on the Parent Company's website, in compliance with the Third Pillar of Basel 2, containing qualitative and quantitative information relating to the Group's capital adequacy, its exposure to risk, as well as the general characteristics of the systems set in place to identify, measure, manage and control risk.

For further information on the risk management and control system, please refer to part E of the Notes to the financial statements.

Other risk factors

This paragraph describes the risk factors and/or critical situations, both general and specific, relating to Banco Popolare and the Group it controls.

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 0.50% of the share capital, except for UCITS, that 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.

Risks associated with pending legal proceedings

The Banco Popolare Group is involved in numerous legal proceedings associated with the natural unfolding of the business activities. The main risk positions are detailed below.

Area S.p.A. dispute
In July and September 2009, Banco Popolare and the former Banca Popolare di Lodi S.p.A., along with a further three parties, were summoned, by means of separate action brought by two separate groups of former minority shareholders of Area S.p.A..
In the first proceedings, 42 plaintiffs requested that the defendants be ordered to pay compensation of euro 13.15 million, on the assumption of an alleged agreement between Banca Popolare di Lodi 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 Banca Popolare di Lodi S.p.A. and Mr. 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 illustrated in the previous legal proceedings.
On 20 January 2010, Banca Intesa S.Paolo summoned BPL and Mr. Fiorani in the proceedings filed by small shareholders of Area S.p.A. regarding the same subject as those cited above to extend the sentence to the Bank.
Based on the opinion of external legal experts, Banco Popolare believes that that there is only a remote risk of losing.

Antonio Aiello and CGI – Compagnia di Gestione e Iniziative S.r.l. dispute
On 31 October 2008, the former Banca Popolare di Lodi S.p.A. was served a summons to appear before the Court of Rome, upon the initiative of Mr. Antonio Aiello and the company CGI – Compagnia di Gestione e Iniziative S.r.l. for the compensation of damages (euro 10 million) which are alleged to have been suffered by the plaintiffs by the conduct of the Bank in 2005 – 2007, in relation to unfounded accusations, also widely covered by the press, against Mr. Aiello.
In a ruling dated 25 August 2010, the Court of Rome stated territorial lack of jurisdiction, referring the case to the Court of Lodi. Furthermore, the counterparty was ordered to pay legal expenses.
On 4 March 2011, the proceedings resumed before the Court of Lodi. Based on the opinion of external legal experts, Banco Popolare believes that that there is only a remote risk of losing.

Dispute with Parmalat, in Extraordinary Receivership, against Gian Paolo Zini – BPI summoned as third party
By means of summons dated 21 July 2004, Parmalat Finanziaria S.p.A. and Parmalat S.p.A. brought legal proceedings against the lawyer Gian Paolo Zini and Messrs. Calisto Tanzi, Stefano Tanzi, Luciano Del Soldato, Giovanni Tanzi, Giovanni Bonici, Gianfranco Bocchi, Claudio Pessina, Franco Gorreri and Fausto Tonna.
With regard to all the defendants, Parmalat Finanziaria and Parmalat brought action for the compensation of damages, claiming that they were responsible for Parmalat's difficulties. This led to the request for damages of euro 2.63 billion by Parmalat and euro 9.273 billion by Parmalat Finanziaria. During the legal proceedings, the undertaker of the creditor agreements reached (the new Parmalat S.p.A.) also brought legal action.
By means of third party summons, the lawyer Mr. Zini called a series of parties before the court, including the then BPI, on the basis of joint and several liability.
On 4 January 2005, the then BPI appeared before the court requesting that inadmissibility of the third party summons, due to the lack of the legal requirements and/or due to lack of standing to be sued with regard to the same. BPI, in this connection, then requested the rejection of all the adversary claims in that they were groundless with regard to fact and law.
In September 2006, the Bench declared the suspension of the civil proceedings in question until the criminal proceedings filed by Parmalat against several defendants, including Mr. Zini, were concluded.
In a ruling filed on 17 October 2011, on conclusion of the above-cited criminal proceedings, the Supreme Court substantially confirmed the ruling of the Court of Appeal of Bologna, which had sentenced Mr. Zini to imprisonment of six years and 2 months.

The Civil proceedings were therefore resumed by the official assignee of the Parmalat receivership against Mr. Zini: in these proceedings, Banco, on a third party summons, has to appear before the court to support the rejection of Mr. Zini's application for exemption from responsibility.
Based on the opinion of external legal experts, Banco Popolare believes that that there is only a remote risk of losing.

Exposure vis-à-vis the Delta Group
In May 2009, Delta S.p.A., parent holding company of the Delta Group, involved in consumer credit, and Sedici Banca S.p.A. (bank belonging to the Delta Group) were subject by the Bank of Italy to temporary management in relation to the serious irregularities which emerged from operations.
The two banks were subsequently placed under extraordinary receivership; the Bank of Italy appointed three administrators (Prof. Bruno Inzitari, Mr. Enzo Ortolan and Mr. Antonio Taverna), while Cassa di Risparmio di San Marino (CRSM), Delta's Parent Company, in turn appointed Messrs. Lusignani and Lamandini and KPMG as its advisors.

A number of different business plans and recovery plans were submitted during negotiations, following which, a new plan was proposed to the banks which envisaged recourse to Article 182 bis of the Italian Bankruptcy Law, presented to the Bank of Italy on 23 March 2010.

The plan and the restructuring agreement under art. 182 bis of the Italian Bankruptcy Law, mainly envisage: (i) the full payment of all non-participating creditors; (ii) payment of participating creditors (the banking system) by means of the net collections of the receivables of the financial companies (Carifin, Plusvalore and Detto Factor); (iii) the transfer to ISP of part of the accounts held by Sedici Banca (following the spin-off of Sedici Banca and the cancellation of the same's debt exposure to CRSM) and Bentos Assicurazioni; (iv) the settlement of the receivables of the banks stemming from loans under art. 2447-decies of the Italian Civil Code (including those of the subsidiary Efibanca), by means of the collection of the receivables representing the separate capital, which, according to the plan would enable full payment to be made, and subsequently to use the collections to settle the loan, and pay the other creditors; (v) the establishment of a Newco, for which the participation of the main banks, including Banco Popolare, is required, in order to oversee the receivables collection process, that Newco would perform on the assignment of Carifin, Plusvalore and Detto Factor, assigning, in turn, the task of collecting non-performing receivables to Tarida S.p.A. (a dedicated Delta Group company) and that of managing the collection of performing receivables to River Holding (another wholly-owned subsidiary of Delta).

On 3 May 2011, Banco Popolare's Board of Directors resolved to approve the plan. The restructuring plan was validated by decree of the Court of Bologna and filed in November 2011. Following a challenge to said validation, submitted to the Court of Appeal of Bologna, Delta's Extraordinary Administrators declared that they had reached a settlement agreement in February 2012, which led to the irrevocable waiver of the cited claim filed on appeal. This approach was taken in order to avoid the delay in the implementation of the Agreement, which had already been reached and validated, enabling the final ruling on the validation to be reached more rapidly. At present, the Delta Group position is classified under loans being restructured.

As at 31 December 2011, the Banco Popolare Group was exposed to the Delta Group for a total of euro 118 million. Within the sphere of these uses, the following are of note:
- two loans under art. 2447-decies of the Italian Civil Code of euro 21 million;
- a credit facility in favour of the group parent Delta of euro 40 million.

Raffaele Viscardi S.r.l.
The law suit, which presents a *petitum* of around euro 46 million, concerns the operations of the Salerno branch the granting of agricultural loans to the plaintiff company. In particular, the plaintiff alleges that it was led to subscribe Banco bonds to guarantee the sums disbursed under the loan and claims damages due to reporting in the Italian Central Credit Register, an event which caused a false representation of the company's real conditions.
The law suit, filed on 30 April 2009, is at the pre-trial stage.
Based on the opinion of external legal experts, Banco Popolare believes that that there is only a remote risk of losing.

Conca Massimo
On 30 January 2007, Mr. Conca filed legal action contesting claims made by then Banca Popolare di Lodi against him, amounting to euro 27.5 million.
In a ruling dated 7 January 2011, the Court of Lodi approved the counter claim made by the Bank, ordering Mr. Conca to pay the sum of euro 25,813,049.54 plus interest and expenses, also confirming the ruling-injunction under art. 186 bis of the Italian Code of Civil Procedure, ordering Mr. Conca to pay a further amount of euro 2 million, plus interest.
On 22 February 2011, Mr. Conca challenged the ruling of the court of first instance before the Court of Appeal of Milan. The proceedings have been postponed to 1 April 2014, when conclusions will be drawn.
Based on the opinion of external legal experts, Banco Popolare believes that that there is only a remote risk of losing.

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.
In 1998, 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.
Whilst awaiting the first instance of the civil proceedings, 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.
The Bank won the civil proceedings in the first instance in 2009 and the plaintiff was ordered to pay legal expenses; Mr. Potenza has filed an appeal. The next hearing in which a conclusion will be drawn is set for 12 June 2013.
Based on external legal advice, Banco Popolare believes it is likely that the ruling of the first instance will be confirmed.

Accession to the debt restructuring of Fingruppo Holding
In connection with the restructuring of the restructuring of Fingruppo's debts, a letter of intent was executed on 23 July 2008 between Mittel and Equinox Two, on the one part, and Banco Popolare and Banca Monte dei Paschi di Siena, on the other.
The aforementioned agreement, together with the supplementary ones entered into in August 2009, envisage the granting by Banco Popolare and MPS of a number of guarantees in favour of Tethys, as the purchaser of Hopa, against any out-of-period expenses and amounts not receivable not recorded in the balance sheet of the acquired company. The potential liabilities that are considered likely to result from any indemnity claim against Banco Popolare in relation to the transferred shareholding in Hopa are covered by specific provisions.

Criminal proceedings relating Banca Italease
In criminal proceedings no. 31638/07 (so-called II TRONCONE accused Faenza + others) for corporate offences, on 3 November 2010, Banca Italease was ordered to pay a fine of euro 1.9 million and a sum of euro 64.2 million plus interest was confiscated for administrative liability under Italian Legislative Decree no. 231/2001; both the fine and the confiscation cannot be enforced until the ruling has been sentenced by the court.
On appeal, the confiscation was reduced to euro 54.1 million. Convinced of its rationale and supported by various opinions of external advisors, the Bank submitted an appeal to the Supreme Court. With regard to the above, the potential liability is considered possible as regards the confiscation, while where an allocation to provisions corresponding to the full amount of the pecuniary fine under Italian law 231 (euro 1.9 million), the potential liability has been classified as likely.

On 12 April 2011, the Prosecutor's Office of Milan recorded the names of Banca Italease's Executive Committee members on the roll of suspects for the offence of false company communications, regarding the approval in August 2008 of the Bank's interim report, on the assumption of the Bank's liability under Italian law 231/01.
On conclusion of the preliminary investigations, the Public Prosecutor requested criminal proceedings to be initiated against the defendants and Banca Italease as civilly liable.
The preliminary hearing has been scheduled for 17 April, during which the judge for the preliminary hearing will examine the accusations and decide whether to initiate criminal proceedings or declare that there are no elements to support such.

On conclusion of the preliminary investigations, the Public Prosecutor requested the indictment of Mr. Fabio Innocenzi, who, at the time of the alleged offences, was the Deputy Chairman of Banca Italease, for offences of false company communication, market manipulation and obstacle to the supervisory function of the Bank of Italy.
The judge for the preliminary hearing, on the basis of the request made by the civil parties, summoned Banca Italease, Banco Popolare and Banca Aletti as civilly liable parties.
In forthcoming hearings, the judge for the preliminary hearing will initially examine the request of the defence to exclude Banco Popolare and Banca Aletti from civil liability, and will then examine the alleged accusations, and decide whether to initiate criminal proceedings or declare that there are no elements to support such.

Egerton Capital Limited
By means of a summons dated 14 March 2008, Banca Italease was ordered to appear before the Court of Milan by Egerton Capital Limited (on its own account and behalf of the funds: Egerton Capital European Fund plc, Egerton Capital Partners L.P., Egerton Investment Partners L.P., the Egerton European equity Fund Ltd, The Egerton European Dollar Fund Ltd., CF Egerton Sterling Investment Fund), on a claim of damages of euro 105 million relating to investments made in Banca Italease shares in the period between January and May 2007. More specifically, the plaintiff based its claim for damages on the alleged illicit conduct of the Bank, namely that it had concealed the fact that a considerable amount of Banca Italease's business activities regarded high-risk complex derivatives from the market, by circulating financial statements, interim reports and the prospectus dated January 2007 regarding the share capital increase, as well as accusing the same of acting illegally in various ways.
In a ruling dated 22 July 2010, the Court of Milan, upholding a fair part of Egerton's claims, ordered Banca Italease to pay the sum of euro 79,853,059.31 as damages, also ordering the same to pay legal expenses of euro 495,000.
Banca Italease filed an appeal and obtained a suspension of the enforcement of the first instance ruling: a petition submitted by the counterparty to overturn the suspension was rejected.
The Court of Appeal approved Banca Italease's request to admit a court-appointed expert witness, whose statement must be submitted before 30/03/2012.
Banca Italease has made the appropriate risk assessments, also on the basis of the opinions provided by external legal advisors.

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. The Judge upheld the motions filed by Banca Italease, and retained the means of evidence requested by the counterparty inadmissible, and that a final decision could be made on the case, setting 19 February 2013 as the hearing at which a final judgement will be passed.
Banca Italease believes that the claims are groundless.

Wheelrent Car Rental
By means of a summons dated 5 February 2008, the plaintiff company summoned Banca Italease before the court, requesting the invalidity, ineffectiveness and annulment for a number of reasons of derivative contracts (IRS) drawn up between February 2005 and December 2006. Furthermore, the plaintiff company also requested that the reporting of the name of the company in the Central Italian Credit Register to be declared illegitimate and, based on the stated grievances, claimed compensation for all alleged damages incurred, quantified as over euro 38 million.
Given the developments in these proceedings, with the support of various external legal advisors, Banca Italease has made the appropriate risk assessments.

Bankruptcy of Niccodemi S.r.l.
On 9 June 2011, a summons was served with relation to the bankruptcy petition of Niccodemi S.r.l..
The claim seeks to establish the nullity of the sale agreement signed on 30 November 2005 by Niccodemi srl (seller) and Banca Italease regarding the property known as the Bufalotta Shopping Centre in Rome, and therefore, to order Banca Italease to return the property to the plaintiff as well as the returns enjoyed on the same. The price paid for the sale of the property was euro 108 million including VAT.
On 28 July 2011, Banca Italease, again with relation to the bankruptcy petition of Niccodemi S.r.l., was served another summons regarding a request for the payment of a cash amount for the property in question, on the assumption that the return requested in the first summons is not possible, as well as a claim for compensation of damages corresponding to tax debts payable by the bankrupt company as a consequence of the alleged unlawful loan disbursed, of euro 51,945,847.31, as well as a claim for further amounts paid in violation of the *par condicio creditorum* using the proceeds of the sale.
Given the developments in these proceedings, with the support of various external legal advisors, Banca Italease has made the appropriate risk assessments.

Bankruptcy of Dimafin S.p.A.
By means of a summons served on 12 July 2011 to Mercantile Leasing and Release SpA, 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 Spa, Mercantile Leasing and Release Spa related to the finance lease contract for the property located in Palazzo Sturo 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 Release and Mercantile Leasing 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.
Based on the opinion of external legal experts, Banco Italease believes that that there is only a remote risk of losing.

Bankruptcy of SER
By means of a summons served on 18 May 2006, the insolvent company S.E.R. summoned a series of entities including Mercantile Leasing 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 S.p.A. (value of the property around euro 50 million).
In a ruling issued on 24 March 2009, the Court of Rome fully rejected the claims of the insolvent company, ordering the same to pay legal expenses to Mercantile Leasing.
As the appeal has not introduced new and/or significant elements for the reversal of the sentence, the potential passivity has been classified as remote.

Risks associated with current disputes with the Tax Authority

In 2011 and in previous years, Banco Popolare and Group Companies have been subject to various assessments by the Tax Authorities. These activities have concerned the calculation of the taxable income declared and the application of tax legislation in force as and when with regard to both ordinary transactions and to specific extraordinary transactions. Following these activities, Banco Popolare and the subsidiary companies were involved in numerous disputes.
A detailed description of the disputes unresolved as at 31 December 2011 is contained in the notes to the financial statements.

The claims made by the Government Tax Authorities by means of notices of assessment as at 31 December 2011, amounted in total to euro 354 million (additional taxes assessed and related fines). The tax authority claims in terms of additional taxes due, which can be inferred from the formal report on assessment findings, were estimated at around euro 30 million.

With regard to the aforementioned disputes, it is believed that in almost all cases, there are valid and well-founded grounds to challenge the claims advanced by the Tax Authorities as regards legal proceedings already underway. The potential liabilities classified as probable in relation to the notices of assessment received to date amount in total to approximately euro 24 million and are fully covered by the provisions set aside in the item tax liabilities.

Group exposure in debt securities and loans to Sovereign States

The market situation

In 2011, tensions on the bonds of peripheral EU countries, as already mentioned in the section of the Report concerning the Economic Scenario, heightened from March onwards with a series of rating downgrades for Greece, Portugal, Spain and Ireland. From that moment on, the sovereign debt risk of the Eurozone, with the exception of Germany, Austria, the Netherlands and the Nordic countries, increased significantly, remaining at high levels until the end of year. In particular, the crisis was its most acute in May, when Greece was experiencing difficulties in refinancing its public debt, combined with a phase of higher political stability in the same. The tension in Greece also overlapped the difficulties that Portugal was once again experiencing, with regard to which in the same month, European leaders approved a rescue plan worth euro 78 billion jointly with the International Monetary Fund (IMF). The tensions temporarily died down only in June following the Greek Executive’s approval of an austerity plan dictated by the European Community as conditional to its continued support and the release of a part of the tranche of loans granted worth euro 110 billion. In the following months, this new turbulence in European sovereign bond markets also involved Italy; the spread between the ten-year BTP and Bund, which indicates the perception of the different sovereign credit risks, after hitting a record low in mid April of around 121 b.p., rose to over 300 b.p. over the summer, when the European sovereign debt crisis exploded again and in November reached 500 b.p. At the same time, the Bund increasingly enjoyed its status as “safe haven” compared to the government bonds of most of its European partners.
The interventions of the European political authorities, such as the aforementioned European Councils of March and July 2011, designed to redress the crisis of the Euro, failed to tackle the institutional aspects of the crisis (creation of a European monetary authority lender of last resort and a nucleus of European public finance), seen to be the real key to the solution. At a meeting in late July, a new programme of financial aid for Greece totalling euro 160 billion was proposed, of which euro 109 billion contributed by the IMF and the European Financial Stability Facility (“EFSF”) and euro 50 billion by private investors. At a later stage, the conditions for granting the loans (maximum terms and interest rates) were changed, facilitating the borrowers - including Ireland and Portugal - and the flexibility of the European Stability Mechanism (“ESM”) in reducing the risk of financial contagion in the Eurozone was increased, also allowing the ESM to purchase sovereign bonds on the secondary market under certain conditions.
After revising Italy’s outlook to negative in July, in September, Standard & Poor's downgraded Italy’s rating from A+ to A, at the same time also downgrading seven Italian banking groups. Subsequently, in the autumn, the rating agencies also downgraded three French banking groups, while France’s outlook was also revised to negative. In the meanwhile, the United States lost its triple-A rating in August.
The uncertainty shown in the series of meetings of the European authorities, aimed to overcome - in collaboration with the IMF - the difficulties of the peripheral countries of the Eurozone, made the crisis of European sovereign debt progressively worse. Proposals to issue Eurobonds, to give the ECB the role of lender of last resort, were repeatedly rejected in the face of German resistance.
The previously-mentioned EU summits in October and December, pending the threat of a spread of the crisis to Italy and Spain, led to a series of improvement measures to stabilise the markets and a series of emergency measures to stem the contagion. These measures included the strengthening of the EFSF which, with an allocation of Euro 500 billion, has undertaken the role of insurer, and - following the indications of the EBA - the recapitalisation of the European banking system for which the Core Tier 1 capital ratio has been fixed at 9% from June 2012. Moreover, an agreement with private counterparties for a 50% haircut of the Greek debt in their portfolios was reached. However, in the absence of institutional innovations these measures were still not enough. After the late October 2011 meeting, tensions rose again: the spread between ten-year German Bund and ten-year Spanish Bonos reached 469 b.p. in mid-November, the spread between the ten-year Portuguese bond and the cited Bund hit 1163 b.p. at the beginning of December and the same spread on Greek bonds reached 3561 b.p. in the same period. Also the spread on Irish ten-year bonds against the German Bund further increased, albeit to a lesser extent, following the sharp fall against the trend of the other European peripheral countries, which had brought it from over 1000 b.p. in July to a low of 562 b.p. at the end of September, then rising to 715 b.p. at the end of November.
Following the launch in November by the ECB of a second repurchase programme for the bonds of peripheral European countries, in December, in terms of stabilisation measures, it was decided to accelerate the process to make the ESM operative, to revise the euro 500 billion limit for the EFSF/ESM in March 2012, to accelerate the transfers of the resources made available by the EFSF from the individual nations, as well as the increased involvement of the IMF. It was further agreed to involve private creditors in sovereign defaults, establishing the uniqueness of the decisions made on the restructuring of the Greek debt at the meetings in July and October. The powers of the ESM and its decision-making autonomy in emergency situations were enhanced. The results of the summit, once again, did not allay the turmoil on European sovereign bonds and tensions over spreads remained. Only in the second half of December, following the launch

of the first structural rescue measures by the Monti Government in Italy and, above all, the staging by the ECB of the first auction of long-term financing - maturity of over 36 months, fixed interest rate and disbursement of the whole amount applied for - did the tensions start to wane and more order appeared on the markets. At the end of the year, ten-year sovereign bond spreads of peripheral European countries started to narrow, with a particularly good result for Ireland.

Disclosures on Group exposures pursuant to Consob Communication 11070007 of 5 August 2011

On 5 August 2011, by means of Communication no. DEM/11070007, CONSOB referred to document no. 2011/266 of the European Securities and Markets Authority (ESMA), published on 28 July 2011, regarding disclosures to be made in financial reports regarding exposures of listed companies in sovereign debt securities and loans (collectively referred to as "sovereign exposures). On this subject, on 25 November 2011, ESMA published another document aimed at promoting a fair and consistent application of IFRS, highlighting the relevant aspects to be considered in preparing the financial statements as at 31 December 2011.
In accordance with the guidelines provided by the above mentioned documents, the disclosure of the Group's sovereign exposures as at 31 December 2011, amounting to Euro 10,137.3 million, is provided below, broken down by country (in thousands of euro):

Countries	Debt securities	Loans	Total
Italy	9,751,929	45,034	9,796,963
Spain	202,621	-	202,621
Germany	24,643	-	24,643
Greece	24,193	-	24,193
France	22	-	22
Austria	8	-	8
Total EU Countries	**10,003,416**	**45,034**	**10,048,450**
of which the Parent Company	***9,900,541***	***43,985***	***9,944,526***
USA	32,076	-	32,076
Switzerland	24,000	-	24,000
Hungary	22,239	-	22,239
Croatia	10,498	-	10,498
Argentina	26	-	26
Total other countries	**88,839**	**-**	**88,839**
of which the Parent Company	***26***	***-***	***26***
Total	**10,092,255**	**45,034**	**10,137,289**
of which the Parent Company	***9,900,567***	***43,985***	***9,944,552***

More specifically, the exposure is represented by:

- loans granted to the Italian State of euro 45 million;
- debt securities issued by central and local government of euro 10,092.3 million, euro 10,003.4 million of which were issued by EU Member States.

The tables below provide more detailed information on the breakdown of the exposure in debt securities to EU nations, which represented around 98.7% of total exposure, by accounting portfolio, residual life bracket, and fair value hierarchy.

Financial assets held for trading

Country	Matures by 2012	Matures between 2013 and 2017	Matures between 2018 and 2022	Matures beyond 2022	Total fair value as at 31.12.11 = book value	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,796,715	618,591	90	49	2,415,445	2,415,085	358	2
Greece	-	17,437	-	-	17,437	4,918	12,519	-
Other EU Countries	14	76	6	2	98	98	-	-
Total	**1,796,729**	**636,104**	**96**	**51**	**2,432,980**	**2,420,101**	**12,877**	**2**
of which the Parent Company	***1,720,327***	***611,171***	***6***	***44***	***2,331,548***	***2,318,756***	***12,790***	***2***

Financial assets available for sale

Country	Matures by 2012	Matures between 2013 and 2017	Matures between 2018 and 2022	Matures beyond 2022	Total fair value as at 31.12.11 = book value	Net AFS Reserve	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	718,976	5,424,062	331,260	835,449	7,309,747	(480,165)	-	7,262,131	47,616	-
Spain	-	202,621	-	-	202,621	(7,950)	-	202,621	-	-
Greece	-	2,459	4,296	-	6,755	-	(25,378)	2,459	4,296	-
Other EU Countries	-	24,575	-	-	24,575	10		-	24,575	-
Total	**718,976**	**5,653,717**	**335,556**	**835,449**	**7,543,698**	**(488,105)**	**(25,378)**	**7,467,211**	**76,487**	**-**
of which the Parent Company	***718,976***	***5,653,717***	***335,556***	***835,440***	***7,543,689***	***(488,093)***	***(25,378)***	***7,467,202***	***76,487***	***-***

Investments held to maturity

Country	Matures by 2012	Matures between 2013 and 2017	Matures between 2018 and 2022	Matures beyond 2022	Total book value as at 31.12.11	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	25,302	1,435	-	-	26,737	26,989	26,989	-	-
Total	**25,302**	**1,435**	**-**	**-**	**26,737**	**26,989**	**26,989**	**-**	**-**
of which the Parent Company	***25,302***	***-***	***-***	***-***	***25,302***	***25,286***	***25,286***	***-***	***-***

Investments in sovereign debt securities of EU Member States totalling euro 10,003.4 million, in terms of book value, represent around 74.8% of the Group's total portfolio invested in debt securities, 97.5% of which regards investment in securities issued by the Italian Government. Around 24.3% of said investments have been allocated to the trading portfolio and 75.4% to the financial assets available for sale portfolio; a marginal share of 0.3% has been classified as investments held to maturity.

Around 87.5% of the total exposure represented by debt securities has a residual duration of less than 5 years.

The valuation method adopted as at 31 December 2011 can be defined as "market oriented" insofar as almost the entire securities portfolio (over 99%) has been priced on the basis of level 1 of the fair value hierarchy, namely on the basis of quotations obtained from the markets, without the need for any corrective factor to take the contingent situation of the markets into account.

Exposure towards Greece, Portugal, Spain and Ireland

The European nations that have experienced difficulties such as to warrant the financial support of the European Union and of the International Monetary Fund are Greece, Portugal and Ireland. As at 31 December 2011, the Banco Popolare Group only had exposures in Greek "sovereign debt" amounting to euro 24.2 million in terms of corresponding book value, and a total nominal value of euro 96 million.

The investment is wholly represented by debt securities that mature before 2020, euro 17.4 million of which is classified for accounting purposes in the financial assets held for trading category and euro 6.8 million of which under financial assets available for sale. Note that the Group does not hold Greek government securities classified under assets held to maturity or under receivables and loans.
The fair value of said securities has been quantified on the basis of market quotations (level 1) or, if such market quotation is not considered sufficiently liquid or representative, it has been determined by a valuation method that uses market input parameters (level 2).
The fair value measurement of the securities classified under financial assets held for trading has resulted in a charge to the income statement of losses of euro 37.1 million.
With specific reference to securities classified as financial assets available for sale, given the approval of a complex plan of aid for the Greek Government, which also involves private institutional investors, and the continuing difficult scenario, the Group decided that there was objective evidence of impairment, dating back to the interim report as at 30 June 2011.
Therefore the negative reserves of shareholders' equity resulting from the valuation of the securities in question have been zeroed, with the simultaneous charge to the income statement for the year of value adjustments amounting to euro 25.4 million.

Market developments after the end of the year

In the first few months of 2012, the financial market trend of a significant reduction in the levels of remuneration required to hold Italian Government securities continued.

The combined action of an extremely accommodating EU monetary policy, which thanks to the LTRO of the ECB, avoided potential problems in funding the European financial system, the more stringent measures of Italian tax policy and the recovery of the Italian banking system's credibility at international level, led to a reduction of the returns on Italian Government securities which were unequalled in recent history in terms of entity and speed.

The successful finalisation of the proposal to restructure Greek debt at the beginning of March eliminated Greece's short-term funding problems, avoiding its potential default and the foreseeable impact on the financial markets.
The attention of investor's is currently focused on the difficulties emerging in Portugal: the yield curve of Government securities is showing a strong negative trend, resulting from the high level of uncertainty in the market regarding the country's short-term prospects.

Evolution of the Group's exposure to sovereign risk after the end of the year

After 31 December 2011, the Group's exposure to sovereign risk changed as a result of the continuing strategy of accumulation of short-term Italian Government securities, classified for accounting purposes as "Financial assets available for sale" due to the investment strategy of the same, which seeks to stabilise the interest margin.

The purchases made since the beginning of the year, mainly of 3-year securities, have led to a net increase in the nominal value held by the Group in excess of Euro 1 billion compared to the nominal value as at 31 December 2011, thus balancing the reduction of investments in securities in the last quarter of last year mainly as a result of maturities. This increase did not substantially alter the maturities structure of the portfolio of Italian Government securities held by the Parent company. Around 50% of the aggregate nominal amount is due to mature before 31 December 2013, a percentage which rises to 70% if securities maturing before 31 December 2014 are included.

Following the decision to participate in the exchange offer of the Greek Government, the aggregate nominal amount of Greek government securities fell by around one third, following the application of the high haircut percentage envisaged by the offer. The reduction of the nominal amount did not have significant impacts on the income statement, because the Greek debt restructuring was already partially accounted for in quotations or in market parameters as at 31 December 2011, used a reference for the valuation of securities at year end.

Lastly, note that the exposure in Spanish Government securities has not changed and corresponds to an aggregate nominal amount of euro 200 million with a maximum maturity of October 2015.

Future evolution of Group risks/objectives

The Group implements processes for the selection, undertaking, governance and mitigation of the risks originated by banking and financial activities to pursue stable and sustainable growth objectives over time, in line with the general policies established by the Board of Directors and disciplined, *inter alia*, by the "Group Risk Regulations".
As regards said policies, the following are of particular note: significant distribution of credit risk, in line with the objective of mainly lending to small and medium enterprises and retail customers, market risk-taking strictly in relation to commercial requirements, 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.
The implementation of the illustrated policies represents an element of guarantee for the Group, which is therefore able deal more effectively with possible adverse developments in the economic-financial scenario, even if unforeseeable.

There is still considerable uncertainty as to the evolution of the economic scenario, especially regarding the Italian system. This situation makes it difficult to predict the evolution of corporate risks, particularly credit risk: as regards the latter, therefore, the trends that could characterise probabilities of default (to 12 months) are still unclear, although in 2011, the same were substantially stable.

Any further worsening of the economic scenario could lead to a deterioration of the solvency situations of enterprises, at system level, with possible negative repercussions on the financial statements of the banking system.

The lending policy objectives pursued by the Group seek, among other aspects, to diversify the loan portfolio, by limiting the concentration of exposures, and to support business development in its area of operations, exploiting the fact that it is in close contact with its customers; said objectives, therefore seek to minimise the risks associated with an adverse economic climate. It is also worth drawing attention to the Group's commitment, within the impact studies established by the supervisory authorities, to stress testing exercises applied to credit risk, as a tool able to verify resilience over time to the potential significant deterioration of the economic scenario.

During the second half of 2011, the perception of institutional investors of the risk associated with Italian sovereign debt rose, with a consequential increase of the minimum yield required. This trend, together with the new prudential supervisory regulations on liquidity and international regulations (Basel III), could lead to the risk of competition between banks, sovereign States and companies for medium-long term refinancing, affecting the profitability of the Group and of the banking system as a whole. To mitigate this risk, the Group took part in the refinancing operations conducted by the European Central Bank. Towards the end of 2011, in particular, the amounts and durations of the same rose.

With regard to liquidity risk, the Group continued to pursue the continuous improvement of the control tools available to it. It sought a better balance of financial maturities by increasing liquidity reserves and by launching new instruments (e.g. covered bonds), which it used during the second half of 2011 following the European sovereign debt crisis, and consequently the crisis of the European banking system. These instruments enabled the Group to maintain its liquidity profile at a substantially comfortable level at times of great uncertainty.

With regard to interest rate risk, the Group's bullish profile would mean that a rise in interest rates would improve its interest margin. Given the extremely low level reached by market interest rates, it is highly unlikely that it will fall a further 100 b.p., therefore there is room for improvement of the profit margin, if interest rates rise. However, even though a scenario such as that described would have a positive impact on income, by contrast, it could lead to the increased volatility of interest rates and, therefore, of the relative risk (in terms of potential reduction in market value), both as regards the trading book for supervisory purposes and the banking book. The management and continuous control of these risks, even though a system of ceilings, ensure the capital sustainability of the scenario envisaged.

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

Even given the complex general economic scenario, the Banco Popolare Group continues to pursue a policy of investing in its human resources. The objective is 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 in general.
HR management, development, training and pay policies addressed to all employees, regardless of level or position, are characterised by an innovative approach, which seeks to raise the quality of resources and to monitor the results obtained, in compliance with all relevant legislation.

Breakdown and evolution of the Workforce

The breakdown of personnel by category and gender as at 31 December 2011 as regards the Banco Popolare Group is as follows:

Categories	2011							2010 Total
	Men			Women			Total	
	Full time	Part time	Total	Full time	Part time	Total		
Executives	306	-	306	21	-	21	327	327
Middle Managers	5,561	8	5,569	1732	210	1,942	7,511	7,658
White collar workers	5,208	76	5,284	4,051	1,580	5,631	10,915	11,351
Other personnel	71	1	72	8	2	10	82	97
Companies abroad	147	3	150	373	11	384	534	539
Total no. of employees	**11,293**	**88**	**11,381**	**6,185**	**1,803**	**7,988**	**19,369**	**19,972**
Supply contracts	48		48	50		50	98	106
Total workforce	**11,341**	**88**	**11,429**	**6,235**	**1,803**	**8,038**	**19,467**	**20,078**
Of which:								
Apprentices	83	-	83	97	-	97	180	290
New employee contracts	39	-	39	50	-	50	89	169
Permanent contracts	11,154	88	11,242	6,010	1,802	7,812	19,054	19,450
Temporary contracts	17	-	17	28	1	29	46	63
Supply contracts	48	-	48	50	-	50	98	106

The 2011-2013/2015 Business Plan and the creation of a Large Cooperative Bank (*Grande Banca Popolare)* entails considerable reorganisation at Group level, which on one hand, will lead to additional employees following the merger with the six Banks, and on the other the reallocation of resources form head offices to the sales network. In 2010-2011, the workforce was reduced by around 850 people, which will be added to the envisaged net reduction of personnel between 2012 and 2015 of around 1,300 people, through the identification of personnel to be made redundant, which will be managed both through the voluntary retirement of those that have already satisfied their pension requirements or who will satisfy them in the years for which they will be paid by the Solidarity Fund, and through normal turnover.

Recruitment policies and management of professional mobility

The new organisational model of the Large Cooperative Bank (*Grande Banca Popolare)* has entailed resizing and reallocation exercises; the sales network has been reorganised, making its more streamlined and effective, and numerous activities have been redistributed between head office and network structures. More specifically, to strengthen the sales network, a scheme has been launched called “Are you in the Network?”, addressed to colleagues that are interested in job mobility and in pursuing a career in the network, as an alternative to their current job.

Human Resource Development

The main objective of the training courses offered by the Management School is to enhance human capital.
Programmes have been designed to develop what are retained “key” managerial skills, using innovative methods in order to improve learning capacity, placing particular attention on so-called “distinctive abilities”, which are fundamental to generating business results and to maintaining them over time.

One important programme is the “Entrepreneurs in the Branch” project, which in 2011 involved 300 directors with an organisation of at least 10 employees. The programme was split into two modules. The first regarded topics such as the importance of enterprise to the new strategic positioning, commercial planning, implementing strategy and checking

performance, business skills and company competences. The second regarded areas such as relations within the branch and coming closer to the local community.
The programme will be extended in 2012 to a further 300 Branch Directors with high profitability and an organisation of between 6 and 9 employees.

The introduction of the figure of Development Manager to Business Areas has rendered the creation of a specific course necessary. The objective was to standardise the interpretation of this position, by adopting a “common model” to support the basic activities of customer acquisition and loyalty.
The course, split into three modules, started in 2011, and will continue on into 2012.

Again with the objective of enhancing the Group’s resources and the talent of colleagues and their career paths, specific schemes have been designed for high potential young employees. More specifically, two new projects have been launched. The first, called “Direction ... Future”, will offer a fast track to the position of Branch Director.

The second project, also addressed to high potential young employees, working both in the network and at the central office, is called “Master in Banking”, developed in collaboration with the SDA Bocconi.
It will offer a limited number of high-potential, highly-motivated employees the opportunity to take part in a programme of excellence, which seeks to coach and enhance technical and managerial skills through an 18-month development programme, followed by the monitoring of career paths for the next five years. The Master will start in the first half of 2012.

In 2012, management development meetings will be resumed, addressed to executives in charge of organisational units and to Business Area Directors. The project, called “The Bank and Future Challenges” was developed in collaboration with the Business School of the CUOA Foundation.
Every year, all Banco Popolare Group employees received an appraisal of their performance. The appraisal is based on the observation of conduct at work, relating to the position and department, and is made by the line manager.
For all of those with a complex managerial position - executives, business area directors and private area managers - an appraisal known as “360°” is applied.
This method envisages that the appraisal is conducted, not only by the hierarchical superior, but also by other colleagues that have been able to observe the organisational behaviour of the person in question.

With regard to the network, all Job profiles have now been completed, while those of central offices are underway. Describing a job on the basis of its mission and responsibilities, processes, knowledge and abilities needed to do it, namely, the “Job Profile” represent dynamic tools that are particularly useful for training and organisational development purposes.

Training

After several years of significant growth in terms of training courses, in 2011, the efforts of the Training School were optimised in 2011, aimed at enabling the sales network to focus on several important company operations, which in several periods of the year, led to a fall in the number of training courses provided.
Therefore, efforts were concentrated on raising the level of quality of the courses provided, by more closely monitoring the results obtained, with the aim of enhancing professionalism even further, and increasing the technical and behavioural skills of all network and head office positions.

To meet the specific needs related to the current market scenario and to internal organisational requirements to strengthen technical skills in the credit area, the most important courses regarded the management and monitoring of credit, and were essentially addressed to Branch Managers and to several specialist network and head office figures.
The topics that will be covered in the classroom also include: insurance products, sales relations, organisational behaviour and the legislation that impacts banking.

In 2011, 880,230 hours of training were imparted, corresponding to 117,364 person-days. This figure represents an 11.5% decrease over last year’s figure and breaks down as shown in the table below:

Level	Attendees	Development	Position-specific courses	Specialist skills enhancement	Central office training	Compulsory training	Project training	Training on request	Total
Executives	341	312	42	-	158	1,244	2,987	154	4,896
Managers	7,129	16,483	37,041	60,429	18,780	156,317	84,369	28,467	401,886
White collar workers	10,716	176	64,448	7,429	15,454	217,034	97,764	36,737	439,042
Other	394	-	329	-	397	26,977	6,089	610	34,402
Total	**18,580**	**16,970**	**101,860**	**67,858**	**34,788**	**401,572**	**191,210**	**65,969**	**880,226**

In 2012, special emphasis will be placed on training courses to retrain employees who are transferring from central offices to the sales network, with the objective of offering them support in managing this change and enabling them to acquire the technical and relational skills needed for their new job.

During the year, all Branch Managers will take part in a specific technical assessment on credit management. The same Branch Managers will then be requested to take a course on credit at an advanced level, focused on knowledge gaps that emerge during the assessments. The idea is to disseminate new operating methods for the credit process relating to the introduction of the new system of internal rating.

Anti-corruption training

In 2011, the training provided to Banco Popolare Group employees on anti-corruption procedures, envisaged by Model 231/01, involved a further 3,465 employees, for a total of 8,489 training hours, thus reaching a coverage of 85% of the workforce. In the first half of 2012, training courses for the remainder of the workforce will be completed. Two specific training initiatives have been envisaged, namely a classroom course and an on-line one. The first, addressed to Central Office Managers, involved 191 employees for a total of 764 training hours. The second, which all Group employees are able to access, involved 3,279 employees and was useful as preparation for the classroom courses, totalling 7,725 training hours.

The resources involved in 231/01 training are summarised in the table below.

Level	Training in the classroom	Remote training
Executives	53	36
Managers	136	1,286
White collar workers	2	1,907
Other	-	50
Total	**191**	**3,279**

Apprenticeships and Placements

Employer branding initiatives continued through various channels including, in addition to permanent/constant contact with the Placement Offices of Universities to organise placements (19 activated since 01 January 2011), and participation in the Talent Welcome Day organised by Bosh and an editorial published in the March and October editions of the “Career Directory” edited by Job Advisor. These initiatives confirm the Group’s intention of strengthening 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.

Selection and Assessment

With the introduction of a standardised recruiting process for all Group Banks, we have been able to meet the various requirements with timely and high quality solutions.
The department acted on the requests of Management in terms of Selection/Recruiting, with the assistance of Head Hunters and/or the use of the internal database. Given the economic scenario, the number of new employees was very limited.

During the year, instead, assessment activities were further consolidated and extended, as well as the mapping of managerial skills and assessing potential, which is extended to a growing number of employees that work in Group companies.
The department was involved in numerous projects, including the continuation of the appraisal of the managerial skills of Business Area positions (Business Centre, Retail and Loans Managers) as well as those of newly-appointed Business Area Directors, following the company and territorial reorganisation of Group at the end of 2011.

The Assessment Centre also carried out a survey of technical skills of Network employees, by means of an electronic questionnaire, with a view to monitoring Branch Mangers and identifying any gaps. 555 colleagues were involved in the above.

Group pay policies

Again in 2011, the Group’s pay policies were strictly based on the proper and fair management of our employees, in line with that envisaged by the relevant legislation. All management and supervisory bodies, at national and international level, continued to focus on pay policies, in particular on the incentive systems set in place for the directors and the management of credit institutions.
In particular, the Bank of Italy drew up an important document on the matter in hand, namely “provisions regarding pay and incentive policies and practices in banks and banking groups”, published on 30 March 2011; the Bank of Italy then updated circular no. 263 on 21 December 2011 regarding obligations for disclosure to the public envisaged by the CRD 3 Directive. Also Consob, in resolution no. 18049 of 23 December 2011, dictated the rules that issuing companies are to abide by in terms of providing information to the public on pay policies, through a “report on pay”.
The general objectives and the guidelines underlying the 2012 pay policies, and addressed, in accordance with the relevant legislation, to all Group companies are:

- to acknowledge the merit of those who, in compliance with the rules, values and risk levels, produce the expected results, laying the foundations for medium/long-term sustainability;
- to guarantee stability in working relationships;
- to ensure fairness internally and vis-à-vis the labour market.

The “report on pay”, which illustrates the Group’s pay policies in detail, is divided, in line with that provided for by the regulations of the Bank of Italy and of Consob, into a first section containing qualitative information describing the 2012 pay policies and a second section, which provides the quantitative figures, with a view to illustrate the way in which the same policies were implemented with regard to 2011.
For a full understanding of pay policies, refer to the “report on pay” contained in this financial statement package; note that the qualitative part of the same is subject to approval by the shareholders’ meeting.

Industrial relations

The objective of Banco Popolare’s system of Industrial Relations is to achieve the best competitive advantage while respecting the social cohesion of the companies that form the Group, adopting a successful socio-competitive approach.

In 2011, intense negotiations continued with Trade Union organisations, conducted with a view to achieving a balance between cost management, job enhancement and social cohesion, safeguarding the employment of young people, harmonisation of standards and of institutes to the advantage of employees.

More specifically, as part of the process to prepare the new Business Plan and the Large Cooperative Bank (*Grande Banca Popolare)* Project, an agreement was signed to manage employment tensions, which enabled structural costs to be contained, creating a situation in which the qualitative legacy of new generations is lost. After the reduction of resources in 2011, this agreement will establish the voluntary retirement in 2012 of those who will satisfy pension requirements in the years for which they will be paid by the Solidarity Fund. These measures, together with the voluntary retirement of those who have already satisfied their pension requirements and a slower turnover, confirms the will of the social parties to seek market competitiveness, respecting social cohesion and encouraging generation renewal, progressively stabilising positive work relationships with those on permanent employment contracts.

Bilateral funds for Professional Training

Again in 2011, agreements were reached with the Trade Union Organisations to obtain the funding for the training envisaged by bilateral Funds in the credit sector (FBA and Solidarity Fund). This has enabled numerous training courses to be sponsored, as regards requalifying and retraining, enhancing roles and professional families, as well as occupational safety.

Labour disputes and disciplinary measures

In 2011, the total number of labour disputes at Group level fell compared to last year by 3.83% (from 340 as at 31.12.2010 to 327 as at 31.12.2011).

The level of labour unrest was therefore in the norm, and below the industry average: this confirms the trend recorded last year 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 by the relevant Banco Service, privileging, where possible, and in line with company policy, conciliation; over the year, the rulings of the various proceedings have been mostly in the company’s favour. Disciplinary procedures, in collaboration with the HR Departments of network banks and with control functions, are based on criteria of rigour and fairness and are standardised throughout the Group, respecting the prerogatives and rights of employees. The number of disciplinary provisions issued in 2011 was in line with the previous year.

Welfare

Supplementary pension arrangements

Almost all of the Group’s employees have subscribed to a form of supplementary pension, and this demonstrates the importance of supplementing income, even after termination of an employment contract, and is an aspect that is common to the Group companies, its workers and its retired employees. After an initial process of rationalisation, approved by Covip, the Group’s pension plans were reduced to 8, and encompass over 16,000 members, administering assets of around euro 900 million.
The process to harmonise administrative structures and to implement a single IT programme to manage all of the various situations in this delicate sector, while respecting autonomies, continued in 2011. A web platform was set up, available to all current and former employees, to access their pension plans, which, amongst other functions, enables them to consult their situation and monitor financial performance.

Healthcare

2011 saw the consolidation and further simplification of the healthcare plans addressed to employees, relatives and retired employees of the Group. In particular, following specific agreements with the Trade Union Organisations, the Banco Popolare Group's Healthcare Fund now also encompasses the employees and relatives of the former Italease Group and of Cassa di Risparmio di Lucca, Pisa, Livorno.
Both of the plans, registered with the Supplementary Healthcare Funds established at the Ministry of Health, guaranteed the deductibility of the contributions paid in, also in 2011, as the parameters set by the Ministry had been reached.

Insurance

In 2011, a project was launched to simplify and standardise the non-health insurance policies addressed to Group employees. More specifically, "all risk and theft" insurance policies were standardised for the vehicles used by employees for work reasons, as well as those for "work and non-work related accidents".
In 2012, we intend to continue in this direction, also standardising "life insurance" policies.

Individual assistance

The "People Project" continued in 2011, a scheme open to all Group employees, which seeks to enhance their well-being, by virtue of training in this area and to an advisory service provided by HR Managers and Department Heads to tackle particularly difficult personal situations. This service has been provided since 2008 and has always been managed in collaboration with the Centro Polifunzionale Don Calabria in Verona.
Furthermore, in 2011, the "Assistance service" project was enhanced, focusing in particular on communication to facilitate access to the branches offering this service in Verona, Lodi, Novara, Bergamo and Modena, where employees are free to come in absolute confidentiality. The service provides advice and support on problems that affect well-being, such as disability, depression, health problems, stress, robbery, addiction, etc., the activation of connections with the local social and health services, liaison between the employee and the company in the case of an invalidating event and/or serious health problems, and advice to improve the introduction of people with disabilities/hardship/difficulties to the workplace.

Internal communication

BANCO&NOI, the two-monthly publication for all Group employees maintained a circulation of 30 thousand copies per edition, and provided extensive coverage of corporate strategies, sales schemes and numerous other initiatives carried out in historical areas. The BANCO&NOI Notebooks, which cover specific work-related topics, and were also distributed as an attachment to BANCO&NOI every four months.
To provide further information to employees, topic-specific brochures were also distributed, such as the "Employee Charter" and the "Guide to Employee Appraisals". Further communications were also published, which covered specific initiatives or projects.

Over the year, a series of meetings were organised with network and head office personnel, to illustrate the "Large Cooperative Bank" (*Grande Banca Popolare)* project. These meeting were fully appreciated and took place in Novara, Verona, Lodi, Bergamo, Pisa and Rome, some of the Group's main offices.

Health and safety

2011 was characterised by numerous initiatives seeking to innovate processes and IT structures, with a view to both ensuring legislative compliance and achieving technological innovation, taking a proactive approach rather than the more widespread approach of reacting only when an emergency arises. Efforts were directed towards areas that most challenge security: digital identity, the network of attacks on IT structures, new means of communication and the ability to establish dynamic behavioural rules in line with the business model. Work was therefore carried out on the various logical, physical, structural and safety components, above all with a view to prevention.

Physical security

In terms of physical security, the main objective was to use the technical means available in an increasingly effective way, in order to adequately protect all elements that are external to IT systems, but that characterise the business environment: people, values, systems and equipment present in the Group. The aim is to facilitate customer relations, by guaranteeing reasonable operating safety in a flexible, but at the same time controlled scope. Therefore, the integrated development of the interaction of detection systems and reaction systems continued, in order to find the best solutions for physical security. In this area, efforts concentrated on perimeter defence, video surveillance, alarm systems, systems for cashiers, based on increasingly evolved technologies, able to increase the level of security and represent a strong preventive measure as well as a deterrent.
The devices implemented included: interlocking partitions equipped with anti face camouflage systems, safes with delayed opening mechanisms, cash in-out systems that make cash available on a delayed time basis and video surveillance systems with a remote connection to the Groups operations centre.
In 2011, security devices were enhanced in 93 Group branches. The results of the efforts made are shown in the table

below illustrating robbery and theft figures.

Description	2011	2010	Change 2010-2011
number of robberies	100	100	unchanged
number of thefts	25	27	- 7.4 %

The measures taken show a reassuring level of safety, substantially in line with the good levels reached to date in terms of robberies and an improvement as regards thefts; in both areas, a fall in the total amounts stolen (thefts -29.14%, robberies -1.02%) and a steady improving trend can be seen.

Health and Safety

In terms of accidents, the banking sector has low risk indices compared to other industries, confirmed by the figures of the National Institute of Statistics. The most frequent type of accident is represented by those that happen when *in itinere*, and therefore out of the workplace and of office hours.
As far as the number of accidents that occurred in 2011 is concerned, there were 237 accidents (of which 63 in the workplace and 174 in itinere).

accidents	2011	2010	Change 2010-2011
accidents in the office	63	70	-10 %
accidents *in itinere*	174	186	- 6.45 %
Total	**237**	**256**	**- 7.42 %**

This figure is 7.42% lower than that of the same period of 2010, when 256 accidents were recorded.
Efforts continue to be made on increasing awareness of prevention, through specific training sessions, with the active participation of all employees, regarding identifying hazards and managing safety measures; 811 evacuation drills were performed in branches and 34 in the Group's head offices.
Lastly, we report that 11 inspections were conducted by external Supervisory Bodies.

In 2011, at Group level, courses totalled 9,748 training days, involving 15,724 colleagues, as detailed in the table below.

Course	Total attendees	Training days
Training of large-scale emergency reps head office	301	301
Basic Course First Aid Reps	576	864
Three-yearly refresher course for First Aid Reps	474	237
General Training Italian Leg. Dec. 81/08 (e-learning)	11,479	5,740
General Training Italian Leg. Dec. 81/08 (classroom)	576	288
Robbery Risk	1,702	1,702
Training of emergency team (fire)	577	577
Risks in the Real Estate Sector	39	39
Total	**15,724**	**9,748**

Lastly, it is important to recognise the constant attention dedicated to video terminal operators, for whom special health checks are envisaged (over the year 851 check-ups were made) and to night workers (10 check-ups during the year).

Internal audit

In 2011, the Internal Audit service of the Parent Company worked in accordance with its objectives, which envisage assessing the adequacy of the internal control system of the Parent Company and of the Group as a whole. The audits conducted, which regarded verifying compliance with internal supervisory, operating and management requirements, generated information, assessments and recommendations as regards the correctness of the modus operandi and the effectiveness of the overall system of controls, highlighting any areas for improvements.

The Parent Company's Group Audit Department is assigned control activities relating to the institution, coordination and service. In particular, audits were conducted on Parent Company departments - with a specific focus on processes considered critical - , on Group departments in Italy and abroad with Parent Company status, as well as the central and peripheral services of Group banks and companies, where audits were conducted (as a whole or in part) as regards specific outsourcing contracts. The remaining activities that do not fall within the scope of the Parent Company's Audit Service were carried out by the internal audit services of individual subsidiary companies or banks, where such exist, always in coordination with the former.

More specifically, delegated activities essentially regarded the area of controls on central services, specialised activities such as ICT auditing and operational support to the Supervisory Bodies established in individual Group companies pursuant to the provisions set forth in Italian Legislative Decree 231/01, as well as the remote monitoring of the sales networks of banks, in terms of credit, accounting-operational and financial risk profiles.
Over the year, the audits conducted mostly focused on credit (management of foreign cash loans, granting loans to private customers originating from brokers, the timing for the renewal of loan applications, monitoring performing loans, management of substandard loans, securitisations, credit collection and disputes), on compliance with provisions on money-laundering, on managing related party transactions, and on preventing market abuse. With regard to the provision of investment services, audits were conducted on the placement of bancassurance financial products, on the fine-tuning of the Mifid model, following third level legislation and on Private and Retail portfolio management.

During the course of the year, the Group Audit service performed the activities within its scope (internal audit) based on the instructions contained in Prudential Supervisory regulations. In particular, specific audits were made as regards Pillar I risks (credit, operational and market), and as regards the transparency of disclosures made to the public (Pillar III), the review of the market and credit risk management and measurement system, the review of the operational risk management system and the review of the ICAAP process.
These activities were carried out also with a view to the overall Basel II project, which seeks to validate the internal market and credit risk measurement systems used for the purpose of calculating capital requirements.

As required by supervisory provisions, an audit was also conducted in 2011 on the procedures through which the compliance of remuneration with the law is ensured. The main objective was to verify the organisational compliance of pay and incentive systems with Bank of Italy regulations, and the outcome confirmed the overall compliance of the pay and incentive systems with the relevant regulations. The results of the same were brought to the attention of the management bodies and competent services.

As regards the operations area, audits were conducted in the administrative-accounting sphere (specifically on hedge-accounting processes, the preparation of individual reports to supervisory bodies, the disposal of non instrumental real estate assets and asset accounting) and in the IT sphere (on logical security and change management). Furthermore, during the year, as envisaged by Group Regulations on the “Manager responsible for preparing the Company’s financial reports (Italian Law 262/2005)”, tests were conducted on the correct performance of administrative-accounting processes, the results of which were sent to the afore-mentioned Manager, who is responsible for assessing the internal control system in relation to the preparation of company accounting information.

Audits conducted on the sales networks of individual banks did not identify any particularly critical situations, even in specific circumstances, which substantially regarded formal aspects, and are considered areas for improvement. Overall, the audits conducted confirmed the substantial compliance of the transactions performed, in line with prior years.

Remote analyses, conducted on the basis of results and on the performance of specific risk indicators calculated by an application that enables the branches and business areas of the sales networks of the Italian banks that show the most critical situations to be identified, contributed to better directing audits in loco and to intervening promptly to resolve any problems that emerge. The development of this instrument, entailing the implementation of new indicators for the distribution network, fine-tuned the logic of analyses; at the same time, work started on creating specific indicators to measure and monitor head office processes.

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 given to Banco Popolare’s Management and Control Bodies, as well as to the Board of Statutory Auditors and the Independent Auditors of Group entities, bringing possible improvements to risk management policies, measurement tools and procedures to the attention of the same.

In the second half of 2011, the Banco Popolare Group launched the planned merger by incorporation into the Parent Company of the former Network Banks (excluding Credito Bergamasco), seeking to establish a single cooperative bank, with an operational model structured on the basis of network divisions and, at the same time, to revise the governance structure by returning to a traditional system of administration and control. As a result of the afore-mentioned merger by incorporation, the Group’s Audit Department also revised its organisational structure, incorporating the audit functions dedicated to auditing the former Network Banks.

From the second half of 2011, the Audit Department adopted a “risk based” method to plan audits on the branches of the distribution network; since 2012, the Department’s method has been extended, with the adoption of a risk based approach also for planning process audits.
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 the management of compliance risk, based on the tenet that the observance of rules and business integrity are key to the banking business, which by its own nature is founded on trust.

In 2011, the establishment of the Risks Department, whose head, the Chief Risk Officer, has taken on the role of Compliance Manager, gave a significant boost to improving the effectiveness of the II level control system (which includes compliance risk management).

The newly-created Risks Department encompasses the Legal Service, the Compliance Service and the Risk Management Service. At the same time, efforts were made to strengthen the Compliance Service, by integrating the following into the same:

- offices already in charge of second level controls relating to transparency and usury;
- the already-existing Money Laundering Service.

The activities carried out during the year focused on the areas considered most important in terms of compliance risk, in particular on the following areas:

- Intermediation activities - Provision of investment services - Distribution of insurance products
- Transparency towards the customer - Credit intermediation
- Insider Lists and Prevention of market abuse
- Management of conflicts of interest
- Prevention of usury
- Money laundering and the fight against terrorism
- Coherence of the bonus system.

With regard to the above, the Service's efforts in the following area were particularly significant:

- the continuing participation in efforts related to improving the adoption of "Level III MiFID" rules, which seek to define and implement procedures to transpose Consob's guidelines on the correct and transparent distribution of financial illiquid products, and in the project to reinforce the supervision of investment service provision, also following the findings of inspections conducted by the competent Authority on a Group bank. More specifically, in 2011, targeted recognition activities were carried out through the use of indices of potential irregularities, the results of which were submitted to the appropriate bodies on each occasion;
- the continuing participation in efforts related to improving the inclusion of the content of Italian Legislative Decree 231/2007 and subsequent amendments and supplements into company regulations; in this regard, the contribution of the Compliance Service proved to be fundamental, in close coordination with the Money Laundering Service, to provide support to those that deal with (i) foreign banks and (ii) with Italian exporters, with a view to full compliance with regulations on trade limitations with certain countries (e.g. Iran, Syria);
- continuous support to the process to monitor and manage conflicts of interest, and to the implementation of rules on personal transactions in financial instruments carried out by employees of the Banco Popolare Group;
- participation in the "Counter-Usury Project";
- response to reports of the Audit structures highlighting compliance risks, within its scope of competence;
- provision of training to the Group operational services on specific issues (e.g., preventing market abuse, managing conflicts of interest);
- participation in the definition of the Incentive system and the assessment system for the commercial network, in accordance with the principles of correctness defined by the Supervisory Authorities; validation (within its area of competence) of incentive campaigns for employees;
- specific assessments conducted on the specific request of Supervisory Authorities (e.g. custodian bank services; management of revolving cards, handling cash);
- monitoring of complaints relating to investment services, the response process for which is handled by the Parent Company's Quality Service.

Technological and administrative services

The Banco Popolare Group's technological and applications development services, the management of IT and physical security and administrative services are carried out centrally by Società Gestione Servizi BP S.C.p.A. (hereinafter SGS).
Said centralisation is needed to achieve synergies that enable Group services to be provided efficiently and effectively, as well as economies of scale that guarantee cost and resource rationalisation.

In 2011, SGS continued to work in the same direction as previously, in line with its company mission:

- Technological Services: efforts to strengthen the Network continued, and in parallel, an important development process started regarding the entire data centre and connectivity infrastructure, to support the *Grande Banco Popolare* project;
- Group Security: this entails constant supervision to guarantee that physical and IT security systems are updated and developed, with a view to protecting Bank locations and data and to combat new intrusion techniques;

- Administrative Services: the organisational model was extended, with the aim of providing better support to the network, by transforming back offices into after sales structures;
- Applications development: the procedures to establish the *Grande Banco Popolare* were developed, guaranteeing at the same time the development of new products to support the business and new applications to improve operational.

Technological services

As always, the main objective is to guarantee the functioning of standard data processing and transmission activities.
More specifically, technological services have worked on the concept of reinforcement, applied both to the central processing unit and to the peripheral branch network.

Group Safety and Security

Banca Popolare has always considered safety and security to be an area of key and strategic importance, to be managed with an integrated approach that avoids risk and at the same time protects the security of information, the continuing of systems and the health of workers.
In 2011, efforts were directed towards areas that most challenge security: digital identity, the network of attacks on IT structures, new means of communication and the ability to establish dynamic behavioural rules in line with the business model. The focus was therefore on the prevention and protection of all components, logical, physical, structural, of the entire Security process.
Safeguarding the technical-organisational structure was also achieved by applying business ethics to its scope of activities (socially responsible behaviour, guarantee of sustainable development, social responsibility), originating from the “need for perceived safety”, of the business and social context in which the Group operates.

IT Security

The work carried out has been characterised by the effective, cohesive and coherent use of techniques, tools and procedures to protect the IT system, customers and to prevent IT fraud.
The prime objective is to find the right balance between the security requirements that characterise all IT systems: confidentiality, integrity and availability of the data managed to support both commercial development and the Group’s internal operations.
Therefore, in 2011, projects pursued a logic of contrasting and preventing the vulnerability of systems, infrastructures, potential exposure to theft or physical damage.
At compliance level, efforts relating to the topic of privacy continued, and all of its possible implications, in accordance with legislative provisions to protect individual rights, through the adoption of precise control systems.
In terms of fraud prevention, to protect customers who use innovative banking channels (Internet banking, phone banking etc.), a payment analysis programme was successfully introduced and the technical and organisational supervision was increased to prevent hacking (card cloning, theft of credentials).

Physical safety

In 2011, the objective was to keep the level of physical safety of employees and customers high, using the technological means available as effectively as possible. The integrated development of the interaction of detection systems and reaction systems continued, in order to find the best solutions. In this area, efforts concentrated on perimeter defence, video surveillance, alarm systems, systems for cashiers, based on increasingly evolved technologies, able to increase the level of security and represent a strong preventive measure as well as a deterrent.
The latter enabled us to keep the number of robberies at the already low level recorded last year, but reducing the overall value of the goods stolen.

Health and Safety

In addition to the implementation of the measures envisaged by specific legislation (Italian Legislative Decree 81/2008), the relevant services continued in their efforts to promote awareness and to make users responsible for their actions, in line with the approach of “prevention”, which underlies all activities in the sector. On one hand, attention focused on creating environments that are beneficial to the individual’s psycho-physical well-being, combining technological innovation with job satisfaction, with a view to the overall improvement of the quality of life, and on the other hand, to enhance awareness of prevention, specific exercises and schemes were set in place for personnel (811 evacuation drills in the branches and 34 in the Group’s head offices).
Lastly, it is important to recognise the constant attention dedicated to video terminal operators, for whom special health checks are envisaged (over the year 851 check-ups were made) and to night workers (10 check-ups during the year).

Business Continuity

As regards Business Continuity, the Group has reached an advanced level of maturity with respect to legislative requirements, pursuing high standards of continuity.

In 2011, at Group level, 20 business continuity tests were conducted, which involved the organisational units of Banco Popolare, Banca Aletti, SGS and two Network Banks, the areas covered included the securities segment, Treasury, Clearing House, portfolio management, Forex, foreign securities, urgent payments and monitoring market risk.
The process to revise and update the Business Impact Analysis was completed, a tool which analytically identifies the impact on the business of the unavailability of company resources. The development of the latter is fundamental to correctly prepare and update the Business Continuity Plan given new requirements stemming from the increased size of the Group.

Research and innovation

Within the banking system, the Group has continued to collaborate with the trade association (ABI), promoting opportunities for discussion and exchanges of experiences, with a view to encouraging the perception and adoption of innovation in the Group's organisational and technological spheres.
Research focused on the active participation in Technical Committees of "IT Security and Fraud", "Business Continuity", Secure Identity Management" Observatories, organised by the ABI Lab Consortium, and on participation in ABI's Technical Commission for Occupational Health and Safety.
With regard to interbank research initiatives, we draw attention to the study published by the Competence Centre Cetif to which the Group contributed: "References models and technologies for the Governance of IT Security and Risk" held at the Cattolica University in Milan.

Administrative services

New Network Service Model - Assisted Portal

The Administrative Services Department of SGS launched the New Network Service Model, which seeks to achieve a wide-ranging and profound change in the way that after sales services are understood, used and provided to the Network, with a strong customer focus.

The New Model was adopted experimentally by the Cheques Office in July 2011; gradually, during the year, it was then extended to the following: Central Cashier Services, Services for Public Entities, On-line Collection, Portfolio and Consumer Services and Bancassurance Administration.

It is based on two fundamental pillars, both of which are highly innovative:

- transforming Back Offices into structures where after-sales activities are managed, achieved by adopting industrial logic, with separate lines of production with respect to process management and to the functions that provide assistance to the Network;
- creating a Portal of "Assisted" Support to help the Network to liaise with support structures in a simple and standardised way, guaranteeing prompt and accurate responses.

The Offices that are part of the New Model have been reorganised into three organisational teams, focused on specific objectives of service excellence:

- Assistance team, whose task is to provide operational support to the Network and provide advice on relevant processes;
- Operations team, which is responsible for administration and accounting on a highly standardised basis;
- Continuous Improvement team, which carries out fundamental supervision of activities, measures service levels and takes action for improvement.

The Portal of "Assisted" Support is the only point of contact for the Network, where they can find solutions to their operational and after-sales needs on a self-service basis and can access support structures through TicketWeb or by phone.
At the end of the first half of the year, the success of the New Model had been confirmed both in terms of quality of assistance to the Network and the increased efficiency of internal offices.
The Commercial department is very pleased with the results of the project, particularly with regard to Bancassurance, one of the critical areas reported by Network Banks and fully addressed by the new model. The Branches are very satisfied with the high level of service received via ticket and phone, as well as the usefulness of the solutions proposed for "ordinary" problems, particularly small-medium Branches.

AMICO Programme

The Administrative Services Department of SGS continued to pursue the AMICO Programme: Accelerare il MIglioramento COntinuo (Accelerate Continuous Improvement), the aim of which is to provide an excellent service to Customers, controlling operational risk and optimising costs, thanks to an industrialised working model and the continuous improvement of processes. Significant results have been achieved in terms of the improved efficiency and effectiveness of the Department, the reduction of operating losses, cleaner accounting and the reduction of personnel and service costs.

Special credit facilities (back office)

In 2011, a substantial downturn in transactions relating to new Mortgages was recorded, particularly in the second half of the year, due to changed market conditions.
On the other hand, important progress was made in terms of the Covered Bonds operations, the implementation of security measures for peripheral Archives, but centralising all documentation with one external provider, the launch of a new file collation process and the adoption of the new Elise platform for ordinary Construction, Business and Agricultural loans.

Applications developments and sales initiatives

WEB developments

September saw the release of the new bank transfer procedure called UNIPAY, through which the Group has complied in advance with the provisions of European Directives on money transfers (which will take effect in 2014). By November, all Group Banks will be using this procedure.

Credit

Certified date

After outsourcing the process to send registered letters, and centralising the payment of treasury bills in branches, further efforts were made to also reduce postage expenses.
Through an internal process with only two stages (scanning documents and sending the same online to an external certification body), branches can obtain a Certified Date on credit documentation. The documentation, and therefore the entire transaction, is passed to a specialised Certification Body, which applies a date stamp (for the certified date) and stores the documents electronically as per the law.
In the case of technical difficulties, the alternative continues to be the Post Office.

These same documents, in electronic format, are sent to the Guarantees Secretariat, which can verify the completeness of the data in real time, before the package of documentation is sent.
There are two advantages: the time that is saved and the acceleration of the credit disbursement process.

Special Credit Facilities

Considerable efforts were made to improve and fully exploit the Special Credit Facilities procedure:

- *ELISE Agevolati* (Soft Loans) project: from 19 December 2011, Credito Bergamasco, the pilot branch for this project, is using new functions of the ELISE procedure to manage loans guaranteed by Confidi. The project entailed integrating specific applications into the ELISE procedure relating to administrative management, the configuration of subsidised products, Bank-Consortium communications to manage relations between the Banks and Confidi;
  The next stages of the project envisage the extension to soft loans with Third Party Funds and soft loans with contributions and guaranteed;
- non-subsidised business loans: the procedure to grant new loans was revised. The process now envisages preliminary activities and loan approval progressing in parallel, traces the authorisation procedure for exceptions and combines applications from private and business customers in a single guided procedure;
- new instruments: several ad hoc measures were carried out to bring the procedure in line with ABI schemes (that Banco Popolare has subscribed to) to support those hit by the floods and small and medium enterprise hit by the floods:
  - suspension of mortgage payments for private and business customers resident in the areas affected by flooding in November 2011;
  - the ABI-MEF agreement of 16 February 2011 for SMEs, which envisages an extension of terms to 31 July 2012 and the extension of loan repayment plans.

Finance

In the second half of the year, considerable efforts were made in this area relating to corporate transactions, especially those linked to the Convertible Bond Issue and to the creation of the Large Bank (*Grande Banca)*, which entailed an intense preparatory stage.

MIFID

The measures dictated by legislative obligations always require a commitment on two fronts in terms of organisation and procedures, for SGS, with specific focus on computerising processes. In fact, when a complex legislative requirement has to be applied to the operating processes of a Bank, technological and IT aspects are strategically important, especially if

approached according to a service logic, in which the main customer is the operator and the objective is to streamline his activities.
These constraints therefore represent an opportunity and the motivation to analyse the systems supporting applications, the underlying information flows, the timing and the sequence of the activities through which financial services are provided, in line with the correct application of the law.

The Large Cooperative Bank (*Grande Banca Popolare)* model

This section illustrates the three parallel processes that cover all of the activities underway to create Banco Popolare: legislative obligations, technological optimisations and measures, migration activities.

Legislative obligations

IT interventions for the legal merger of 27 December

For 27 December, the date on which the merger became legally effective, the following interventions were prepared:
- adaptation of contracts and forms;
- standardisation of the economic conditions applied to customers;
- compliance of administrative/accounting procedures and those relating to reporting to various bodies (Bank of Italy, Tax Authority, etc.) as envisaged by legislation/extension agreements;
- preparation of adequate information for customers on the merger and other operating notices;
- preparation of a specific “war room” with a toll free number, to provide assistance to branches and departments.

Technological optimisation and measures

Technologies

- Enhancement of structures for the testing environment and enhancement of that of production.
- Creation of a testing environment to simulate operations of the Unified Bank.

Migration activities

The analyses to set in place all of the work needed to migrate the IT systems of the various Network Banks into the environment of Banco Popolare, were completed. In particular, attention was focused on:
- the rules and the programmes for the migration of ordinary customers, records and reports, loans, etc.;
- the adaptation of reporting to the new organisational structure of the Banco Popolare;
- the rules for allocating ordinary customers to the reference manager;
- the updating of procedures to manage the new product catalogue and conditions of Banco Popolare, with the option of managing existing accounts at existing conditions and prices.

Technological projects and investments

Disposal of Banca Caripe

With legal effect on 1 January 2011, Banco Popolare sold Banca Caripe to Tercas.
The IT migration and final termination of services were finalised during the first weekend of March 2011.
In the period between the legal transfer and the transfer of operations, Tercas was provided with services by BP Group companies for Banca Caripe on an outsourcing basis.

Measures taken for legal compliance

Italian Legislative Decree 231/2001 – Corporate administrative liability

In 2011, work was completed to update/adapt Organisational, management and control models under Italian Legislative Decree 231/01 of 16 Group companies (Efibanca, Banca Italease, Aletti Fiduciaria, Aletti Trust, Release, Mercantile Leasing, Italease Gestione Beni, Itaca Service, Immobiliare BP, Lido dei Coralli, Mariner, Nadir Immobiliare, Ri Investimenti Due, Sviluppo Comparto 6, Sviluppo Comparto 8 and Sirio Immobiliare).
In addition to the above, the Parent Company’s “231 Model” was aligned to the new system of governance (from “dual” to “traditional”) and to the role of operational bank following the merger of the six network banks into Banco Popolare.
In the meantime, work continued as usual to continuously fine-tune the Groups “231 system” and to improve its overall resilience, including procedures to include new legislative provisions on so-called “environmental offences” in the Group’s internal regulations.

Money laundering

With regard to the money laundering project, considerable efforts were made to fully encompass the Bank of Italy provisions issued on 10 March 2011 regarding "Implementation provisions for organisational, procedures and internal controls to prevent the use of intermediaries and of other parties that provide financial services for the purpose of money laundering and funding terrorism, pursuant to art. 7, paragraph 2 of Italian Legislative Decree no. 231 of 21 November 2007".
In the light of the latter Provision, Banco Popolare revised its organisational and supervision model as regards money laundering, which in any event was already substantially in line with the provisions in question. More specifically, Banco Popolare and consequently all Group Companies equipped themselves with the following:

- A document on the measures adopted by the Banco Popolare Group to manage the risks associated with money laundering and funding terrorism;
- A Group Policy on the prevention of the Money Laundering of proceeds from criminal activities and the Funding of Terrorism;
- Group Regulations on Money Laundering and Funding Terrorism.

During the year, the Bank of Italy activated a new system, through online data entry, to gather and manage reports of suspicious transactions relating to money laundering and the funding of terrorism, therefore Banco Popolare adopted a new online procedure which enables all parties involved in the administration and management of customer accounts to enter reports of transactions to be submitted for evaluation to company representatives.

With a view to continuous improvement and the rationalisation of IT procedures, new controls have been developed to improve the management of risks associated with money laundering and the funding of terrorism, through the adoption of a customer monitoring system and procedural blocks that enable the operator to ascertain that an "adequate customer check" has been carried out for each new account.

Group governance and risk management

"Development of an integrated repository of processes and review of the regulatory framework"

The activities envisaged by the "Development of an integrated repository of processes and review of the regulatory framework" project, launched in the second half of 2010, were completed according to plan.
The main objectives of the project were:

- the creation of an integrated repository of processes, risks and controls, based on a single, shared taxonomy at Group level, as a tool available to a number of company services to permit effective support of analysis, verification and reporting processes, and, in particular, of requirements inherent to the verification and assessment of the system of controls and the production and management of internal regulations;
- a review of the entire regulatory framework to improve its integration with business processes, to render it organic, simple and easy to use (particularly by the Network) through:
  - a review of the general principles of the system, of the processes of production, publication and use of regulations, and of the support tools;
  - the gradual reorganisation, starting with the more complex regulatory areas, of the current set of regulations.

The main results achieved can be summarised as follows:

- the repository of processes, risks and controls has become fully operational, following the establishment and implementation of a specific IT support application which enables information on the main business areas classified by description or "by process" to be made available to the various company functions, especially control ones. In the same environment, information on risks and controls, with the relative logic links to business processes is also available.
- the rationalisation and review of the entire body of rules and the linking of individual regulatory documents to the taxonomy of business processes ("process tree");
- a new Portal of Regulations has become fully operational, which by means of advanced search functions by indices (process, product, IT application) and by semantics (google-like search engines), enables all users to use regulations in accordance with the new process-related model, quickly and effectively;
- the use of the information of the repository of processes, risks and controls in activities relating to the tasks of the "Manager responsible for preparing the Company's financial reports" and establishment of the first use of the same by "Internal Audit" and "Compliance" services.

This has led to start of a process to completely rewrite existing regulations according to the new model of a regulatory framework based on "Process Rules". Therefore, current regulations will gradually be replaced, following an order of priority dictated by the timing of organisational and IT interventions to review the processes of the various business areas.
With regard to the instruments current used by the services in charge of producing regulations, a new IT application is currently being implemented, which is due to be released in 2012.
Given the series of results achieved and the tangible objectives pursued, the stage to establish the framework of the new model can now be considered completed; the latter is the core of the regulatory process, seen as an integral part of the wider process of organisational change, and of the needs of control functions, a single company repository for processes, risks and controls available to numerous functions through a dedicated IT environment and subject to framework, amendment and usage rules.

"Integrated risk management framework - GRC (Governance Risk & Compliance)" project

In the second half of 2011, a new important project was launched, the main objectives of which are:

- to provide control functions with an integrated risk management framework, which enables them to:
  - better use the information provided by the repository of processes, risks and controls, already implemented through the previous project entitled "*Development of an integrated repository of processes and review of the regulatory framework;*
  - to provide support to the main activities covered by the relative control models with evolved tools;
  - to increase overall operational efficiency by re-using common components;
  - to increase the effectiveness of activities thanks to information sharing and the use of a common language;
- to acquire and implement a new dedicated IT procedure (called GRC Governance Risk & Compliance) which, by using and processing the "data" component of the repository of processes, risks and controls, provides support to the control functions in the application of the above-mentioned integrated framework.

The first version of the framework will provide support to the processes of the "Internal Audit", "Compliance" and "Manager responsible for preparing the Company's financial reports" functions, but in reality, is the perfect foundation for the gradual integration of the processes of the other control functions (e.g. those of the Operational Risk Manager).
The processes in question are in part common to different control functions and in part specific and regard data analysis, activity planning, assessment of risk and controls, auditing activities, the management of mitigation measures, monitoring of interventions and reporting.
This project, which represents an important step towards the consolidation of a vision and the integrated management of risk by various control functions within the Internal Audit System, will be released gradually and will be completed by the end of 2012.

Credit regulations and processes

In 2011, Credit Regulations and rules were reviewed in depth, and the procedures and support tools were reengineered.
This entailed rationalising the previous regulatory framework, by abrogating a large percentage of the Circulars issued, over time, by the various Banks that have joined the Banking Group and the indexing of rules that are still valid, based on a logical taxonomy of credit processes, as well as completely rewriting the most important regulatory areas "by process".
One important step in the process to reorganise and integrate Group credit regulations was the preparation and approval by the Parent Company's Management Body and the Board of Directors of Group Banks, of the following Regulations, which will apply to the entire Banking Group:

- the "Credit Regulations", which establishes the principles, criteria, roles and responsibilities in terms of undertaking and managing credit risk.
  Said Regulations establish the "general" roles and responsibilities of the Parent Company, of Group Companies and of Company Departments, as well as the use of the rating system in credit processes, the types of risk to which levels of autonomy must be applied, the criteria for their allocation and those for their exercise, and responsibilities in terms of the management of ordinary customers and of Economic Groups.
  Furthermore, it establishes, for each of the (macro) credit processes defined, the principles that must be applied within specific regulations;
- the "Rating System Regulations", which establishes the principles, criteria, roles and responsibilities and the main characteristics of the internal rating system.
  These Regulations establish, for each of the processes associated with the Rating System, the principles that must be applied within specific regulations;
- the "Regulations for Limits of Autonomy in the granting of loans and Powers for the management of problem and non-performing loans", which establishes the aspects relating to decision-making procedures, roles and decision-making structures and establishes the limits of autonomy and the powers relating to the granting of loans, classification of loans and management of non-performing loans.
  These Regulations establish the autonomy limits for the granting of loans, the calculation method for the scope of decision-making, the special powers awarded to Decision-making Bodies in addition to those awarded "ordinarily", the limitations and reservations to powers that establish the lowest level Decision-making Body in certain situations of higher risk and operational complexity.
  With reference to the powers to manage "problem loans" and "non-performing loans", they establish the roles with the power to classify positions in the various "problem loan" and "non-performing loan" statuses, as well as the limits and the powers to take operational decisions on "non-performing loans".

The preparation of these regulations was the last in a series of regulatory measures, which, over 2011, have gradually enabled:

- both the limits of autonomy of Branches and of Business Areas to be standardised, as well as the methods used by the various Group Banks to establish the Decision-making Body, and objective and univocal criteria to be established for the assignment of decision-making levels to Branches;
- a new calculation method to be adopted to establish decision-making powers for "performing" customers, based on creditworthiness assessments indicated by ratings. This method has enabled wider decision-making powers to be awarded for lending to customers with a low probability of default, with the potential to improve the efficiency of the process in terms of a faster response to customers, as well as awarding less decision-making powers based

on the deterioration of creditworthiness, with the potential to impact the effectiveness of the process by awarding decision making powers to professional figures at higher levels;
- the same calculation method used to establish decision-making power to be introduced, along with the new Regulations, also for counterparties classified as having “Problem loans” and “Non-performing loans”, as well as considering existing and proposed, direct and indirect risks of the customer Risk Group on the entire Banking Group.

The principles established in the Regulations issued have been applied and included in the rewriting of the regulations “by process”. “Process Regulations” have been drawn up for areas considered priority, with the aim of encompassing an analytical description of the operational activities, the controls, the responsibilities and the support tools of a specific process in a single document.

Over the course of 2011, the rules relating to the processes indicated below have been organised and harmonised.

Lending Policies
The “Definition and update of Lending Policies” Regulations have been published, which establish (i) the activities required to provide Lending Policy guidelines for the Banking Group and for each Division, over a three year horizon, in line with the strategic planning process, (ii) the activities to be carried out annually to update Lending Policy guidelines, in line with economic and updated capital absorption objectives, in order to link them to the budgets assigned to the business structures, as well as (iii) the quarterly monitoring activities on the performance of the loans portfolio to verify its coherence with the guidelines formulated, as well as establishing any corrective measures.

Granting Loans
The Rules for the “Preliminary examination and Proposal” process were reviewed and rationalised as regards Large Corporate, Mid Corporate, Small Business Operators and “Mortgage Loans”. These Rules establish the activities to be carried out to conduct creditworthiness assessments and the feasibility of the lending transaction, as well as how proposals to grant loans may be made by the Customer Relationship Manager.
Similarly, Rules were drawn up relating to the process of “Approval” by the Branches or by Business Centres and for the “Finalisation of credit facilities” as well as the processes to finalise “Mortgage loans to private customers”, Mortgage loans to corporate customers” and the “Finalisation of other guarantees”.
Over the year, the “Process Regulations” were integrated on the basis of the changes made, with a view to guaranteeing the univocal and coordinated management of customers that are common to more than one Group Bank and customers belonging to Economic Groups, which led to the identification, based on a set of “objective” criteria indicating the “weight” of the account, of a “Counterparty Reference Manager” and an “Economic Group Reference Manager”. The latter coordinate a series of activities related to the processes of allocating and updating ratings, granting loans and monitoring and managing problem and non-performing loans.
To support “Loan Granting” processes, over the course of 2011, the new web-based Electronic Loan Application was developed on a specific work flow based on parameters to provide support to the entire loan granting process and aimed to standardise the behaviour and the assessment exercises carried out by the Managers, to trace each step of the process of preliminary examination - proposal - forwarding to higher Bodies and approval, to automatically check the documents required and the validity of the assessment elements. This procedure features a “document management” system, which can acquire, file and recover, if necessary, all of the documentation associated to the loan application, all of which with a view to the “paperless” management of the lending process. This procedure has been implemented in the Cassa di Risparmio di Lucca for Corporate and Small Business customers segments and is at the “roll out” stage in the remaining Banks of the Banking Group (first half of 2012).
Furthermore, Regulations have been drawn up to standardise the “Award of decision-making levels to Branches”, which relate to decision-making levels of autonomy, as well as the “Activation of named proxies for the award of loans to professional figures in Business Areas and Branches”, in line with the principles established in approved Regulations.
Lastly, several projects that had already started were completed, such as the IT integration of the mortgage loans procedure for the Corporate segment, which seeks to guarantee the more effective management of the process to grant medium-long term loans and the introduction of a new application for the management of loans guaranteed by “Confidi”.

Monitoring and managing performing loans
In 2011, regulations regarding the authorisation and monitoring of current account overdrafts of Retail and Corporate customers were organised and harmonised, as well as that regarding the monitoring of current account overdrafts of institutional counterparty customers.

Monitoring and managing problem loans
The process of “Monitoring and managing problem loans” was rationalised and simplified and the support procedure was reviewed to enable all stages of the same to be controlled automatically.
The rules for the automatic interception of positions on the basis of signs of potential deterioration were redefined, at the same time reducing the number of classification statuses.
Furthermore, rules were defined that require the involvement of at least two parties for decisions on how to manage positions and that establish fixed period of time for which they may remain in the process.

Credit Assessment
Internal regulations on the process for the "Collective assessment of performing loans" were organised and harmonised.

Transversal credit support processes
As part of the general review of processes, regulations regarding the assignment and updating of ratings were organised and harmonised, as well as those regarding the monitoring and control of the same process, clarifying the second level controls to be carried out by the Rating Desk.
More specifically, "Process Regulations" were published relating to the "Assignment and updating of Mid Corporate and Small Business ratings" and to the "Assignment and updating of Large Corporate ratings", which establish the activities of assigning, updating and eventually changing (override) the ratings of these customers, to the "Monitoring of the process of assignment and updating of ratings", which establishes second level line controls and the monitoring of the process to assign and update ratings, as well as "Data quality" activities in the rating system.
Furthermore, provisions on "Economic Groups" were rewritten, through the adoption of Internal regulations regarding the recognition and registration of Economic Groups, as well as changing and updating the composition of the same.
The process to acquire property surveys was regulated through the publication of Regulations on "Surveys of residential private property" and "Surveys on property other than residential private property", which establishes the activities needed to request surveys as supporting documentation for loan applications. In parallel, with regard to residential property, the new web platform for the management of surveys, integrated with the Loans and Guarantees procedure, was extended to all Group Banks.
Furthermore, the acquisition of the "Certified date" on guarantees and other contractual documents digitally, to replace the traditional postal stamp, was introduced.

In the first half of 2012, work started to rationalise and update the processes relating to Non-performing loans, as well as analyses to harmonise Regulations for the disbursement of credit in line with the different types of credit facility.

Basel 2 and other Risk Management projects

In 2011, Banco Popolare continued in its efforts to obtain authorisation from the Supervisory Authority for the use of internal methods to determine minimum capital requirements with reference to credit and market risk, as part of the Basel 2 programme.
The following paragraphs illustrate the state of progress of the latter and other projects relating to Risk Management as at 31 December 2011.

Credit risk

In 2011, the activities performed with a view to obtaining authorisation from the Supervisory Body to use Internal Rating Based (IRB) methods to calculate minimum capital requirements against credit risk entailed:
- developing and updating internal models to estimate risk factors (particularly Probability of Default -PD and Loss Given Default -LGD);
- the updating of processes and of the organisational structures related to the internal rating system;
- IT infrastructure and aspects related to the same (e.g. Data Quality). Following several preliminary meetings, between November and December 2011, the Supervisory Authority conducted its pre-validation inspection: the results of the same are under analysis.

Credit risk estimation models
In 2011, a complex project was undertaken to update credit risk estimation models (PD and LGD in particular) also as regards:
- the segmentation "thresholds" of corporate customers (for the estimation of models);
- the "definition of default" at the time of estimation and/or calibration of models);
- the historic series of information underlying the estimation and/or calibration process;
- the "model design", namely the structure of the elementary modules of the models in question and their integration.

The new PD and LGD models are expected to be fully implemented by the first half of 2012.

Credit risk measurement
In this area, the parameters of the applications relating to:
- the calculation of capital requirements on credit risk according to the "Standard" Basel 2 method;
- the "Parallel Calculation" of capital requirements at consolidated Group level on the basis of different methods (Standard-IRB)

Top Management and Corporate Bodies were continuously involved in the definition of guidelines and the results of the project.
Furthermore - with a view to implementing the new corporate structure of the Banco Popolare Group - the risk ceilings established on the basis of statistical metrics and applied to the main Group companies (VaR) were updated.

Market Risk

During 2011, the Group continued in its efforts to constantly improve market risk management, both from a technological and methodological perspective. The continuous increase of the issuer risk of Sovereign States has required the constant supervision of the credit spread component of positions in debt securities measured by the VaR model, for both the trading portfolio and the banking book. In this regard, the historical simulation VaR method was refined, taking into account the combined change in the generic risk component and in the risk component specific to debt securities (prior to this change, the two components were added). Furthermore, in order to bring the VaR measurement more in line with the economic results recorded for risk positions, *correlation* and *dividend* risk factors were introduced for positions in equity instrument derivatives, as well as a component relating to the misalignment of the change in risk factors recorded between debt securities and the relative hedges through credit risk swaps (CDS).
During the year, analyses to verify the economic impacts resulting from extreme, but plausible, changes in market risk factors, both historical and potential, (stress tests) continued, and a rigorous monitoring process was introduced, based on the monthly figures of risk absorption with respect to the limits established by internal regulations.
Lastly, in-depth analyses were conducted needed to implement the new rules to calculate capital requirements that will become effective as of 31 December 2011.

<u>Project to validate the internal model for market risk</u>
During the year, work continued to permit the Group to use an internal model instead of the standard approach, to calculate capital absorption. More specifically, in September, the Bank of Italy conducted an inspection at the Bank, which showed a good level of progress of the project with a view to its imminent validation.

Operational Risks

In 2011, work continued to implement the AMA Framework for operational risk. The AMA calculation mode, used for internal management purposes and with particular reference to capital adequacy assessments (ICAAP), entailed working groups during the year, focused on the development of risk classes, the analysis and management of extreme events and scenario assessments. In 2012, further developments of the model are envisaged, and to the risk governance processes, with the objective of undertaking the path towards validating the adoption of advanced methods to calculate minimum capital requirements.

Liquidity Risk

In 2011, the Banco Popolare Group focused on implementing the changes introduced by supervisory legislation issued in December of the previous year, which entailed setting the risk tolerance threshold on which the risk control and measurement systems are based as well as the limits mechanism. The Group was also required to make two measurements (Quantitative Impact Studies or QIS) relating to new indicators envisaged by Basel III.
The second half of 2011 saw a new and more acute stage of the crisis, which had hit European sovereign debt, with repercussions on the European banking system. Again, the monitoring system was able to provide prompt indications on the performance of the Group's liquidity profile. In 2012, the technical activities needed for the full implementation of Community legislation, which will take effect in the future, will be completed.

Technologies to monitor Group interest rate/liquidity risk

With a view to improving the support applications used by the Finance and Risk Management departments, the procedure released in 2009 (Eagle) became fully operational. The latter procedure monitors liquidity trends from an aggregate and individual perspective. This new application meets the needs of the Treasury service, by providing a valid tool for liquidity risk hedging strategies, as well as those of control functions (ALM and Risk Management), by means of specific reports designed to check the stock and availability of assets that can be financed within the Group (Counter Balancing Capacity) and the relating operating limits.

Counterparty Risk

In 2011, monthly reporting to the head of the Corporate Department of the Parent Company was implemented. The latter report contains a risk assessment based on the operational method developed internally by the Group and the results of the monitoring of the risk ceilings resolved in August 2011.
From an operational perspective, the metrics for the measurement of risk were adapted, following the use of the internal LGD instead of the regulatory one, and the scope of application was extended.
Impact studies (Quantitative Impact Study or QIS) were also conducted as regards new provisions relating to counterparty risk (scope of OTC derivatives) and to the relative capital requirements, which will come into effect in January 2013.

Communication

In 2011, in accordance with guidelines, the Banco Popolare Group continued its work in the area of communication, with a view to strengthening the brand and its positioning at national level and consolidating the bond between the Banks and its historic areas, encouraging the involvement of partners, shareholders and employees in Group values and objectives. One

of the most important events in this area was the “Road Show”, which preceded the share capital increase, which was successfully completed. These meetings entitled “Growing together. Local economy and territorial development”, were organised by Banco Popolare and Il Sole 24 Ore, in order to emphasise the rile of Group banks in the growth and development of its historic areas.
Furthermore, over the year the 2011-2013/2015 business plan was presented to the market and the press.

Communication and External Relations

2011 was an important year for Banco Popolare also as regards the sphere of Communication. The most significant events included the sponsorship of the annual Aiaf Assiom Forex convention, the major economic-financial event at national level, which took place in Verona and was also attended by the former Governor of the Bank of Italy, Mario Draghi. Numerous initiatives were stage in the Group’s various locations to celebrate the 150th anniversary of Italian Unity. One of the most important of these was the large-scale exhibition on the Renaissance in Verona, inaugurated by the President of the Republic of Italy, Giorgio Napolitano, who was presented with a DVD entitled “Il Canto degli Italiani” (The Song of the Italians), dedicated to the advent and the history of the national anthem, sponsored by the Group.
Lastly, we would like to mention the concert staged by the Royal Philharmonic Orchestra, organised by Banco Popolare, following completion of large-scale restoration work of the Santa Anastasia Basilica in Verona. The orchestra, which comprises over 80 musicians, performed to a selected audience of around 1,200 guests inside the Basilica and was conducted by Maestro Pinkas Zuckermann, the world-famous violinist, who also performed a violin solo.

Relations with the press in 2011 recorded an increased number of initiatives compared to the previous year. 263 press releases were made relating to price sensitive, commercial, institutional aspects and also dedicated to cultural and social initiatives and 24 press conferences were organised, including the conference to present the new 2011-2013/2015 business plan, held in Milan. The Group was involved in over 70 events with local institutions, businesses, entities and associations at conferences, presentations, seminars and other local events. Banco Popolare and its banks also featured significantly in local TV and radio broadcasts, as a means to convey market and product information. In addition to the previously-mentioned project with the publishing group Il Sole 24 Ore - another important project entailed collaboration with Class CNBC and the editorial office of Milano Finanza to present the Bank’s strategies relating to the share capital increase. Over the year, Banco strengthened its collaboration with specialist columns in numerous periodicals on economic, financial and credit topics of interest to the public.
In terms of institutional communication, efforts were made to consolidate the brand, values and image of the Group through the institutional campaign covering Banco and its network Banks, which was promoted through various features in local and national media.

The Banco Popolare brand was also promoted through various numerous local initiatives, sponsored by the Banks in their local areas, rendering the ties between the Group brand and those of Network banks more effective. In 2011, a wide number of initiatives were organised or sponsored by Banco Popolare. The main ones regarded the sports, cultural and social spheres.
In terms of entertainment and culture, in addition to the above-mentioned concert held in the Santa Anastasia Basilica, the Bank sponsored the seasons of the Teatro Romano and the Teatro Filarmonico in Verona, the concert of the pop singer Elisa, and that of the Berliner Symphoniker orchestra. As part of the Festival of Voluntary work in Verona, sponsored by Banca Popolare di Verona, a free concert was organised for citizens at the Mario Biondi Arena. Other events of note were the concert of Venetian Soloists held in Lucca, featuring the violinist Uto Ughi as special guests, the San Prospero concerts in Modena, with the Nouvelle Europe orchestra from Paris, and the Corale Rossini, the concert of the Symphonic Orchestra of Belgrade, staged in Genoa, and various Christmas concerts, organised in several squares where the Group has its historic roots. Different, but equally interesting types of events included the Palco sul Mare (Stage on the Sea) Festival, with events staged in various tourist resorts in Liguria, the Novara Jazz Festival, which took place against the magnificent backdrop of Palazzo Bellini, the head office of Banca Popolare di Novara, the Summer Festival in Lucca and Viareggio Mare, two important music and entertainment events that take place every year in Tuscany. Lastly, the second edition of the “Pianists” event was staged in Verona, which featured renowned artists such as Allevi and Bollani.
On the sports front, the Group continued to sponsor numerous football teams in its historical areas, including three, which are in the A League: Chievo, Atalanta and the newly-promoted Novara.
The first edition of the Banco Popolare trophy was highly appreciated by fans and the public, which featured a contest between these three teams, sponsored respectively by Credito Bergamasco, Banca Popolare di Verona and Banca Popolare di Novara. The trophy was won at a match played at the Azzurri Stadium in Bergamo by Atalanta.
As regards sports other than football, a very important milestone was achieved by Amatori Sporting Lodi, the roller hockey team, which plays in the top league and which won the Coppa Italia in 2011, also thanks to the support of Banca Popolare di Lodi.
The Group also sponsored other sports, such as Rugby, through Cus Verona and Rugby Grande Milano, volleyball, through Bergamo Foppapedretti, Asystel Volley, Blu Volley Marmilanza and Itas Diatec Trentino Volley, cycling, through the Gran Fondo Internazionale Felice Gimondi and the Gran Fondo Damiano Cunego. Last but not least, the Group also sponsors basketball, through Triboldi Basket, Assigeco Basket and Nova Ragusa Basket, water volleyball through Pro Recco, as well as three important marathons that took place in 2011: the Venice Marathon, the Verona Marathon and the Lucca Marathon.
The importance of sport and its values for the Banco Popolare Group is also conveyed by its decision to dedicate the school diaries that Banca Popolare di Verona offered in 2011 to all children in Verona and the province, who are attending the last three years of elementary school, to the world of sport.

The Group also continued to sponsor important projects that most impacted its local areas, such as the Genoa Aquarium, the Tocatì in Verona, the Pisa Book Festival, the Nougat Festival in Cremona, the Cartolandia project in Bergamo and numerous fairs organised in the Group's historic towns. Collaboration with several local trade associations continued, with a view to organising various initiatives.

Over two hundred conferences were held at the Group's various offices, which focused, in particular, on the world of associations, of no profit companies and of voluntary bodies.
Lastly, also in 2011, Banco Popolare subscribed to a scheme organised by ABI called "Invitation to the Palace", which entailed guided tours of the buildings occupied by the Group of particular artistic-architectural interest.

In 2011, the intranet portals of Group Companies were further rationalised in terms of the organisation of their content, and represented a tool to rapidly convey institutional, sales, regulatory and process information to the entire company population.
In terms of publications, the six-monthly "Banco Popolare Magazine" was further improved, now in its fourth year, which features prestigious contributions from the economic, cultural, social and innovation spheres, and is distributed free of charge to the Group's stakeholders.

BANCO&NOI, the two-monthly publication for all Group employees maintained a circulation of 30 thousand copies per edition, and provided extensive coverage of the strategies, product range and the numerous other local initiatives, through Local Banks and of the Group. The house organ also distributed the BANCO&NOI Notebooks, which cover specific work-related topics.
To provide further information to employees, topic-specific brochures were also distributed, such as the "Employee Charter" and the "Guide to Employee Appraisals", as well as targeted communication to illustrate specific initiatives.

As usual, a large number of events were created and organised for the Group's Employees, again with the objective of improving the quality of decision-making processes through the exchange of reciprocal knowledge/experience.
The meetings with network and head office personnel, to illustrate the "Large Cooperative Bank" (*Grande Banca Popolare*) project were particularly appreciated. These meeting took place in Novara, Verona, Lodi, Bergamo, Pisa and Rome, some of the Group's main offices.

Investor relations

The following paragraphs illustrate Investor Relations' activities in 2011. In addition, information is provided on shareholders who exceed the 2% threshold, while information on ratings and on share performance is illustrated in specific sections. For further information, please refer to the section dedicated to Investor Relations, available on the company website (www.bancopopolare.it/en).

Investor Relations' activities

In 2011, Banco Popolare managed a total of 94 events, usually with the involvement of Group top management, attended by 334 investors and financial analysts (from both the stock market and the bond market), as better detailed in the table below.

	No. of events	%	Nr. of people involved	%
Presentations by Banco Popolare*	6	6.4%	6	1.8%
Industry conferences (stock market)**	8	8.5%	85	25.4%
Industry conferences (bond market)**	3	3.2%	21	6.3%
Roadshows (stock market)	8	8.5%	94	28.1%
- of which: Italy	*2*	*2.1%*	*26*	*7.8%*
- of which: United Kingdom	*3*	*3.2%*	*36*	*10.8%*
- of which: other European countries	*3*	*3.2%*	*32*	*9.6%*
Roadshows (bond market)	10	10.6%	37	11.1%
- of which: Italy	-	-	-	-
- of which: United Kingdom	*5*	*5.3%*	*21*	*6.3%*
- of which: other European countries	*5*	*5.3%*	*16*	*4.8%*
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	33	35.1%	65	19.5%
Other individual and/or group meetings, telephone conferences and video conferences (bond market)***	18	19.1%	18	5.4%
Events with rating companies *	8	8.5%	8	2.4%
Total	**94**		**334**	

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

During the year, Banco Popolare staged 6 presentations by teleconference and webcast to provide quarterly updates to the market on the Group's financial performance as at 31 December 2010 and as at 31 March, 30 June and 30 September 2011; in addition, on 30 June 2011, the 2011-2013/2015 Business Plan was presented to the financial community in Milan (also accessible via teleconference and webcast), while on 18 July 2011, the Large Cooperative Bank (*Grande Banca Popolare)* project was presented to the market by teleconference and webcast.
As regards the stock market, the Investor Relations team organised and coordinated the roadshow prior to the share capital increase, which took place at the beginning of the year, travelling to the main European markets, and which involved 94 investors (corresponding to 28% of the parties met as a whole over the year) for a total of 8 days. 8 industry conferences also attracted a significant number of attendees, organised mostly in London by leading stock research and brokerage companies, which entailed encounters with over 25% of the total number of parties reached (85 investors).
Furthermore, given the increasing importance of the bond market, during 2011, the Investor Relations service organised 2 roadshows addressed to this type of investor - which took place in various European countries - and lasted a total of 10 days, covering around 11% of those encountered overall (37 investors), and participated in 3 industry conferences, organised by leading bond market research and brokerage companies, meeting with 21 investors (6% of the total).
Lastly, the remaining 27%, represented by equity and debt security investors and analysts (including rating companies) were able to communicate with Banco Popolare management on 59 other occasions (other direct encounters, teleconferences and/or videoconferences).
Note that the Banco Popolare stock is "covered" more or less actively by around 25 stock research companies (the coverage of 3 of which was suspended at the end of December 2011) and that the Investor Relations service continuously liaised with the "sell-side" analysts of these companies over the year.

Shareholders

Banco Popolare's share capital is held by private investors, with a high level of fragmentation, which reflects the 'retail' nature of the Group, and institutional investors in Italy and abroad.
As at 31 December 2011, according to information published on the Consob website, 2 institutional investors held an investment of over 2% of Banco Popolare's share capital, as shown in the following table.

Important Banco Popolare shareholders (Source: Consob; situation as at 31/12/2011)

Declarant	% held
Blackrock Inc.	3.533%
Norges Bank	2.181%

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 in 2011 is provided in the following paragraphs.
As regards the Parent Company, Banco Popolare, please refer to the separate financial statements contained in this report.

Credito Bergamasco

(in millions of euro)	31/12/2011	31/12/2010	Change
Income statement figures			
Financial margin	365.7	350.0	4.5%
Net fee and commission income	200.4	190.9	5.0%
Operating income	573.5	549.6	4.4%
Operating expenses	282.0	273.6	3.1%
Income (loss) from operations	291.5	276.0	5.6%
Income (loss) before tax from continuing operations	165.7	150.7	9.9%
Income (loss) for the year	106.3	97.8	8.7%

(in millions of euro)	31/12/2011	31/12/2010	Change
Balance sheet figures			
Total assets	15,764.9	15,488.8	1.8%
Loans to customers (gross)	14,196.5	13,173.8	7.8%
Financial assets and hedging derivatives	149.7	135.2	10.7%
Shareholders' equity	1,381.5	1,360.1	1.6%
Customers' financial assets			
Direct deposits	12,298.5	10,883.0	13.0%
Indirect deposits	10,806.1	10,745.1	0.6%
- Asset management	3,085.7	3,227.2	(4.4%)
- Mutual funds and SICAVs	771.7	857.1	(10.0%)
- Securities and fund management	564.0	711.1	(20.7%)
- Insurance policies	1,750.0	1,659.0	5.5%
- Administered assets	7,720.5	7,517.8	2.7%
Information on the organisation			
Average number of employees (*)	2,052	1,984	
Number of bank branches	302	251	

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

Loan brokering activities

The close ties forged with the areas served and with the retail customers and enterprises belonging to the same have enabled the bank to further expand the levels of local business, despite the continuing unfavourable economic scenario.
As at 31 December 2011, Credito Bergamasco's direct funding - including the bond issues subscribed by Banco Popolare relating to the "Single Group Issuer" project of a total of euro 4.6 billion - amounted to euro 12,298.5 million, recording an improvement of 13% over euro 10,883 million recorded a year ago.
The bank's indirect funding amounted to euro 10,806.1 million, compared to the euro 10,745.1 million recorded at the end of 2010 (+0.6%).
One of the components of indirect funding, asset management - confirming the trend followed by the domestic banking industry - fell to euro 3,085.7 million from euro 3,227.2 million one year previously (-4.4%).
More specifically, the portfolios managed by the investee company Banca Aletti placed by Credito Bergamasco's sales network amounted to euro 564 million, compared to euro 711.1 million as at 31 December 2010; mutual investment funds recorded a total of euro 771.7 million (-10% compared to the end of 2010) and the total of insurance policies – which reached euro 1,750 million – marked a rise of 5.5% against euro 1,659 million at the end of 2010.
Indirect administered assets reached euro 7,720.5 million, recording an increase for the year of 2.7% and total funding from customers amounted to euro 23,104.7 million, with a rise of 6.8% over the euro 21,628.1 million recorded at the end of 2010.
As at 31 December 2011, gross loans totalled euro 14,196.5 million, up 7.8% against the euro 13,173.8 million recorded at the end of 2010.
Net loans to customers were euro 13,843.5 million, with a significant rise of 7.5% compared to euro 12,877.4 million as at 31 December 2010. These developments - fully in line with the objectives pursued by the commercial policy set in place for 2011 - continue to be the result of different changes in different customer segments, with a reduction of exposure towards

"large corporate" customers that do not belong to the historical areas and a rise in loans granted to retail customers and small businesses, the real "connective tissue" of the local economy. The operating figures show that in 2011, an annual increase in the average balances of total loans of 5.9% was recorded; in particular, loans to private customers rose - on average terms - by 20.7%, those to small enterprise by 11.8% and those to the corporate world by 7.5%, while loans to the "national large corporate" recorded an average fall of 22.8%.
Financial statement figures broken down into the different loan types show that total mortgage loans to retail and corporate customers amounted to euro 7,392 million, recording a significant rise of 15% against euro 6,425.6 million as at 31 December 2010.

The following table provides a "status" analysis of the situation of cash loans to customers as at 31 December 2011 compared with the same balances as at 31 December 2010.

(in thousands of euro)	31/12/2011	31/12/2010	Changes	
Gross non-performing loans	**1,135,594**	**921,737**	**213,857**	**23.2%**
Doubtful loans	542,380	454,965	87,415	19.2%
Substandard loans	421,198	291,002	130,196	44.7%
Restructured loans	104,993	129,701	(24,708)	(19.0%)
Past due loans	67,023	46,069	20,954	45.5%
Gross performing loans	**13,060,935**	**12,252,044**	**808,891**	**6.6%**
Total gross exposure	**14,196,529**	**13,173,781**	**1,022,748**	**7.8%**
Adjustments on non-performing loans	(271,234)	(227,605)	(43,629)	19.2%
Adjustments on performing loans	(81,767)	(68,823)	(12,944)	18.8%
Total net exposure	**13,843,528**	**12,877,353**	**966,175**	**7.5%**

The difficulties being experienced by the national and local economy have impacted the figures for non-performing loans.
The ratio of non-performing loans to total loans to customers – before adjustments – as at 31 December 2011 was 8%, against 7% at the end of 2010. Net of value adjustments, the ratio of the same items was 6.24%, an improvement on the 5.39% recorded at the end of 2010.
Looking at doubtful loans only, the ratio of these to total loans as at 31 December 2011 - before value adjustments - was 3.82%, compared to 3.45% as at 31 December 2010. Net of value adjustments, the ratio in question was 2.50% compared to 2.16% at the end of 2010.
Value adjustments on non-performing loans as at 31 December 2011, represented 23.88% of their total gross amount, compared to 24.69% as at 31 December 2010. More specifically, value adjustments on doubtful loans as at 31 December 2011, represented 36.18% of their total gross amount, against 38.92% as at 31 December 2010. Value adjustments on performing loans as at 31 December 2011 represented 0.63% of their amount, against 0.56% at the end of 2010.

Income statement results

As at 31 December 2011, the interest margin - despite the diminishing positive effects resulting from hedges of liability items made previously and now expired, as well as the higher average cost of funding in 2011 - was euro 333.9 million, recording a rise of 4.3% compared to the euro 320.2 million recorded as at 31 December 2010.
The profits/losses on investments in associates and companies subject to joint control carried at equity was euro 31.8 million, recording a 6.6% increase compared to euro 29.8 million one year previously; the financial margin was therefore euro 365.7 million, up 4.5% compared to euro 350 million as at 31 December 2010.
Net fee and commission income from services reached euro 200.4 million, up 5% compared to the euro 190.9 million recorded in 2010.
Other net operating income amounted to euro 4 million, against euro 3.6 million the previous year, while the net financial result was euro 3.4 million, against 5.1 million as at 31 December 2010.
Other operating income was therefore euro 207.8 million, up 4.1% compared to euro 199.6 million a year previously and total operating income reached euro 573.5 million, compared to euro 549.6 million a year previously (+4.4%).
As at 31 December 2011, personnel expenses, net of recoveries, amounted to euro 165.6 million, a 2.1% rise compared to euro 162.3 million the previous year; other administrative expenses, net of recoveries, amounted to euro 109.7 million, with a yoy rise of 4.4%, while net value adjustments on tangible and intangible assets amounted to euro 6.7 million, compared to euro 6.2 million the previous year.
Therefore operating expenses as a whole touched euro 282 million as at 31 December 2011, a rise of 3.1% compared to euro 273.6 million as at 31 December 2010, and the cost/income ratio was 49.2% compared to 49.8% a year previously.
Income (loss) from operations reached euro 291.5 million, up 5.6% compared to 276 million the previous year.
Net losses on the impairment of loans fell by 2.2%, from euro 125.8 million as at 31 December 2010 to euro 123 million as at 31 December 2011; net losses on the impairment of other assets were euro 0.6 million (euro 0.7 million the previous year) and net provisions for risks and charges amounted to euro 2.3 million. Gross income from continuing operations therefore amounted to euro 165.7 million, up 9.9% compared to euro 150.7 million as at 31 December 2010.
Income taxes - with a higher tax burden of euro 2.9 million due to the rise of the IRAP rate applied to banks and other financial entities and companies, and introduced by Italian decree law no. 98 of 6 July 2011, converted into law no. 111 of 15 July 2011 - were euro 59.4 million, and the net profit was therefore euro 106.3 million, up 8.7% compared to euro 97.8

million recorded as at 31 December 2010. The end of year ROE, calculated as the ratio of net profit to capital and reserves, was 8.3%, against 7.7% the previous year.

Significant events during the year

Credito Bergamasco's Report on Operations includes numerous important events, the majority of which relating to activities performed under the guidance and coordination of the Parent company, retained significant from a corporate perspective and in consideration of the immediate or future impact of the same on the bank's business activities in economic, commercial, administrative/regulatory etc. terms.
Some of the above-mentioned significant events are summarised below:

- the acquisition by Credito Bergamasco of 52 branches of the Group's Network Banks as part of the project to "reorganise the Branch networks of the Banco Popolare Group", which sought to optimise the distribution network and eliminate any overlaps between Group branches. More specifically, the acquisition entailed:
  a) a business segment comprised of 8 branches of Banca Popolare di Crema (of which 7 branches are located in the province of Brescia and 1 in the province of Bergamo);
  b) a business segment comprised of 21 branches of Banca Popolare di Cremona (of which 10 branches are located in the province of Brescia, 10 in the province of Bergamo and 1 in the province of Monza-Brianza);
  c) a business segment comprised of 18 branches of Banca Popolare di Lodi (of which 9 branches are located in the province of Varese, 4 in the province of Como, 3 in the province of Milan, 1 in the province of Bergamo and 1 in the province of Rome);
  d) a business segment comprised of 4 branches of Banca Popolare di Verona-SGSP (located in the province of Brescia);
  e) a business segment comprised of 1 branch of Banca Popolare di Novara (located in the province of Rome).

  The plan approved by the Board of Directors of Credito Bergamasco in a meeting held on 12 May 2011, also included, beyond the cited acquisitions of Creberg, the transfer of a total of 35 branches (of which 17 branches to Banca Popolare di Lodi, 10 branches to Banca Popolare di Verona SGSP, 8 branches to Banca Popolare di Novara) to the Network Banks of the Banco Popolare Group, and the subsequent transfer to the Parent Company of the share packages of the Network Banks acquired following said transfer.
  In the light of the project to simplify the corporate and governance structure of the Group, approved by Banco Popolare on 15 July 2011 - which envisaged the merger by incorporation of the Network Banks Banca Popolare di Lodi, Banca Popolare di Verona SGSP, Banca Popolare di Novara, Banca Popolare di Crema and Banca Popolare di Cremona into Banco Popolare - and given that at the meeting of the Management Board of 26 July 2011, the Parent Company
  - evaluated - given the legal autonomy maintained by Creberg - the compatibility of the transfers of business segments to Credito Bergamasco with the new corporate Group structure under art. (58 of the Consolidated Banking Law);
  - and revoked - insofar as not compatible from a business law perspective with the project to simplify the Group's corporate structure - the resolutions passed regarding the "Project to reorganise the local networks of the Network Banks" relating to the other transactions envisaged by the same (including therein the transfers by Creberg to the other Group companies mentioned above);

  in a meeting held on 25 August 2011, the Board of Directors of Credito Bergamasco resolved to implement the revocation of the Board resolution of 12 May 2011 relating to the transactions of the "Project to reorganise the local networks of the Network Banks" in which Creberg is the "assignor", specifying that the transactions in question - in line with the objectives of the 2011-2013/2015 Group Business Plan - should be carried out in the second half of the year;
- the promotion of a series of initiatives that seek to provide solid support - given the difficult development of the economic situation - to retail customers and to SMEs, the key figures of the local economies served. These initiatives included the subscription to agreements with the Prime Minister's Office /Department for Young People, for the disbursement of loans to university students and newly-graduated students - secured by a guarantee from the "Fund for lending to young people, pursuant to Italian Law Decree 2/7/2007, no. 81, converted into Italian Law no. 127 of 3 August 2007" - for the purpose of undertaking and furthering professional and occupational courses, and for the disbursement of mortgage loans to young people, secured by the guarantee of the "Solidarity Fund for mortgage loans for the purchase of a first home, pursuant to Law no. 244 of 24 December 2007", as well as the renewal - together with the other Group Banks - of the subscription to the Memorandum of Intent "Italy & Tourism" between the Minister for Tourism, National Trade Associations and Confidi, confirming the allocation of a ceiling (corresponding to a total of euro 200 million) for the entire Banco Popolare Group and valid until 31 December 2011) addressed to micro, small and medium customer enterprises, for new investments in the tourism and accommodation sector.
- the transfer to the Parent Company Banco Popolare of the interest held in Efibanca, represented by 6,688,000 shares (corresponding to 6.097% of share capital). Said transfer is part of a process to harmonise operating methods and risk control and management processes relating to corporate activities, as well as to rationalise and simplify the Banco Popolare's Group corporate structure. As far as Credito Bergamasco is concerned, the transfer of the interest in Efibanca enabled the Bank to dispose of a shareholding that was not directly related to its banking activities in the area, therefore focusing its capital on the core business.

Banca Aletti & C.

(in millions of euro)	31/12/2011	31/12/2010	Change
Income statement figures			
Interest margin	46.01	29.63	55.3%
Net fee and commission income	43.17	36.29	18.9%
Operating income	318.26	290.29	9.6%
Operating expenses	(93.42)	(99.55)	(6.2%)
Income (loss) from operations	224.85	190.74	17.9%
Income (loss) for the year	148.64	136.50	8.9%
Balance sheet figures			
Total assets	12,405.24	9,536.18	30.1%
Loans to customers (net)	1,417.90	1,410.13	0.6%
Financial assets and hedging derivatives	6,278.78	6,515.30	(3.6%)
Shareholders' equity	592.75	576.47	2.8%
Customers' financial assets			
Direct deposits	2,583.26	746.83	245.9%
Indirect deposits	13,710.59	17,022.51	(19.5%)
Information on the organisation			
Average number of employees (*)	431	433	
Number of bank branches	35	36	

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

Banca Aletti is organised into three divisions that work closely with the Group's distribution networks:

- the Investment Banking division;
- the Investment Management division;
- the Private Banking division.

Investment Banking

Derivative Instruments and Structured Products - Financial Engineering

The main focus of the interest rate market in 2011 was strictly linked to the spread of the European sovereign debt crisis. The increasing funding difficulties encountered by so-called peripheral nations triggered considerable "flight to quality" shifts towards countries and assets retained safer. Swap rates reflected this shift and after having risen in the first half of 2011, they fell back down to the record lows reached in 2010, while the asset swap spreads (indicators of the yield spread between swaps and German Government bonds) reached record levels. Liquidity in both the regulatory and OTC markets has further deteriorated, given the increasingly lower number of market-makers interested in making quotations in increasingly volatile markets.

In terms of flows, in 2011, the minimum level reached by interest rates and the perception that interest rates were not going to rise in the short-term led to a fall in the demand for hedges against interest rate risk by corporate customers from around euro 4.5 billion to euro 2.6 billion, while the sale of bond issues remained at 2010 levels, around euro 8 billion.

After a first six months of waiting, characterised by fairly wide trading ranges, the share markets then fell sharply, triggered by a phenomenon known as the debt crisis of peripheral Eurozone nations (PIIGS). Consequently, the exchange market saw a structural weakness of the euro against the major world currencies. On the derivatives market, the impact took the form of a significant fall in liquidity, making it difficult to hedge risk positions in portfolios.

In this situation, trading activities were characterised by the search, on one hand, for spot hedge positions on maturities and less liquid underlying instruments, in order to reduce the more complex risk positions in the portfolio, and on the other, for opportunities linked to the assumption of risk positions on the spot, volatility and correlation markets, although limited to more liquid underlying instruments. This scenario also prompted the decision to change the Bank's role on the regulated IDEM market as regards contracts on individual shares. The weak signs of the increased structuring of Equity-linked products (certificates in particular) recorded in the first half of the year disappeared in the second half of the year due to greater uncertainty as to the fate of the Eurozone in general and of Italy in particular. The demand for short-term exchange hedging instruments of corporate customers was stable.

Trading & Brokerage

2011 will be remembered as one of the most difficult years for the global financial system; the sovereign debt crisis in the Eurozone, its repercussions on the balance sheets of financial institutions and the spectre of a new global economic slowdown, drove investors to sell, often at any price, considerable amounts of financial instruments considered "high risk", seeking safer investments. This deleveraging regarded both the bond segment of the so-called "peripheral" European nations, and the stock market, leading to a significant fall in liquidity, which in some sectors fell to record lows, resulting in extremely negative performance of many stocks over the entire year.

Share market
The high volatility that characterised the main international indexes, particularly the Italian one, suggested a careful approach to portfolio management, favouring long-short and neutral market strategies instead of so-called “directional” strategy. This decision enabled us to mitigate the high market fluctuations and record positive results. Also as regards third party transactions, which recorded a sharp drop in trading volumes, as shown by figures of Borsa Italiana (-16.71%), Banca Aletti improved its market positioning, increasing its share from 1.72% last year to 3.23% in 2011 (source Assosim). During the year, the Bank strengthened its presence on the IDEM Single Stock Futures market, bringing the number of underlying instruments for which it acts as Primary Market Maker to 53.

Bond market
The public debt crisis of the peripheral nations of the Eurozone affected the activities of customers throughout 2011. In this difficult scenario, the approach adopted by operators was characterised by the careful selection of the risks undertaken, a cautious interpretation of market developments and a limited stock of bonds with low duration at the worst time of the crisis. This approach meant that the amount of bonds could be increased or reduced depending on market shifts, limiting the effects of negative phases and grasping the opportunities provided by positive ones. Despite the high level of uncertainty that characterised the majority of the year, an increase, albeit limited, of the volumes traded by customers was recorded compared to 2010. Banca Aletti contributed to improving the quality of the prices and of the liquidity of the shares quoted on the Hi-MTF market, the platform dedicated to Private and Retail customers, providing purchase and sale prices on 662 plain vanilla bonds of third party issuers and on all of the bonds issued by the Banco Popolare Group.

Capital Market

Equity Capital Market
In 2011, due to the continuing difficult market conditions, only one listing transaction was carried out on the MTA; instead 20 share capital increases by payment and 13 Public Purchase Offers were carried out.
Banca Aletti’s Equity Capital Market Office was part of the placement and guarantee consortium for the Public Offer of Salvatore Ferragamo shares, of the guarantee consortia for the share capital increases of Falck Renewables SpA and Banca Monte dei Paschi di Siena SpA and of the public purchase offers of Parmalat SpA and SNAI SpA. In August, Banca Aletti acted as intermediary responsible for grouping Investimento e Sviluppo SpA shares. In October, Banca Aletti obtained the mandate of Financial Advisor and Intermediary assigned to the voluntary Public Purchase Offer of the Minerali Maffei Group shares. The offer, which was closed in December, exceeding the 90% threshold, will continue on into the first quarter of 2012 with the procedure relating to the purchase obligation and the possible squeeze out. In December, Banca Aletti joined the guarantee consortium for the share capital increase of Unicredit, which was expected to be completed in February 2102, for a total amount of euro 7.5 billion, and acted as authorised intermediary for the auction of unassigned rights of KR Energy SpA.

Debt Capital Market
In 2011, Banca Aletti’s Debt Capital Market Office participated both as Joint-Bookrunner and as Co-Dealer Manager in various issues of Banco Popolare.
Instead, as services rendered to external customers, Banca Aletti participated in the following placements:
- in February, the reopening of EIB 2018 bonds for a total of euro 500 million;
- in May - June, the Public Offer of fixed-rate and floating-rate General Electric 2017 bonds for a total of euro 900 million;
- in September, the Public Offer of fixed-rate and floating-rate ENI 2017 bonds for a total of euro 1.35 billion.

In the fourth quarter of 2011, due to the worsening of the financial crisis due to the substantial deterioration of the quality of Italian public debt, the primary bond market was completely blocked.

Corporate & Institutional Sales

In 2011, the distribution strategies and the structuring and placement of investment products were heavily influenced by the economic scenario, in particular by the sovereign debt crisis and its repercussions on the banking system. Of the around euro 10.4 billion of structured investment products placed (+9% compared to 2010) around 64% was represented by bonds issued by Banco Popolare, with the dual purpose of obtaining ordinary and new funding. Customers continued to prefer simple products with guaranteed capital, indexed to interest rates. In the second half of the year, the renewed aversion to risk slowed down the placement of Certificates: just over euro 60 million, against euro 250 million in the first half.
However, Banca Aletti managed to maintain a leading position in the Italian market for these financial instruments. As regards products to hedge interest rate, the offer of Euribor Cap Covered Warrants to customers with floating rate mortgage loans recorded a downward trend over the year, due to the interest rate trend and loan dynamics.

Institutional Sales
With regard to sales activities relating to non-captive customers, in the first six months of the year in particular, the market situation boosted the activity of arranger of Banco Popolare issues. Banca Aletti participated as bookrunner in the public issue of Senior Banco Popolare bonds and as co-lead for two Covered Bond issues (this type of bond is preferred to senior bonds given the situation of the banking sector) and for the exchange offer of three subordinated bonds by Banco Popolare.

In the second half of the year, the sovereign debt crisis and its repercussions on the market restrained the banking system's interest in public issues addressed to institutional customers.
Bonds trading on the secondary market benefited from the continuation of several market trends, which led numerous institutional investors to reposition their investments on categories such as bonds. This resulted in an increase of trading volumes, as well as the acquisition of new customers in this specific business segment.
As regards Equity Brokerage addressed to Italian small&mid Caps, institutional investors continued to prefer companies with higher levels of capitalisation, therefore volumes in this segment fell. Nevertheless, transactions were initiated with five new customers.
As regards sales activities in distribution networks external to the group, the preference for direct funding and insurance products combined with a high aversion to risk, which resulted in a preference for products with guaranteed capital, led to a fall in volumes of Certificates and of asset management products.

Large Corporate Sales
In 2011, following the gradual fall of the Euro interest rate curve, customers served by the Large Corporate Sales office increased the percentage of hedging of their medium/long term financial liabilities, setting in place interest rate risk management transactions for almost all new loans and, in many cases, also for the remaining part of loans granted in previous years.
The instruments adopted were mostly effective plain vanilla hedges; more specifically, corporate customers favoured the use of interest rate swaps or, in some cases, the purchase of Caps or Collars to exploit further short-term falls in the interest rate.

Investment Management

Portfolio management suffered negative repercussions from the high uncertainty characterising the performance of various asset classes. The share component of portfolios was particularly affected by the higher aversion to risk and the weakness of the financial sector, while the government bond component, particularly Italian bonds, was characterised by the process of enlargement of spreads between core and peripheral Eurozone nations. Instead, diversification in currencies other than the Euro, and the corporate bonds segment, albeit to a lesser extent, made a positive contribution to results. Due to the combination of the above effects, the returns offered by managed products that are most exposed to the bond market and to currency diversification were in line with those of the reference indices. As regards products managed on a Total Return basis, absolute results were positive due to careful management of bond risk, particularly of the Italian debt, and by marked currency diversification.

Private Banking

At the end of 2011, Banca Aletti recorded a global amount of "assets under management" (administered and managed) of euro 13.7 billion.
The continuing volatility of the stock markets, accentuated by periodic tension relating to different sovereign debts of the Eurozone, drove many customers to return to defensive positions, slowing down the process of rebuilding diversified portfolios that had begun in previous periods.
The year was also characterised by a fall in available liquidity due to the continuing standstill of the real economy and to lower available credit: these factors led to the use of bank assets to fund company or real estate investments. In this context, action taken to increase assets in the medium terms and to extend the scope to customers offset the above-cited outflows.
Private-corporate cross selling (Pri-Corp) has reached its fifth year in collaboration with the corporate network. Results confirm steady and continual growth: from the start of the project (2006), funds of euro 3.4 million were collected, of which euro 506 million in 2011. In the second half of the year, as part of the Group's business plan, the project phase was launched, the aim of which is to re-launch the business and its commercial effectiveness.
In organisational terms, during the second half of the year, the Crema unit was merged with the Cremona one, which will continue to oversee operations in the provincial capital. Also in the second half of the year, the "Centre South" area was reinstated, comprised of the Rome, Naples and Catania units. At the same time, "Piedmont, Lazio and Campania" and the " Lombardy South and Sicily" areas were renamed "Piedmont and Val d'Aosta" and "Lombardy South" respectively. At the end of 2011, following the above changes, Banca Aletti's network was comprised of 8 Areas, 35 Units and 182 Private Bankers.

Income statement figures

Banca Aletti closed 2011 with a 8.89% rise in net income, which rose from euro 136.50 million as at 31 December 2010 to euro 148.6 million as at 31 December 2011.
Recurrent components rose from euro 136.6 million as at 31 December 2010 to euro 148.7 million as at 31 December 2011, marking an 8.84% increase, corresponding to euro 12.1 million.

Aletti Gestielle SGR

(in millions of euro)	31/12/2011	31/12/2010	Changes
Income statement figures			
Operating income	28,7	29.4	(2.4%)
Income (loss) from operations	(8,2)	7.7	(206.5%)
Income (loss) for the year	(11,3)	4.4	(356.8%)
Balance sheet figures			
Total assets	100.6	130.4	(22.9%)
Shareholders' equity	74.6	90.1	(17.2%)
Asset volumes			
Net managed assets	5,096.6	7,036.2	(27.6%)
Subscriptions	1,595.6	2,808.3	(43.2%)
Redemptions	3,041.8	4,126.6	(26.3%)
Other figures			
Average number of employees (*)	92	99	

(*) 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 that characterised Aletti Gestielle SGR, please refer to the section of this Report on Operations that regards the Group's commercial activities, particularly the paragraph entitled Investment & Private Banking, Asset Management.

Banca Italease and subsidiaries

(in millions of euro)	31/12/2011	31/12/2010 (*)	Change
Income statement figures			
Financial margin	48.8	99.7	(51.1%)
Net fee and commission income	3.9	11.0	(65.0%)
Operating income	33.6	38.3	(12.3%)
Operating expenses	(102.3)	(103.3)	(1.0%)
Income (loss) from operations	(19.9)	34.7	(157.3%)
Income (loss) before tax from continuing operations	(137.5)	(191.2)	(28.1%)
Income (loss) for the year	(99.0)	142.1	(169.7%)

(*) 2010 figures have been adjusted to take into account the reclassification of the income (loss) from discontinued operations relating to Itaca Service S.p.A

(in millions of euro)	31/12/2011	31/12/2010	Change
Balance sheet figures			
Total assets	10,531.3	12,481.5	(15.6%)
Loans to customers (gross)	9,152.0	10,673.8	(14.3%)
Financial assets and hedging derivatives	145.5	267.9	(45.7%)
Shareholders' equity	1,407.8	1,496.3	(5.9%)
Information on the organisation			
Average number of employees (*)	287	357	

(*) arithmetic average calculated on a monthly basis. Directors and Statutory Auditors are excluded from this aggregate, the 2010 figure is proforma, as the personnel of Itaca Service have been removed.

Consolidated balance sheet

(in thousands of euro)	31/12/2011	31/12/2010	Changes	
Gross non-performing loans	**4,101,473**	**3,875,404**	**226,069**	**5.8%**
Doubtful loans	1,475,245	1,278,085	197,160	15.4%
Substandard loans	1,080,348	1,457,445	(377,097)	(25.9%)
Restructured loans	1,488,103	1,010,913	477,190	47.2%
Past due loans	57,777	128,961	(71,184)	(55.2%)
Gross performing loans	**5,050,501**	**6,798,415**	**(1,747,914)**	(25.7%)
Total gross exposure	**9,151,974**	**10,673,819**	**(1,521,845)**	**(14.3%)**
Adjustments on non-performing loans	(940,053)	(975,616)	35,563	(3.6%)
Adjustments on performing loans	(72,648)	(73,516)	868	(1.2%)
Total net exposure	**8,139,273**	**9,624,687**	**(1,485,414)**	**(15.4%)**

Net loans to customers as at 31 December 2011 amounted to euro 8,139.3 million, down 15.4% with respect to the figure of euro 9,624.7 million at the end of December 2010.
The fall in net receivables for lease contracts and mortgage loans compared to December 2010, not only linked to the consensual terminations of doubtful or substandard agreements further to transactions carried out with major customers and to the assignment of doubtful and substandard loans, was also affected by the normal amortisation of performing loans given the scant volume of new disbursements. More specifically, as at 31 December 2011: (i) euro 5,690.2 million refers to receivables for lease contracts; (ii) euro 1,289.8 million refers to mortgage loans and (iii) euro 1,159.3 million of other receivables includes, amongst other things, assets under construction and those awaiting finance leases (corresponding to euro 254.9 million).

Total consolidated gross non-performing loans (comprised of doubtful, substandard, restructured and past due) rose by euro 0.2 billion in 2011, increasing from euro 3.9 billion at the end of 2010 to euro 4.1 billion at the end of 2011.
Under this aggregate, against a decrease of the substandard and doubtful loans aggregate (around euro 0.2 billion), loans classified as restructured increased by euro 0.5 billion, rising from euro 1 billion to euro 1.5 billion.
In 2011, efforts continued to restructure the exposures of the main debtors of Banca Italease and its subsidiaries. As regards the level of concentration at the end of December 2011[1]: (i) around 49% of gross doubtful loans was represented by 30 economic groups (compared to 50% the previous year), (ii) around 51% of gross substandard loans was represented by 30 economic groups (compared to 62% the previous year), (iii) restructured loans were comprised by receivables from around 22 economic groups, of which the top 3 represent 71% of classes and (iv) around 82% of gross past due positions was represented by 30 economic groups (compared to 72% the previous year).
As at 31 December 2011, gross doubtful loans represented 16.1% of gross total loans to customers, up compared to the 12.0% at 31 December 2010, gross substandard loans represented 11.8% as at 31 December 2011, down compared to the 13.7% of 31 December 2010, and lastly restructured and past due loans represented respectively 16.3% compared to 9.5% of December 2010 and 0.6% of total gross loans compared to 1.2% in December 2010.
These trends are mainly due to the fact that during the year a number of transactions were concluded with large customers, which led to the cancellation/reclassification of several lease contracts previously classified as doubtful or substandard, although to a lesser extent than in 2010.
The rate of coverage of doubtful receivables fell from 42.9% at the end of 2011 to 39.3% in December 2010. The level of coverage of substandard receivables was 18.9%, also slightly down against the 19.8% recorded in the previous year. Lastly, the rate of coverage of restructured loans fell from 12.4% to 10.1%, while that on past due loans fell from 10.5% to 8.0%. The overall coverage, through hedge accounting, of non-performing positions fell from 25.2% to 22.9%. The fall in the coverage of doubtful loans as at 31 December 2011 is due to the fact that the percentage relating to real estate has risen (78% against 73% as at 31 December 2010), characterised by lower coverage with respect to other products in the portfolio; furthermore, in 2011, restructuring transactions were performed, releasing funds, thus contributing to the fall in coverage.

The table below shows the rates of coverage through accounting hedges and through effective hedges, taking into account the presumed sale value (PSV) of the assets guaranteed for each category of non-performing receivable.

Total *(in thousands of euro)*	**Gross receivable amount**	**PSV**	**Fund**	**% Coverage by hedge accounting**	**% Overall Coverage (*)**	**% Overall Coverage 2010**
Doubtful loans	1,475,246	1,054,621	579,770	39%	111%	108%
Substandard loans	1,080,348	907,308	204,542	19%	103%	100%
Restructured loans	1,488,102	1,213,017	151,112	10%	92%	100%
Past due loans	57,777	48,446	4,629	8%	92%	118%
Total Default	**4,101,474**	**3,223,392**	**940,053**	**23%**	**102%**	**103%**

(*) calculated as the ratio of the sum of PSV and Fund to the Gross Receivable amount

Property and equipment, amounting to euro 842.7 million (down euro 51 million compared to the end of 2010), due to the reclassification of three properties attributable to Banca Italease, with a total value of euro 76.7 million, and one attributable to Release, recorded as euro 3 million, under non-current assets held for sale and discontinued operations, while a higher amount was recorded for three properties with a net recognition value of euro 23.9 million, repossessed by Release through the *datio in solutum"* procedure. A property attributable to Release was also reclassified under property and equipment, as the assumptions envisaged by IFRS 5 are no longer applicable, while a decrease was recorded for the sale of properties recorded on the books for a total of euro 44.3 million, plus depreciation and value adjustments.
Non-current assets held for sale and discontinued operations as at 31 December 2011 amounted to euro 85.1 million, due to the reclassification of the four properties cited above, plus a boat attributable to Release for the figure of euro 5.4 million, which was then sold at the beginning of 2012.
The assets recorded in 2010 under the same item were then actually disposed of during the year, with the exception of one property worth euro 73.2 million, attributable to Release, which was again recorded under property and equipment as the conditions envisaged by IFRS 5 no longer applied.

[1] *Operating analysis.*

Tax assets as at 31 December 2011 amounted to euro 368.9 million and include prepaid tax assets of euro 357.3 million. As already mentioned, again in 2011, prepaid and deferred tax assets were recorded on the basis of instructions received from the Parent Company, as consolidating company.
Prepaid tax assets, net of deferred liabilities, amounted to euro 355.7 million, down euro 51.7 million on the figure as at 31 December 2010. With regard to prepaid tax assets, euro 12.4 million refers to prior tax losses recognised insofar as their recoverability is certain by virtue of the provisions of Italian Decree Law 201 of 2011 (so-called "rescue Italy decree", which permits their transformation into tax credit for 2012 at the time of the tax declaration. Prepaid taxes relating to tax losses prior to joining the tax consolidation system (amounting to around euro 72.5 million) continue not to be recognised. Said tax losses will eventually be recovered only independently through Banca Italease's taxable income.

Debt securities issued fell 33.8%, and amounted to euro 3,360.9 million. In 2011, Banca Italease did not perform any new securitisation transactions and did not make any new bond issues.
Within said aggregate, liabilities relating to securitisations valid as at 31 December 2011 amounted to euro 454.6 million, while bonds amounted to euro 2,757.1 million. Furthermore, it includes a Preferred Securities transaction with a value of euro 149.2 million (par value of euro 150 million).

Provisions for risks and charges amounted to euro 133.8 million; in addition to company retirement provisions (euro 19.8 million), as at 31 December 2011, they included (i) provisions for risks relating to legal disputes of euro 92.8 million, up euro 60.6 million compared to December 2010, (ii) provisions for risks and charges relating to personnel of euro 6 million and (iii) other provisions totalling euro 15.1 million, down by euro 200.8 million compared to 31 December 2010.
With respect to 31 December 2011, provisions for risks and charges, in addition to that illustrated in the comments to the income statements, changes as follows: (i) a fall of euro 210.1 million following the use of provisions to settle tax disputes, (ii) a decrease of euro 12.5 million of retirement provisions, mainly due to the removal of positions relating to Alba Leasing employees, who up until December 2010, had been included in Banca Italease provisions.

Consolidated income statement results

In 2011, the financial margin was euro 48.8 million, and was comprised by interest income of euro 258 million, interest expense of euro 195.4 million, which reflect (i) the effects (estimated as euro 19.9 million[2]) of the gradual fall in loans, (ii) the increase of financial charges (estimated as euro 10.1 million[3]) relating to the refinancing of property and equipment, following the repossession of properties recorded in mid-2010, particularly regarding the subsidiary company Release, and (iii) the increase of the spread on exposures with lending banks (euro 5.1 million). The 2011 interest margin therefore reflected the fall of arrears interest of around euro 4 million compared to 2010.
This item also includes the losses of investments in associates and companies subject to joint control, relating to the investment in Alba Leasing, carried at net equity, of euro 13.4 million and in Renting Italease of euro 0.4 million.
Other net operating income, including operating income of euro 24.5 million, included, inter alia, (i) rental income on owned properties of euro 36.1 million, (ii) euro 3.6 million in charges relating to the settlement concluded in December 2011 by Mercantile Leasing with the Tax Authority, for the portion already notified as at 31/12/2011 and (iii) non-deductible VAT of euro 1.9 million, relating to Release for a nautical lease contract, the repayment of which will be requested in 2012.

Operating expenses for the year amounted to euro 102.3 million, comprised of euro 23 million in personnel expenses, euro 53.1 million in other administrative expenses (including euro 22.9 million in professional services mainly relating to legal and notary costs, already net of the relative recoveries) and euro 26.1 million in net value adjustments on property and equipment and intangible assets; the latter mostly include write-downs net of recoveries of euro 8.9 million and amortisation amounting to a total of 17.2 million, of which euro 13.4 million related to properties repossessed by Release.

In addition to the above, income (loss) before tax from continuing operations, corresponding to euro -137.5 million was mainly influenced by the following:

- Net value adjustments on loans, guarantees and commitments
  Net value adjustment on loans, guarantees and commitments recorded a negative balance of euro 74.9 million, comprised by (i) euro 71.5 million of net individual adjustments (euro 18.8 million for net value adjustments relating to actualisation and euro 90.3 million of net allocations for individual valuation adjustments), (ii) euro 4.3 million from cancellations, (iii) euro 0.6 million in net collective adjustments, (iii) euro 2.5 million of losses on receivables and (iv) euro 2.8 million of recoveries from collections.
- Net provisions for risks and charges
  Net provisions for risks and charges mainly include (i) euro 1.3 million for allocations to provisions for expected tax fines, following the submission of a tax declaration relating to prior periods, within the terms envisaged by art. 43 of Italian Presidential Decree 600/73 relating to Banca Italease, (ii) euro 4.6 million for allocations to provisions made by Mercantile Leasing for a tax settlement, regarding the portion not notified as at 31/12//2011, (iii) euro 48.7 million for allocations to provisions for legal disputes and euro 2.6 million of allocations relating to Mercantile Leasing, for which it is retained the assumptions envisaged by IAS 37, paragraph 92, apply.
- Profits (losses) on disposal of equity and other investments
  As at 31 December 2011, profits (losses) on disposal of equity and other investments, amounting to a total of euro

[2] *Operating analysis*
[3] *Operating analysis*

14.7 million included (i) euro 14.3 million of net gains on the sale of properties, of which euro 12.9 million relating to the sale of one property, already recorded under assets held for sale of Banca Italease, (ii) euro 1.4 million resulting from the sale of 4 properties of IGB and (iii) a loss of euro 1.1 million resulting from the sale of the "property remarketing" business segment of Italease Gestione Beni, before the profit for the period included in its own cost and income items.

Taxes recorded a positive balance of euro 32.4 million and benefit from the recognition of the prepaid tax asset as described in the comment "tax assets".
Income from discontinued operations net of tax, corresponding to euro 1.4 million, included net income from the subsidiary company Itaca Service recorded up to the date of sale, of euro 1.9 million, and a loss of euro 0.5 million resulting from the sale of the company in October 2011.
The result of the above-illustrated components was a net loss of, as at 31 December 2011, of euro 99 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 Equity in Part B of the Notes to the Consolidated Financial Statements.

MUTUAL INSURANCE SYSTEM AND SCHEMES IN THE PUBLIC INTEREST

As a cooperative company, Banco Popolare's institutional objectives also include mutual aid, through the joint management of the Parent Company and Network Banks.
The criteria adopted to achieve its mutual aid objectives as well as the main schemes undertaken are described in the corresponding paragraph of the report on operation of the Parent Company, to which the reader is referred.

DISCLOSURES SET FORTH IN BANK OF ITALY/CONSOB/ISVAP DOCUMENTS NO. 2 OF 6 FEBRUARY 2009 AND NO. 4 OF 3 MARCH 2010

On 6 February 2009, the Bank of Italy/Consob/Isvap issued document no. 2 relating to the application of IAS/IFRS, in order to recommend the inclusion in financial reports of information on business continuity, the financial risks to which the business is exposed, the tests conducted to identify the existence of impairments of assets and uncertainties in the use of estimates.

The importance of making substantial commitment to assessments relating to the applicability of the assumption of “business continuity” and relative financial statement disclosures was also mentioned in document no. 4 of 3 March 2010 issued by the same authorities, which reiterates the need to guarantee a high level of transparency to disclosures on the assessment of goodwill and of other intangible assets with an indefinite useful life and of investments in associates, on the valuation of capital instruments classified as “financial assets available for sale”, on the classification of financial liabilities subject to specific contractual clauses.

With regard to business continuity, 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 business and the Group’s ability to be able to continue to operate as usual. The directors therefore retain that the equity and financial structure are able to guarantee the business continuity of the enterprise and of the Group in the future. On the basis of this reasonable expectation, the financial statements as at 31 December 2011 have therefore been drawn up with a view to business continuity.

With reference to disclosures on financial risks, we underline that the same have been analysed both in the Group’s report on operations, and in Part E of the Notes to the financial statements: “Information on risks and on relative hedging policies”.

In the preparation of the year end financial statements, the Group conducted in-depth assessments of the possible existence of impairment of its assets and mainly of goodwill and other intangible assets, of investments in associates recognised under equity and of share-based investments available for sale. A description of the way in which said tests were conducted and the consequent results is included in the notes, in which individual assets are illustrated.

With regard to uncertainties relating to the use of estimates when preparing the financial statements, the Notes to the financial statements part A - “Accounting policies, A.1 - General Part”, include a specific paragraph entitled “Uncertainties with regard to the use of estimates in drawing up the financial statements”.

Lastly, as regards the classification of its financial debts, note that there is no medium-long term liability that should be classified as current due to forfeiture, due to failure to fulfil the contractual clauses relating to said liabilities.

OUTLOOK FOR BUSINESS OPERATIONS

The difficult situation of the major advanced economies continues to have negative repercussions, resulting in considerable tensions on the financial markets and a general slowdown of production activities.

In the United States, the performance of the past three quarters has been moderately positive, although uncertainties remain as the process of consolidating public finances. In the Eurozone, the slowdown of GDP continued, and after the summer, the tension on the sovereign debt markets further heightened, taking on a system dimension, and in addition to Greece, also involving countries such as Spain, Ireland, Portugal and Italy. This has a negative impact on growth prospects.

The financial operators, who up until a few months ago, had substantially excluded the possibility that a sovereign issuer in the Eurozone could become insolvent, started to consider this eventuality, and therefore adopted risk mitigation approaches, which fuelled the financial turbulence. The responses of economic policies, although extremely important, were not always able to counter this instability, highlighting several limitations to governance of the Eurozone.

In order to overcome the market crisis, monetary policies adopted extraordinary measures. The European Central Bank lowered benchmark interest rates on two occasions, which are currently 1%, and in December, launched three-year refinancing operations, in order to sustain the lending activities of banks to retail and corporate customers, worth a total of euro 490 million. The compulsory reserve coefficient was also halved and the range of assets that can be used to secure loans by banks to access said operations was extended; a second refinancing operation was conducted in February for a further euro 530 billion. These resources overcome the difficulties in attracting funding on the wholesale markets, which had heightened during the most acute stage of the crisis, when the use of wholesale funding had been substantially blocked by the liquidity crisis and by the rising spreads linked to the yield trends of public debt. Nevertheless, bank lending performance reflected the effects of a weak demand for credit by retail and corporate customers due to the difficult

economic situation, compounded by a deterioration in credit quality.
The objective of the three corrective manoeuvres on public accounts launched in Italy between July and December 2011 is to fulfil the commitment made to the EU to achieve budget breakeven by 2013. Considerable progress has been made in terms of financial sustainability. Of note is the intervention on the pension system. The Government has made commitments on a number of other fronts, fighting tax evasion, a review of public spending, rationalising regulations and institutions, with a view to stimulating the economy's growth potential.
This series of measures has led to positive signs from Italy's financial markets in recent weeks: the spread between the ten-year BTP and the German Bund has fallen constantly and rapidly, reaching 316 b.p. on 7 March 2012, compared to 550 b.p. in November 2011. The premiums on the credit default swaps of credit institutions fell considerably and the banking index recorded positive performance, with significant recoveries of share prices.

2012 will still be a year of recession, with a fall of GDP of between -1.5% and -2.2%, depending on the forecasting agency; GDP should start to grow slowly in 2013. Forecasts of economic growth are weighted down by numerous important factors, which impact the results expected by the banks: the development of the sovereign debt crisis, the evolution of the minimum requirements established by the European Banking Authority (EBA), a series of legislative measures, which are expected to significantly reduce bank revenues.

In this extremely difficult and complex external environment, the Banco Popolare Group is implementing a far-reaching process of reorganisation and repositioning, with a view to being more competitive and efficient in its efforts to best meet the needs of its customers.
Indeed, this is the only way to counter the downtrend of revenues resulting from low interest rates, higher costs of funding and the deterioration of credit quality, thus maintaining its profitability at a level that enables it to successfully compete in an increasingly selective market.

More specifically, the *Grande Banco Popolare* project, which became a reality at the end of 2011 with the incorporation of Banca Popolare di Verona, Banca Popolare di Lodi, Banca Popolare di Novara and Cassa di Risparmio di Lucca Pisa Livorno into the Parent Company, has considerably simplified the corporate and organisational structure and has enabled the sales network to be strengthened in the areas in which the Group has its historic roots, obtaining extensive savings right from the first stage of implementation. Once fully operational, savings are estimated to be in the range of euro 90 million.

At the end of November 2011, the extraordinary and ordinary shareholders' meetings also resolved upon the adoption of a traditional system of administration and control, (instead of the dual system previously adopted), which has led to considerable administrative and corporate simplification, and in turn to savings and more efficient operations. This decision entailed the return to a Board of Directors, comprised by a maximum of 24 members, between three and four of which must be chosen from Group executives.

As regards strategies in the various banking segments, which will be set in place over the coming months, we can start from the assumption that the difficulties encountered in attracting funding, which as mentioned above, have conditioned the market in recent months, are less of a problem for the Group today, also due to the various measures we have taken, as illustrated above. In particular, the bond issues on the institutional markets made last year, which surpassed the percentage of maturing bonds, have enabled us to build a "reserve" able to cover over two-thirds of our wholesale funding needs for 2012. This situation will be further strengthened due to the availability of refinancing operations with the ECB.
In terms of credit risk, internal statistics confirm the trend of recent quarters, that the flow of new doubtful loans is slowing down, marking an improvement on 2010 performance; in 2012, we expect to maintain credit quality at current levels. Our observatory, which encompasses thousands of public and private enterprises, has indicated that businesses operating mostly on the domestic market are likely to experience the most difficult, where demand and consumption are both down, while export-oriented operators are expected to fare better.

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 3.

Verona, 20 March 2012

The Board of Directors

“Growing”

SARA CAMPINI

“G.Carrara” Academy of fine arts, Bergamo

A combination of three rising colours which can create a wide range of colours, if mixed up. In the same way, Banco Popolare – thanks to its closeness and interaction with its territory – gets families, business and social forces to socially set up and develop.

Annual Report

Year 2011

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, Pierfrancesco Saviotti, as Managing Director of Banco Popolare Soc. Coop. 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 of 24 February 1998:

   - the adequacy in relation to the characteristics of the company and

   - the effective application

   of the administrative and accounting procedures for the formation of the consolidated financial statements in 2011

2. The assessment of the adequacy and the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements as at 31 December 2011 was carried out in a context characterised by the completion at year end of the mergers by incorporation into Banco Popolare of Efibanca and of the "Network Banks" (Banca Popolare di Lodi, Banca Popolare di Novara, Banca Popolare di Verona – S. Geminiano e S. Prospero, Banca Popolare di Crema, Banca Popolare di Cremona, Cassa di Risparmio Lucca Pisa Livorno).
   The assessment of the adequacy and the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements as at 31 December 2011 was based on an internal model set in place by Banco Popolare Soc. Coop., developed on the basis of that drawn up by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Report") which represents the standard for the internal audit system generally accepted at international level.

3. We also hereby certify that:

   3.1 the consolidated financial statements:

   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 balance sheet, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

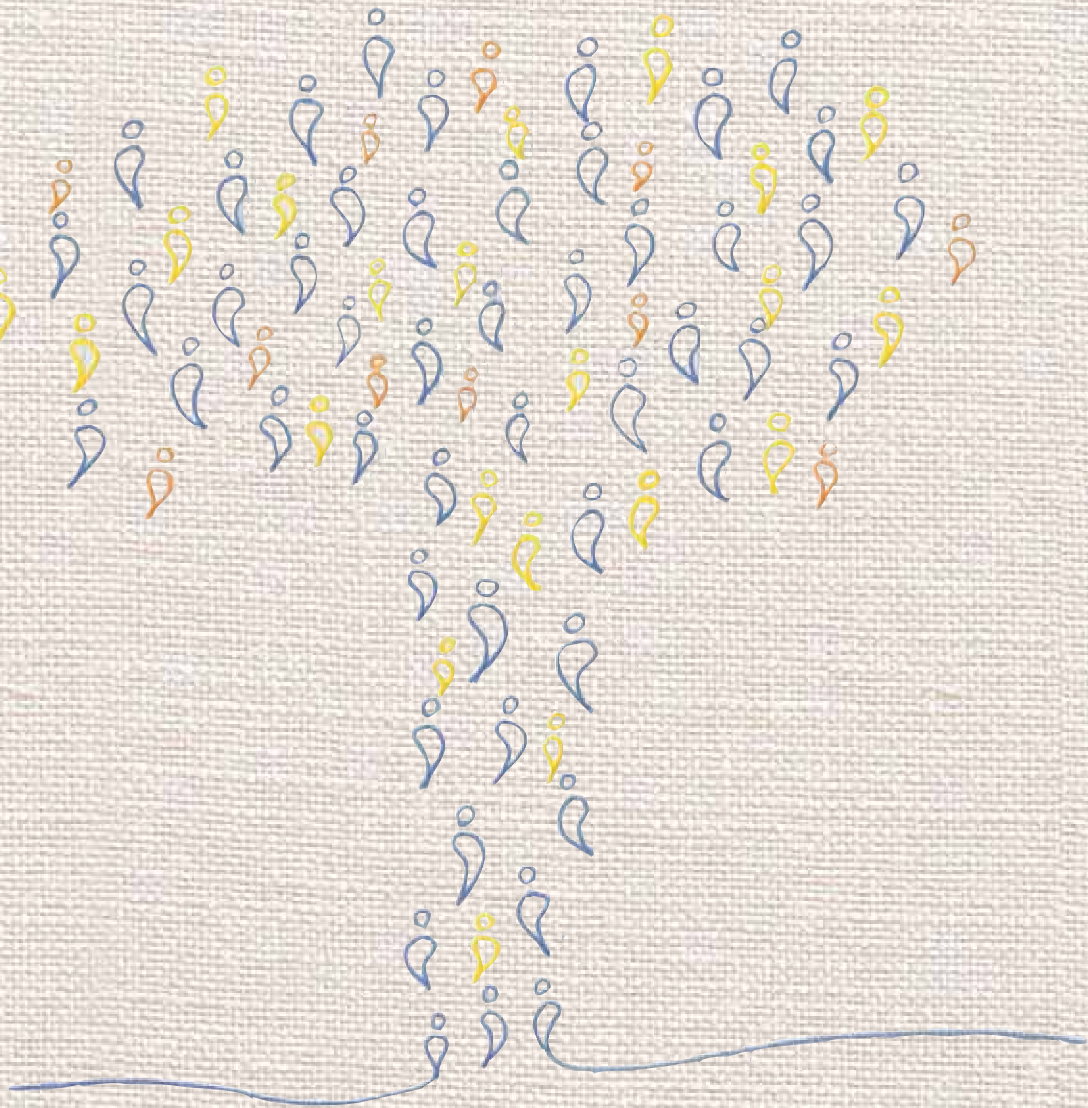
   3.2 The report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer and of all of the companies included within the scope of consolidation, together with a description of the main risks and uncertainties to which the same are exposed.

Verona, 20 March 2012

Pierfrancesco Saviotti
Managing Director

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

“The tree”



NICOLETTA CANNATA

Albertina Academy of Fine Arts, Turin

The tree represents the essence of a person and his inner self. This tree encompasses many people and represents the large family of Banco Popolare. A Bank that looks towards the future with confidence thanks to its deep roots and its proximity to the families and businesses in its local areas.

Annual Report

Year 2011

Independent Auditors'Report on the Consolidated Financial Statement

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via Isonzo, 11
37126 Verona

Tel. (+39) 045 8312511
Fax (+39) 045 8312550
www.ey.com

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 and for the year ended December 31, 2011, comprising the balance sheet, 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 management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, 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 and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements of the prior year are presented for the comparative purposes. As reported in the explanatory notes, management restated some comparative data related to the consolidated financial statements of the prior year, on which we issued our auditors' report dated April 12, 2011. 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, 2011.

3. In our opinion, the consolidated financial statements of the Banco Popolare Group at December 31, 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of 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 management of Banco Popolare Società Cooperativa is 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, 2011.

Verona, April 3, 2012

Reconta Ernst & Young S.p.A.
signed by: Marco Bozzola, partner

“Hands”

ALEX GALBERO

“G.B. Cignaroli” Academy of Fine Arts, Verona

Hands symbolize welcome and care for human relation with the people, that very people which are stylized in the logo of Banco Popolare and which are also included in this work of art.

Annual Report

Year 2011

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

Asset items *(in thousands of euro)*	**31/12/2011**	**31/12/2010**
10 Cash and cash equivalents	577,957	639,932
20 Financial assets held for trading	8,745,144	11,613,306
30 Financial assets designated at fair value through profit and loss	161,847	178,931
40 Financial assets available for sale	9,822,859	5,591,176
50 Investments held to maturity	63,403	140,926
60 Due from banks	8,686,526	7,565,103
70 Loans to customers	93,394,325	94,461,905
80 Hedging derivatives	631,994	201,969
90 Fair value change of financial assets in macro fair value hedge portfolios	60,334	12,337
100 Investments in associates and companies subject to joint control	1,180,387	1,641,429
120 Property and equipment	2,147,443	2,444,749
130 Intangible assets	2,354,623	5,171,742
of which: goodwill	1,608,495	4,408,665
140 Tax assets	3,291,520	2,513,363
a) current	26,167	99,481
b) deferred	3,265,353	2,413,882
150 Non-current assets held for sale and discontinued operations	173,442	371,890
160 Other assets	2,834,814	2,606,914
Total	**134,126,618**	**135,155,672**

Liability and shareholders' equity items *(in thousands of euro)*	**31/12/2011**	**31/12/2010**
10 Due to banks	14,429,808	9,492,950
20 Due to customers	46,600,692	54,574,209
30 Debt securities issued	28,007,941	23,435,479
40 Financial liabilities held for trading	4,637,663	3,734,134
50 Financial liabilities designated at fair value through profit and loss	25,591,326	26,514,061
60 Hedging derivatives	451,480	235,364
70 Fair value change of financial liabilities in macro fair value hedge portfolios	-	7,701
80 Tax liabilities	461,640	609,730
a) current	73,855	36,559
b) deferred	387,785	573,171
90 Liabilities associated with non-current assets held for sale and discontinued operations	2,962	159,407
100 Other liabilities	3,375,759	3,004,120
110 Employee termination indemnities	349,106	394,985
120 Provisions for risks and charges	794,933	1,053,137
a) retirement benefits and similar commitments	247,554	254,656
b) other provisions	547,379	798,481
140 Valuation reserves	(602,233)	(17,385)
160 Equity instruments	33,089	1,483,103
170 Reserves	2,727,188	2,598,882
180 Share premium reserve	4,847,151	4,880,069
190 Share capital	4,294,146	2,305,742
200 Treasury shares (-)	(4,570)	(30,944)
210 Minority interests	385,880	412,913
220 Net income (loss)	(2,257,343)	308,015
Total	**134,126,618**	**135,155,672**

CONSOLIDATED INCOME STATEMENT

Income statement items *(in thousands of euro)*	**2011**	**2010 (*)**
10 Interest and similar income	4,208,276	3,768,114
20 Interest and similar expense	(2,394,602)	(1,953,199)
30 Interest margin	**1,813,674**	**1,814,915**
40 Fee and commission income	1,367,655	1,420,793
50 Fee and commission expense	(94,275)	(153,997)
60 Net fee and commission income	**1,273,380**	**1,266,796**
70 Dividends and similar income	67,716	374,222
80 Profits (losses) on trading	26,149	(296,897)
90 Fair value adjustments in hedge accounting	(4,538)	11,293
100 Profits (losses) on disposal or repurchase of:	81,653	31,935
a) loans	(9)	328
b) financial assets available for sale	37,365	5,628
c) investments held to maturity	-	(8)
d) financial liabilities	44,297	25,987
110 Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	522,620	425,690
120 Net interest and other banking income	**3,780,654**	**3,627,954**
130 Net losses / recoveries on impairment of:	(850,447)	(873,206)
a) loans	(764,022)	(782,377)
b) financial assets available for sale	(76,828)	(53,418)
c) investments held to maturity	(3,500)	-
d) other financial activities	(6,097)	(37,411)
140 Net income from banking activities	**2,930,207**	**2,754,748**
180 Administrative expenses:	(2,439,945)	(2,487,275)
a) personnel expenses	(1,490,916)	(1,518,055)
b) other administrative expenses	(949,029)	(969,220)
190 Net provisions for risks and charges	(64,074)	(236,319)
200 Net adjustments to / recoveries on property and equipment	(93,080)	(92,235)
210 Net adjustments to / recoveries on intangible assets	(79,368)	(77,282)
220 Other operating income (expenses)	245,879	265,012
230 Operating expenses	**(2,430,588)**	**(2,628,099)**
240 Profits (losses) on investments in associates and companies subject to joint control	(300,466)	42,190
260 Value adjustments on goodwill	(2,766,564)	-
270 Profits (losses) on disposal of investments	16,851	7,973
280 Income (loss) before tax from continuing operations	**(2,550,560)**	**176,812**
290 Taxes on income from continuing operations	293,823	114,750
300 Income (loss) after tax from continuing operations	**(2,256,737)**	**291,562**
310 Income (loss) after tax from discontinued operations	15,765	39,965
320 Net income (loss)	**(2,240,972)**	**331,527**
330 Net income (loss) attributable to minority interests	(16,371)	(23,512)
340 Parent Company's net income (loss)	**(2,257,343)**	**308,015**

(*) The figures have been adjusted in compliance with IFRS 5 and the classification rules announced by the Supervisory Body in February 2012. The attachments contain a statement of reconciliation between the income statement published in the annual financial report as at 31 December 2010 and that restated in this statement.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items *(in thousands of euro)*		31/12/2011	31/12/2010
10	**Net income (loss)**	**(2,240,972)**	**331,527**
	Other comprehensive income after tax		
20	Financial assets available for sale	(499,928)	(51,417)
30	Property and equipment	(1,036)	-
50	Foreign investment hedges		50
60	Cash flow hedges	3,503	3,352
100	Share of valuation reserves related to investments in associates carried at equity	(87,336)	(5,076)
110	**Total other comprehensive income after tax**	**(584,797)**	**(53,091)**
120	**Comprehensive Income (Items 10+110)**	**(2,825,769)**	**278,436**
130	Consolidated comprehensive income attributable to minority interests	(16,422)	(23,526)
140	**Consolidated comprehensive income attributable to the Parent Company**	**(2,842,191)**	**254,910**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

31 December 2011 *(in thousands of euro)*	Balances as at 31/12/2010	Changes in opening balance	Balances as at 1/01/2011	Allocation of net income from previous year		Changes in the year								Shareholders' equity as at 31/12/2011	Group shareholders' equity as at 31/12/2011	Minority interests as at 31/12/2011
						Changes in reserves	Operations on shareholders' equity						Comprehensive income for 2011			
				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				
Share Capital:	**2,359,080**	**-**	**2,359,080**	**-**		**(9,862)**	**1,988,404**	**-**						**4,337,622**	**4,294,146**	**43,476**
a) ordinary shares	2,358,953	-	2,358,953	-		(9,757)	1,988,404	-						4,337,600	4,294,146	43,454
b) other shares	127	-	127	-		(105)	-	-						22	-	22
Share premium reserve	**4,896,511**	**-**	**4,896,511**	**-**		**(13,370)**	**(32,918)**	**-**						**4,850,223**	**4,847,151**	**3,072**
Reserves:	**2,916,865**	**-**	**2,916,865**	**254,122**		**(122,932)**	**-**	**-**	**-**		**-**	**-**		**3,048,055**	**2,727,188**	**320,867**
a) retained earnings	2,669,125	-	2,669,125	254,122		99,959	-	-	-					3,023,206	2,707,966	315,240
b) other	247,740	-	247,740			(222,891)	-	-			-	-		24,849	19,222	5,627
Valuation reserves	**(15,342)**	**-**	**(15,342)**	**-**		**-**							**(584,797)**	**(600,139)**	**(602,233)**	**2,094**
Equity instruments	**1,483,103**	**-**	**1,483,103**							**(1,450,014)**				**33,089**	**33,089**	**-**
Treasury shares	**(31,349)**	**-**	**(31,349)**				**28,368**	**(1,589)**						**(4,570)**	**(4,570)**	**-**
Net income (loss) for the period	**331,527**	**-**	**331,527**	**(254,122)**	**(77,405)**								**(2,240,972)**	**(2,240,972)**	**(2,257,343)**	**16,371**
Shareholders' equity	**11,940,395**	**-**	**11,940,395**	**-**	**(77,405)**	**(146,164)**	**1,983,854**	**(1,589)**	**-**	**(1,450,014)**	**-**	**-**	**(2,825,769)**	**9,423,308**	**9,037,428**	**385,880**
- Group	**11,527,482**		**11,527,482**	**-**	**(63,654)**	**(116,055)**	**1,983,854**	**(1,994)**	**-**	**(1,450,014)**	**-**	**-**	**(2,842,191)**	**9,037,428**		
- minority interests	**412,913**	**-**	**412,913**	**-**	**(13,751)**	**(30,109)**	**-**	**405**					**16,422**	**385,880**		

Net income for 2010 was euro 331.5 million, of which euro 308 million pertaining to the Group and euro 23.5 million to minority interests. Euro 77.4 million was distributed, of which:
- euro 52.9 million of a dividend of the Parent Company (euro 0.03 per share) as distribution of net income approved by the Shareholders' Meeting held on 30 April 2011, and euro 10.8 million as donations by subsidiaries;
- euro 13.7 million distributed by Group companies to minority interests (euro 12.9 million in dividends and euro 0.8 million in donations).
Euro -3.6 million of "Changes in Reserves - other" refers to the impact of increasing shareholdings in subsidiaries, recognised in the accounts in compliance with IAS 27 as "transactions between shareholders".
The change of euro 28.4 million in "treasury shares", traditionally indicated in the column entitled "issue of new shares", refers to the cancellation of Efibanca treasury shares held by the same, following its merger by incorporation into the Parent Company.

31 December 2010 *(in thousands of euro)*	Balances as at 31/12/2009	Changes in opening balance	Balances as at 1/1/2010	Allocation of net income from previous year		Changes in the year								Shareholders' equity as at 31/12/2010	Group shareholders' equity as at 31/12/2010	Minority interests as at 31/12/2010
							Operations on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for 2010			
Share Capital:	**2,448,912**	**-**	**2,448,912**	**-**		**(142,285)**	**52,453**	**-**						**2,359,080**	**2,305,742**	**53,338**
a) ordinary shares	2,448,783	-	2,448,783	-		(142,283)	52,453	-						2,358,953	2,305,742	53,211
b) other shares	129	-	129	-		(2)	-	-						127	-	127
Share premium reserve	**4,919,723**	**-**	**4,919,723**	**-**		**(59,885)**	**36,673**	**-**						**4,896,511**	**4,880,069**	**16,442**
Reserves:	**3,026,569**	**-**	**3,026,569**	**172,285**		**(192,994)**	**(88,995)**	**-**	**-**		**-**	**-**		**2,916,865**	**2,598,882**	**317,983**
a) retained earnings	2,458,909	-	2,458,909	172,285		37,931	-	-	-					2,669,125	2,357,583	311,542
b) other	567,660	-	567,660			(230,925)	(88,995)	-			-	-		247,740	241,299	6,441
Valuation reserves	**37,749**	**-**	**37,749**	**-**		**-**							**(53,091)**	**(15,342)**	**(17,385)**	**2,043**
Equity instruments	**1,452,534**	**-**	**1,452,534**							**30,569**				**1,483,103**	**1,483,103**	**-**
Treasury shares	**(31,214)**	**-**	**(31,214)**			**-**	**26**	**(161)**						**(31,349)**	**(30,944)**	**(405)**
Net income (loss) for the period	**257,939**	**-**	**257,939**	**(172,285)**	**(85,654)**								**331,527**	**331,527**	**308,015**	**23,512**
Shareholders' equity	**12,112,212**	**-**	**12,112,212**	**-**	**(85,654)**	**(395,164)**	**157**	**(161)**	**-**	**30,569**	**-**	**-**	**278,436**	**11,940,395**	**11,527,482**	**412,913**
- Group	**11,532,839**		**11,532,839**	**-**	**(64,047)**	**(226,689)**	**61**	**(161)**	**-**	**30,569**	**-**	**-**	**254,910**	**11,527,482**		
- minority interests	**579,373**	**-**	**579,373**	**-**	**(21,607)**	**(168,475)**	**96**	**-**					**23,526**	**412,913**		

CONSOLIDATED STATEMENT OF CASH FLOWS

Direct method (*thousands of euro*)

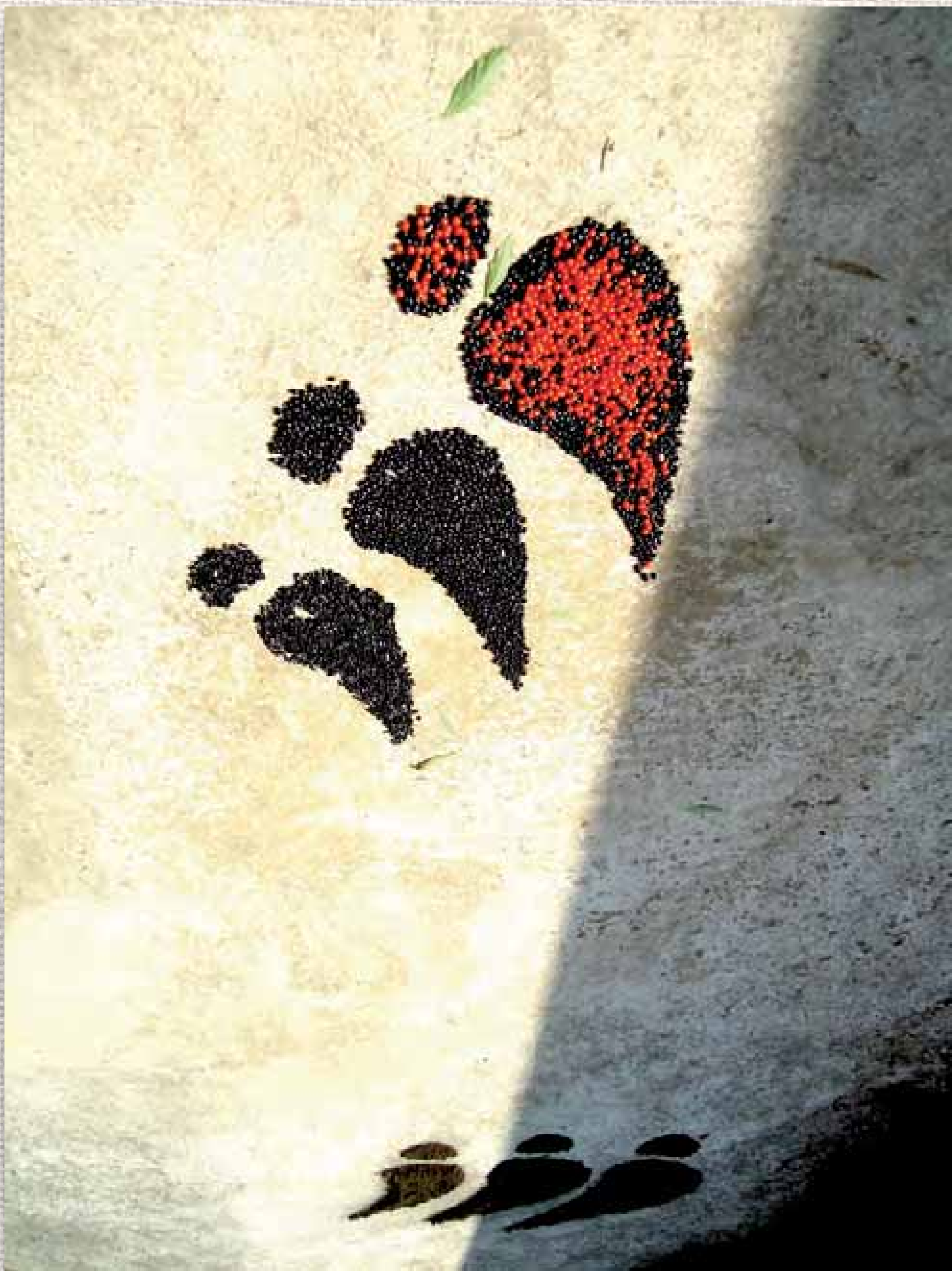
A. Operating activities	31/12/2011	31/12/2010
1. Cash flow from operations	**1,489,638**	**1,183,357**
- Interest received (+)	4,208,276	3,762,889
- Interest paid (-)	(2,394,602)	(1,957,861)
- dividends and similar income	67,716	374,222
- net fee and commission income (+/-)	1,273,380	1,265,724
- personnel expenses	(1,456,386)	(1,651,871)
- other costs (-)	(1,006,326)	(1,405,715)
- other revenues (+)	487,992	682,379
- taxes	293,823	99,922
- costs/revenues after tax from discontinued operations	15,765	13,668
2. Cash flow from / used in financial assets	**(2,804,952)**	**852,728**
- financial assets held for trading	2,947,061	491,488
- financial assets designated at fair value through profit and loss	465,595	305,057
- financial assets available for sale	(4,308,511)	(3,588,128)
- loans to customers	301,086	127,764
- due from banks: repayable on demand	957,745	183,684
- due from banks: other loans	(2,076,696)	1,795,740
- other assets	(1,091,232)	1,537,123
3. Cash flow from / used in financial liabilities	**645,122**	**(1,115,191)**
- due to banks: repayable on demand	111,402	(195,905)
- due to banks: other payables	4,825,456	1,268,438
- due to customers	(7,973,517)	1,382,346
- debt securities issued	4,572,462	(1,792,041)
- financial liabilities held for trading	903,529	(144,515)
- financial liabilities designated at fair value through profit and loss	(922,735)	(249,676)
- other liabilities	(871,475)	(1,383,838)
Net cash flow from / used in operating activities	**(670,192)**	**920,894**

B. Investing activities		
1. Cash flow from:	**475,052**	**310,876**
- sales of investments in associates and companies subject to joint control	28,769	28,078
- sales of investments held to maturity	94,575	198,716
- sales of property and equipment	316,744	17,620
- sales of intangible assets	34,964	66,462
2. Cash flow used in:	**(335,027)**	**(1,139,058)**
- purchase of investments in associates and companies subject to joint control	(120,200)	(26,213)
- purchase of investments held to maturity	(25,566)	(37,765)
- purchase of property and equipment	(137,232)	(1,012,103)
- purchase of intangible assets	(52,029)	(62,977)
Net cash flow from / used in investing activities	**140,025**	**(828,182)**

C. Financing activities		
- issue/purchase of treasury shares	1,981,860	(100)
- issue/purchase of equity instruments	(1,450,014)	30,569
- dividend distribution and other allocations	(63,654)	(64,047)
Net cash flow from / used in financing activities	**468,192**	**(33,578)**
Net cash flow from / used in activities during the year	**(61,975)**	**59,134**

Reconciliation	31/12/2011	31/12/2010
- Cash and cash equivalents at the beginning of the year	639,932	580,798
- Net cash flow from / used in activities during the year	(61,975)	59,134
Cash and cash equivalents at the end of the year	**577,957**	**639,932**

"On the ground"



VALENTINA ROTA

"G.Carrara" Academy of Fine Arts, Bergamo

This project springs from the concepts of growth, root and origin. The ground building up the Bank logo turns into seed and fruit. This picture reminds us of a foot print which should represent the activity done by the Banco Popolare in the best possible way that is to accompany people on their way.

Annual Report

Year 2011

Notes to the Consolidated Financial Statements

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 2011 (including the SIC and IFRIC interpretation documents).

For an overview of the standards validated during 2011 or those validated in prior years, whose application is expected for 2011 (or for future years), reference is made to "Section 5 – Other Aspects".

Section 2 - General preparation principles

The consolidated financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the explanatory notes, 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 explanatory notes 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 update of 18 November 2009. The information requests and the clarifications transmitted by the aforementioned Supervisory Authority were also considered, the latest of which in a letter sent to the Parent Company on 15 February 2012 and supplemented on 13 March 2012 (the "leaflets").

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 explanatory notes 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 balance sheet, 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 2011, 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 explanatory notes 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 balance sheet, financial situation and economic result, it is not carried out. The explanatory notes will set forth an explanation of the reasons for any departure and its influence on the representation of the balance sheet, 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 balance sheet 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 the subsequent amendment. Additional items can be added to the aforementioned 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 to do present amounts either for the year to which the financial statements refer or the previous year are not indicated in the balance sheet 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 balance sheet 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 balance sheet, 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 capital, 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.

Uncertainties with regard to the use of estimates for drawing up the financial statements

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 financial statement items affected the most by the situations of uncertainty are represented by amounts receivable, financial assets, investments in associates, intangible assets, deferred tax assets, financial liabilities designated at fair value through profit and loss and provisions for risks, charges and taxation.
Illustrated below are the measurement processes which call for a greater use of estimates and assumptions to determine the values to be recognised in the financial statements:

Determination of estimated impairment losses on loans disbursed and other financial assets recognised under balance sheet assets
Value adjustments on loans disbursed are estimated based on evidence arising from a careful, constant monitoring of the development of outstanding relations with borrowers and their economic and financial positions. The determination of portfolio adjustments is based on historical data reported in terms of decay rates and the percentage of recovery of doubtful loans with respect to loan classes with homogeneous characteristics as compared to those under measurement at the reporting date.
Value adjustments in relation to financial assets not designated at fair value are estimated based on evidence arising from a careful, constant monitoring of the economic and financial position of issuers.
In this regard, the protraction or worsening of the current economic-financial crisis could result in further deterioration of the financial position of borrowers and issuer counterparties, which may generate losses on loans disbursed or financial assets acquired, greater than that which can be currently estimated and consequently considered in drawing up the financial statements.

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 under balance sheet 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 bank 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, 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. Given the continuing uncertainty of the macroeconomic and regulatory scenarios, these valuations were conducted using a multi-scenario approach. Although the plan approved by Banco Popolare’s Board of Directors on 15 July 2011 is still considered valid in terms of strategic direction and business mix, it was based on a macroeconomic scenario that was significantly different to the one that actually emerged. A multi-scenario approach was therefore adopted to take the risk relating to the implementation of said plan into due account, by appropriately revising the estimated future cash flows.
According to the Dividend Discount Model (DDM), the value of a company is based on the dividend flows that it is capable of generating with a view to the future. In the case in point, the method used is Excess Capital DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected time period of planning, which can be distributed to shareholders while maintaining a suitable level of capitalisation to guarantee expected future development, and the perpetual capitalisation of the normalised dividend for the last year of the forecast, based on a payout ratio depending on profitability at full operation.
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.

Business combinations
The recognition of business combinations requires that the difference between the purchase price and the net book value be assigned to the assets and liabilities of the acquired company. For most assets and liabilities, the difference is assigned by recognising the assets and liabilities at fair value. If positive, the portion not assigned is recognised under goodwill. If negative, it is charged to the income statement as revenue. In assigning the cost of business combinations, the Banco Popolare Group uses all the available information. Nonetheless, by definition, this process requires the use of complex, subjective estimates.

Determination of the fair value of financial assets and liabilities
When the fair value is not directly observable on active markets, the choice of valuation models, as well input parameters is more subjective, as the latter also may not be observable on the market. In the event of illiquid markets, it is necessary to use more complex valuation processes, characterised by greater subjectivity.

Estimate of the recoverability of deferred tax assets
The Group has significant deferred tax assets among its balance sheet 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 balance sheet 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. The valuation process is based on the same income prospects considered for impairment tests on investments in associates and companies subject to joint control and intangible assets.

Estimate of provisions for risks and charges, retirement benefits and tax provisions
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.

The list of valuation processes shown above is provided 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 could prove more appropriate. Moreover, financial statement valuations are formulated on the basis of the going concern principle, as no risks have been identified that could impair the company’s normal course of business. Disclosure on risks, with specific reference to liquidity risk, is set forth in Part E – Information on risks and relative hedging policies.

Section 3 - Scope of consolidation and consolidation methods

The consolidated financial statements include the balance sheet and income statement results of the Parent Company and its direct and indirect subsidiaries.
The scope of consolidation is determined in accordance with the provisions contained in international accounting standard IAS 27. All the companies considered as associated and under joint control on the basis of international accounting standards IAS 28 and 31 are also included.

The concept of control is not limited to the percentage of investment in the share capital of the investee company and is defined as the power to determine the financial and operating policies of an entity, so as to obtain benefits from its activities. The investments in associates intended to be sold are handled in compliance with international accounting standard IFRS 5 which disciplines the handling of the non-current activities intended to be sold.
The reference date of the consolidated financial statements coincides with the closure date of the financial statements of the Parent Company. The companies which end the year as of a date other than that of the Parent Company take steps to draw up a balance sheet and income statement as of the reference date.

Full consolidation consists in the "line-by-line" acquisition of the balance sheet and income statement aggregates of subsidiary companies. After the attribution of minority interests in shareholders' equity and income, under a specific item, the value of the investment is eliminated as an offset to the residual portion of the subsidiary's equity. Any difference resulting from this operation, if positive – after being charged to the subsidiary's assets or liabilities – is recognised as goodwill under intangible assets upon the first consolidation and subsequently, under other reserves. Negative differences are charged to the income statement.
The purchase price allocation of business combinations is determined provisionally, as permitted by the international accounting standards. According to paragraph 62 of IFRS 3, the initial, definitive accounting for business combinations must be performed within twelve months from the date of acquisition.

The assets, liabilities, revenues and expenses between the consolidated companies are eliminated in full.

The income statement results of a subsidiary acquired during the year are included in the consolidated financial statements starting from the date of acquisition. Conversely, the income statement results of a subsidiary sold are included in the consolidated financial statements up to the date of sale. The difference between the sale price and the book value at the date of disposal, including any exchange differences recorded period by period in shareholders' equity on consolidation, is recognised in the income statement. Where necessary, the financial statements of consolidated companies, possibly drawn up on the basis of different accounting criteria, are rendered compliance with the standards of the Group.

Investments in companies in which the Group exercises a significant influence ("associates"), that is, enterprises in which the Group has the power to participate in the financial and operating policy decisions, but does not have control or joint control, are carried at equity. If an associate applies other accounting standards than those used by the Group, adjustments are made to the associate's financial statements used by the Group to apply the equity accounting method.

Under the equity method, the investment is initially recognized at cost and the book value is then adjusted based on the proportionate interest in the investee company. The difference between the value of the investment and the investee company's shareholders' equity is treated similarly to the line-by-line consolidation differences described above. In measuring the pro-rata share of shareholders' equity, potential voting rights are not considered. The pro-rata share of net income for the year of the associate is recognised under a specific item of the consolidated income statement.

Investments in companies subject to joint control are recognised using the equity method. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when a unanimous consensus by all venturers (i.e., the parties to a joint venture, having joint control over it) is required to make strategic financial and operational decisions.

For consolidation purposes, the shares received in pledge have not been considered since they are not aimed at exercising control or influence over the companies' management policies, so as to avail of the economic benefits.

The balance sheet and income statement results of the consolidated companies whose operating currency is different to the Euro are translated based on the following rules:

- balance sheet assets and liabilities are translated at the exchange rate in effect at year-end;
- revenues and costs on the income statement are translated at the year's average exchange rate;
- all exchange rate differences originated by the translation are recognised in a specific and separate reserve under shareholder's equity. Said reserve is eliminated through a concurrent debit/crediting of the income statement when the investment is disposed of.

Investments in subsidiary companies exclusively and jointly controlled are listed in the following table (consolidated line-by-line or proportionally). For information on investments in companies subject to joint control (carried at equity) and in companies subject to significant influence, refer to that set forth in Part B - Information on the consolidated balance sheet - Section 10 - Investments in associates and companies subject to joint control.

1. Investments in subsidiary companies exclusively and jointly controlled (consolidated proportionally)

Company name	Registered offices	Type of relationship (a)	Investment relationship		% of available
			Holder	% held	votes (b)
A. Company					
A.1 Consolidated line-by-line					
Banco Popolare soc. coop.	**Verona**	**Parent Company**			
Acque Minerali Riunite S.p.A. (in liquidation)	Rome	(1)	Banco Popolare	100.000%	
Aletti & C. Banca di Investimento Mobiliare S.p.A.	Milan	(1)	Banco Popolare	60.472%	
			Credito Bergamasco	20.864%	
			Holding di Partecipazioni	16.560%	
			Valori Finanziaria	2.104%	
Aletti Fiduciaria S.p.A.	Milan	(1)	Banca Aletti & C.	100.000%	
Aletti Gestielle SGR S.p.A.	Milan	(1)	Banco Popolare	100.000%	
Aletti Trust S.p.A.	Milan	(1)	Banca Aletti & C.	100.000%	
Arena Broker S.r.l.	Verona	(1)	Holding di Partecipazioni	57.300%	
Auto Trading Leasing IFN s.a.	RO - Bucharest	(1)	Banco Popolare	99.967%	
			Holding di Partecipazioni	0.033%	
B.P.I. International (UK) Ltd.	UK - London	(1)	Banco Popolare	82.000%	
Banca Aletti & C. (Suisse) S.A.	CH - Lugano	(1)	BP Luxembourg	100.000%	
Banca Italease S.p.A.	Milan	(1)	Banco Popolare	82.420%	
			Holding di Partecipazioni	14.657%	
			Credito Bergamasco	2.923%	
Banca Italease Funding LLC	Delaware	(1)	Banca Italease	100.000%	
Banca Popolare di Lodi Capital Company LLC III	USA - Delaware	(1)	Banco Popolare	100.000%	
Banco Popolare Croatia d.d.	HR - Zagreb	(1)	Banco Popolare	98.256%	98.537%
Banco Popolare Hungary Zrt.	H - Budapest	(1)	Banco Popolare	100.000%	
Banco Popolare Luxembourg S.A.	L - Luxembourg	(1)	Banco Popolare	100.000%	
BP Service Kft.	H - Budapest	(1)	BP Hungary	100.000%	
Bipielle Bank (Suisse) S.A. (in liquidation)	CH - Lugano	(1)	Banco Popolare	100.000%	
Bipielle International Holding S.A. (in liquidation)	CH - Lugano	(1)	Banco Popolare	100.000%	
Bipielle Real Estate S.p.A.	Lodi	(1)	Banco Popolare	100.000%	
BRF Property S.p.A.	Parma	(1)	Partecipazioni Italiane	51.114%	
			Banco Popolare	14.314%	
BP Covered Bond S.r.l.	Milan	(1)	Banco Popolare	60.000%	
BP Property Management Soc. Consortile a r.l.	Verona	(1)	Banco Popolare	81.309%	
			Credito Bergamasco	10.000%	
			Immobiliare BP	4.615%	
			Banca Aletti & C.	1.000%	
			Società Gestione Crediti BP	1.000%	
			S.G.S. BP	1.000%	
			Aletti Gestielle SGR	0.538%	
			Holding di Partecipazioni	0.538%	
Braidense Seconda S.r.l.	Milan	(1)	Banco Popolare	100.000%	
Compagnia Finanziaria Ligure Piemontese S.p.A. (in liquidation)	Milan	(1)	Banco Popolare	100.000%	
Credito Bergamasco S.p.A. (***)	Bergamo	(1)	Banco Popolare	77.450%	
Essegibi Promozioni Immobiliari S.p.A.	Milan	(1)	Italease Gestione Beni	100.000%	
FIN.E.R.T. S.p.A. (in liquidation)	Marano (NA)	(1)	SE.RI.	100.000%	
HCS S.r.l.	Milan	(1)	Italease Gestione Beni	100.000%	
Holding di Partecipazioni Finanziarie Banco Popolare S.p.A.	Verona	(1)	Banco Popolare	100.000%	
Immobiliare BP S.r.l.	Verona	(1)	Banco Popolare	100.000%	
Istituto Pisano Leasing S.p.A. (in liquidation)	Pisa	(1)	Banco Popolare	100.000%	
Italease Finance S.p.A.	Milan	(1)	Banca Italease	70.000%	
Italease Gestione Beni S.p.A.	Milan	(1)	Banca Italease	100.000%	
Liberty S.r.l. (*)	Lodi	(1)	Banco Popolare	100.000%	
Lido dei Coralli S.r.l.	S.T. di Gallura (SS)	(1)	Bipielle Real Estate	100.000%	
Mariner S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Mercantile Leasing S.p.A.	Florence	(1)	Banca Italease	100.000%	
Milano Leasing S.p.A. (in liquidation)	Milan	(1)	Banco Popolare	99.999%	

Company name	Registered offices	Type of relationship (a)	Investment relationship		% of available votes (b)
			Holder	% held	
Nadir Immobiliare S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Partecipazioni Italiane S.p.A.	Milan	(1)	Banco Popolare	99.966%	100.000%
Release S.p.A.	Milan	(1)	Banca Italease	80.000%	
RI Investimenti Due S.r.l.	Lodi	(1)	Sviluppo Comparto 8	100.000%	
Royle West Ltd. (in voluntary liquidation)	IRL – Dublin	(1)	Banco Popolare	99.000%	
Seefinanz S.A. (in liquidation)	CH - Lugano	(1)	Banco Popolare	100.000%	
Servizi Riscossione Imposte SE.R.I. S.p.A. (in liquidation)	Naples	(1)	Banco Popolare	80.000%	
S.I.A.L. Società Imm. Agricola Lodigiana S.r.l. (in liquidation)	Lodi	(1)	Banco Popolare	90.000%	
Sirio Immobiliare S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Società Gestione Crediti BP Soc. Cons. p.az.	Lodi	(1)	Banco Popolare	89.250%	
			Credito Bergamasco	10.000%	
			Banca Italease	0.750%	
Società Gestione Servizi BP Soc. Consortile p. az.	Verona	(1)	Banco Popolare	77.750%	
			Banca Aletti & C.	10.000%	
			Credito Bergamasco	10.000%	
			Società Gestione Crediti BP	0.750%	
			Aletti Gestielle SGR	0.500%	
			Immobiliare BP	0.500%	
			Holding di Partecipazioni	0.500%	
Sviluppo Comparto 6 S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Sviluppo Comparto 8 S.r.l.	Lodi	(1)	Bipielle Real Estate	100.000%	
Tecmarket Servizi S.p.A.	Verona	(1)	Banco Popolare	87.132%	
			Credito Bergamasco	12.868%	
Tiepolo Finance S.r.l.	Lodi	(1)	Banco Popolare	60.000%	
Tiepolo Finance II S.r.l.	Lodi	(1)	Società Gestione Crediti BP	60.000%	
Tirrena Professional Factor S.p.A. (in liquidation)	Pisa	(1)	Banco Popolare	69.498%	
TR Toscana Resort S.r.l.	Pisa	(1)	Banco Popolare	100.000%	
TT Toscana Tissue S.r.l.	Pisa	(1)	Banco Popolare	100.000%	
Valori Finanziaria S.p.A.	Verona	(1)	Banco Popolare	99.876%	
Verona e Novara (France) S.A. (in liquidation)	F – Paris	(1)	BP Luxembourg	99.686%	99.739%
			Banco Popolare	0.012%	0.012%
Banca Italease Capital Trust	Delaware	(4)	Banca Italease Funding LLC	100.000%	
Banca Popolare di Lodi Investor Trust III	USA - Delaware	(4)	B. Pop. di Lodi Cap. Co. LLC III	100.000%	
Bipitalia Residential S.r.l. (**)	Milan	(4)	Banco Popolare	4.000%	
BP Mortgages S.r.l. (**)	Brescia	(4)	-	0.000%	
BPL Mortgages S.r.l. (**)	Conegliano V. (TV)	(4)	-	0.000%	
BPV Mortgages S.r.l. (**)	Verona	(4)	-	0.000%	
Erice Finance S.r.l.	Conegliano V. (TV)	(4)	-	0.000%	
Gestielle Harmonia Vivace	Milan	(4)	Banco Popolare	54.863%	
Gestielle Hedge Long Short World	Milan	(4)	Banco Popolare	83.439%	
			Banca Aletti & C.	9.625%	
Gestielle Hedge Multi Strategy	Milan	(4)	Banco Popolare	55.509%	
			Banca Aletti & C.	7.063%	
Italfinance RMBS S.r.l.	Trento	(4)	-	0.000%	
Italfinance Securitisation VH 1 S.r.l.	Conegliano V. (TV)	(4)	Banca Italease	9.900%	
Italfinance Securitisation VH 2 S.r.l.	Conegliano V. (TV)	(4)	-	0.000%	
Leasimpresa Finance S.r.l.	Conegliano V. (TV)	(4)	-	0.000%	
Pami Finance S.r.l.	Milan	(4)	-	0.000%	
A.2 Consolidated proportionately					
N/A					

(a) Type of relationship:
(1) Control pursuant to Article 2359, paragraph 1, no. 1 of the Italian Civil Code (majority of voting rights during ordinary shareholders' meetings)
(4) Other forms of control
(b) The availability of effective votes during ordinary shareholders' meeting is only indicated if it differs from the percentage of investment in the share capital.
(*) Company undergoing divestiture as per IFRS 5.
(**) Majority of the benefits and the risks (SIC-12 *Consolidation – Special purpose companies*).
(***) A call option was acquired from the minority shareholders on 11.56% of ordinary shares.
(****) The calculation of the shareholdings does not take into account the treasury shares held by Efibanca since the equity rights are assigned to the other shareholders (in proportion to the shareholding). When determining the availability of the votes, treasury shares have been considered since these shares are calculated in the capital for the purpose of calculating the formation and decision-making quorums of the shareholders' meetings, even if the right to vote is suspended (Article 2357 ter of the Italian Civil Code.).

2. Other information

Changes in the scope of consolidation

The changes in the scope of consolidation with respect to the situation as at 31 December 2010 are shown in the table below.

Companies consolidated line-by-line	
Companies consolidated as a result of acquisitions (credit collection)	
Company name	**%**
1. TR Toscana Resort S.r.l.	100%
Companies no longer consolidated due to disposal:	
Company name	
1. Banco Popolare Ceská Republika A.S.	
2. Bormioli Rocco & Figlio S.p.A.	
3. Bormioli Rocco (Spain) S.A.	
4. Bormioli Rocco Glass Co. Inc. S.C.	
5. Bormioli Rocco International S.A.	
6. Bormioli Rocco France S.A.	
7. Bormioli Rocco Valorisation S.A.S.	
8. Decoro Fidenza S.r.l.	
9. Verreries de Masnières S.A.	
10. Bio Energy S.A.	
11. Itaca Service S.p.A.	
Companies no longer consolidated due to mergers:	
Name of merged company	**Name of merging company**
1. Banca Popolare di Verona – S. Geminiano e S. Prospero S.p.A.	Banco Popolare Soc. Coop.
2. Banca Popolare di Novara S.p.A.	Banco Popolare Soc. Coop.
3. Banca Popolare di Lodi S.p.A.	Banco Popolare Soc. Coop.
4. Banca Popolare di Cremona S.p.A.	Banco Popolare Soc. Coop.
5. Banca Popolare di Crema S.p.A.	Banco Popolare Soc. Coop.
6. Cassa di Risparmio di Lucca Pisa Livorno S.p.A.	Banco Popolare Soc. Coop.
7. Efibanca S.p.A.	Banco Popolare Soc. Coop.
8. Italfortune International Advisors S.A.	Banco Popolare Luxembourg S.A.
Companies no longer consolidated due to company liquidation:	
Company name	
1. Banca Popolare di Lodi Capital Company II LLC	
2. Banca Popolare di Lodi Investor Trust II	
Companies no longer consolidated due to loss of control:	
Company name	
1. Glass Italy B.V.	
2. Stichting Glass	

Companies consolidated at equity	
Companies included due to an increase of the shareholding	**%**
1. Health Finance S.p.A.	31.591%
Companies no longer consolidated due to disposal	
Company name	
1. Istituto Centrale delle Banche Popolari Italiane	
2. CO.GE.VI. S.A.	
3. Triera Power S.r.l.	
4. Pantex International S.p.A.	
5. Bertani Holding S.p.A.	
6. Health Finance S.p.A.	
Companies no longer consolidated due to company liquidation	
1. Assipromos S.r.l.	
Companies no longer consolidated due to the dilution of the investment %:	
1. G.I. Holding S.p.A.	

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.

Section 4 - Subsequent events after the date of the financial statements

Illustrated below are the most significant events occurred between the date of the financial statements and the approval of the draft financial statements by the Management Board.

Agreement to supplement and amend the call options contracts on Creberg shares

On 31 January 2012, Banco Popolare and the Cassa di Risparmio di Lucca Foundation extended the term of the two call options granted by the Foundation to Banco Popolare on 5 July and 21 September 2010 on a total of 7,136,711 shares of Credito Bergamasco, corresponding to 11.562% of share capital.
The call options may be exercised by Banco Popolare by 30 June 2013. The parties also agreed that Banco Popolare may exercise the call option on one or more occasions, as well as on all or also only a part of the aforementioned Credito Bergamasco shares.
On the same date, a loan contract was signed by the Cassa di Risparmio di Lucca Foundation, as borrower, and Banco Popolare, as lending bank. A pledge in Banco Popolare's favour has been placed on the Credito Bergamasco shares that are the subject of the above call option contract; Note that the Foundation maintains rights to receive a dividend and voting rights relating to the pledged shares.

Offer to sell Group Tier 1 and Tier 2 securities to Banco Popolare

On 6 February 2012, Banco Popolare formally invited the holders of Tier 1 and Tier 2 financial instruments of the Group to submit offers to sell the same to Banco Popolare.
The repurchase operation was concluded on 15 February 2012, namely the deadline by which holders of the securities could submit the offer to sell, with a settlement date of 20 February 2012. The Bank of Italy authorised the operation on 6 February 2012.
The securities covered by the offer to sell are shown in the following table:

Description of the instruments	ISIN	Purchase price (as % of the nominal value)	Nominal value accepted for purchase (in thousands of euro)	Residual nominal value after the settlement date (in thousands of euro)
Perpetual Step-Up Subordinated Fixed/Floating Rate Notes issued by Banco Popolare Soc. Coop. (formerly Banco Popolare di Verona e Novara S.c.a r.l)	XS0304963290	70.0%	192,650	76,800
Perpetual Non Step-Up Subordinated Fixed/Floating Rate Notes issued by Banco Popolare Soc. Coop. (formerly Banco Popolare di Verona e Novara S.c.a r.l)	XS0304963373	71.0%	140,200	138,350
Non-cumulative Guaranteed Floating Rate Perpetual Trust Preferred Securities issued by Banca Italease Capital Trust	XS0255673070	43.0%	78,999	66,001
Non-cumulative Guaranteed Fixed/Floating Rate Perpetual Trust Preferred Securities issued by Banca Popolare di Lodi Investor Trust III	XS0223454512	78.0%	126,883	360,182
Lower Tier II Subordinated Callable Floating Rate Notes due June 2016 issued by Banca Italease S.p.A.	XS0259400918	75.0%	10,505	66,021
Lower Tier II Subordinated Callable Step-up Floating Rate Notes due June 2016 issued by Banco Popolare Soc. Coop. (formerly Banco Popolare di Verona e Novara S.c.a r.l.)	XS0256368050	78.0%	70,100	165,400
Lower Tier II Subordinated Callable Step-up Floating Rate Notes due November 2016 issued by Banco Popolare Soc. Coop. (formerly Banco Popolare di Verona e Novara S.c.a r.l.)	XS0276033510	78.0%	10,500	157,900
Lower Tier II Subordinated Callable Step-Up Floating Rate Notes due February 2017 issued by Banco Popolare Soc. Coop. (formerly Banco Popolare di Verona e Novara S.c.a r.l.)	XS0284945135	76.0%	56,750	124,150
Lower Tier 2 Subordinated 5.473% Fixed Rate Notes due November 2016 issued by Banco Popolare Soc. Coop.	XS0464464964	89.0%	32,396	286,004
Lower Tier II 6.00% Subordinated Notes due November 2020 issued by Banco Popolare Soc. Coop.	XS0555834984	91.0%	218,473	731,327
Lower Tier II Subordinated 6.375% Fixed Rate Notes due May 2021 issued by Banco Popolare Soc. Coop.	XS0632503412	90.5%	263,669	337,072
Upper Tier II 4.625% Subordinated Instruments due March 2015 issued by Banco Popolare Soc. Coop. (formerly Banca Popolare di Lodi S.c. a r.l.)	XS0215451559	90.0%	6,030	292,294

On the settlement date, the holders of the securities were paid a cash amount, calculated in percentage terms with respect to the relative nominal value. With the exception of the Banca Italease Preferred Securities, on which no interest was paid, the holders of the securities accepted for the purchase also received, on the settlement date, a cash amount corresponding to the interest accrued between the last interest payment date and the settlement date of the invitation.

The above operation will have a positive impact of around euro 98 million, net of the relative tax effect, on the 2012 income statement. The impact includes the gain on repurchasing the securities, the positive effect generated by terminating the derivative contracts entered to hedge interest rate risk, and the estimated savings in terms of interest expense charged to income throughout 2012.
The operation will also have a positive impact on capital ratios and will benefit Core Tier 1 Capital by around euro 222 million.

Banco Popolare worked with Banca Aletti, BNP PARIBAS, Goldman Sachs International and Mediobanca – Banca di Credito Finanziario as Dealer Managers and Lucid Issuer Services Limited as Tender Agent.

Banco Popolare's participation in the ECB Auction

On 29 February 2012, Banco Popolare took part in the ECB's three-yearly auction for the figure of euro 3.5 billion, the same amount as the end-of-year auction, for strategic purposes and not dictated by a specific liquidity requirement, insofar as there are already has considerable "buffers" already available, which are more than sufficient to cover the Group's present and future requirements.

Commercial Covered Bond transactions

On 13 December 2011, Banco Popolare's Board of Directors approved the implementation of a Commercial Covered Bonds (CB) Programme, the total nominal value of which will be euro 5 billion. The Commercial CB programme is part of the Group's strategic plan as a tool to diversify funding. Its main purpose is to increase the Group's portfolio of assignable and available securities. Banco Popolare and Credito Bergamasco will take part in the Commercial CB Programme as Assigning Banks.
On 7 January 2012, Banco Popolare and Credito Bergamasco assigned an initial portfolio to the SPE with a residual debt of euro 1,066 million, comprised of suitable assets originating from mortgage loans on commercial and residential property; for the payment of the mortgage loans, the Assigning Banks granted the SPE a Subordinated Loan for an amount corresponding to the assignment price.
On 20 January 2012, Banco Popolare issued the first series of CB under the Commercial CB Programme for the figure of euro 900 million. It is a floating rate "soft bullet" CB (3m Euribor + 120 bps), due date of interest 20 January 2012, maturity 31 March 2014, issue price of euro 100.00. The Commercial CB Programme has been structured as unrated; in this case, the rating assigned to the CB issued is equal to the corporate rating of Banco Popolare on the relative issue date. The bond was entirely subscribed by Banco Popolare and can be used as collateral in refinancing operations.

Conclusion of liquidation of investee companies

Following the conclusion of the liquidation procedure for Istituto Pisano Leasing S.p.A., a company wholly owned by Banco Popolare, on 23 January 2012, the investee company was cancelled from the Pisa Company register and consequently excluded from the Banco Popolare Banking Group. The removal from the scope of consolidation of the investee company will not have any significant impact on the consolidated income statement.

In January, the liquidation of Portone Soc.Cons. a Resp.Lim. was also concluded, in which Bipielle Real Estate has a 30% shareholding, without any distribution to shareholders. The removal from the scope of consolidation of the investee company, previously valued under equity, will not have an impact on the consolidated income statement.

Developments relating to disputes underway with the Government Tax Authorities

Leasimpresa S.p.A. (incorporated into Banca Italease S.p.A. from 15 December 2008) - On 16 January 2012, the Regional Lombardy Office of the Tax Authority started a tax inspection for direct tax, VAT and IRAP purposes relating to 2007.

Credito Bergamasco S.p.A. - regarding the IRAP dispute with the Veneto Regional Authority relating to 2004, the Milan Regional Tax Commission confirmed the ruling of the court of first instance and therefore, the full cancellation of the entry on the taxpayers' list.

Aletti Gestielle SGR S.p.A. - In January - as incorporating company of Aletti Gestielle Alternative S.p.A. - the company received formal written notice of the fine of euro 1.18 million envisaged for the failure in 2007, 2008 and 2009 to settle irregular invoices on commission paid for the management service of the custodian Bank.

Banca Italease S.p.A. - relating to the dispute on VAT for 2003 and 2004, the Milan Regional Tax Commission accepted the appeal filed by the company and wholly cancelled the tax demands.

Banca Italease Appeal court ruling

As illustrated in more detail in the Report on Operations in the risk management section, as regards the criminal proceedings no. 31638/07 (so-called II TRONCONE accused Faenza + others) for corporate offences, on 25 January 2012, Banca Italease was ordered by the court of appeal, as a partial amendment of the ruling of the court of first instance, to pay a fine of euro 1.9 million and a sum of euro 54.1 million plus interest was confiscated for administrative liability under Italian Legislative Decree no. 231/2001; both the fine and the confiscation cannot be enforced until the ruling has been sentenced by the court.

Section 5 - Other aspects

Financial statements approval and publication terms

Art. 135-sexies of Italian Legislative Decree 58/98 (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 individual 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 20 March 2012 and will be submitted to the approval of the Shareholders' Meeting on 21 April.

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 is published with the annual financial report, pursuant to art. 135-septies of Italian Legislative Decree 58/98.

Amendments to accounting standards validated by the European Commission

In 2011 several accounting standards or interpretations issued by the IASB or validated by the European Commission were mandatorily or optionally applied.

The table below lists all of the amendments to standards and interpretations approved in 2011 or in previous years, whose application has become mandatory from financial year 2011, with regard to which, however, no significant impact on these consolidated financial statements has emerged.

Accounting standards and interpretations (*)	Comments	Validating EC Regulations	In force from the years starting:
Amendments to existing standards			
IAS 32 – Classification of rights issues	Clarifies how to account for certain rights when instruments issued are denominated in a currency other than the issuer's functional currency	EC Reg. no. 1293 of 23 December 2009	1 February 2010
IAS 24 - Related Party Disclosures IFRS 8 - Operating Segments	Simplifies the definition of "related party", while eliminating certain inconsistencies and relieves public entities from several disclosure responsibilities regarding related party transactions	EC Reg. no. 632 of 19 July 2010	1 January 2011
Improvements to the IFRS (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 32, IAS 34, IAS 39, IFRIC 13)	Minor amendments mainly regarding disclosures	EC Reg. no. 149 of 18 February 2011	1 January 2011 1 July 2011 (for amendments to IFRS 3)
New interpretations or amendments			
IFRIC 14 - Amendments to the Interpretation "Prepayments of a Minimum Funding Requirement"	If a defined-benefit plan is subject to a minimum funding requirement, the amendment to IFRIC 14 requires that this advance payment be treated as an asset, just as any other advance payment	EC. Reg. no. 633 of 19 July 2010	1 January 2011
IFRIC 19 - Extinguishing financial liabilities with equity instruments	Provides guidelines for the borrower to accounting for equity instruments issued to fully or partially extinguish a financial liability following renegotiation of the related conditions	EC Reg. no. 662 of 23 July 2010	30 June 2010

(*) the amendments to IFRS 1 relating to the first-time adoption of IFRS are not shown

Lastly, note that Regulation no. 1205 of 22 November 2011 approved several amendments to IFRS 7 regarding disclosures of transfers of financial assets, with the aim of promoting the transparency of disclosures on transfer transactions. This standard will apply to the Banco Popolare Group as of financial year 2012.

Illustration of changes to the 2010 financial statements for comparative purposes

In February and March 2012, the Bank of Italy published several clarifications regarding the correct recognition on financial statements of several different transactions.
More specifically, it was clarified that costs which are functionally related to personnel, represented by the refund of documented and verified expenses for food and lodging incurred by employees on business trips, and by the cost of kilometric refunds calculated on the basis of valid rate and the kilometres actually travelled, must be recognised under item “150 b) other administrative expenses”. Said expenses, grouped in the previous year under the sub-item “150 a) personnel expenses”, amounting to euro 23 million, have therefore been reclassified under “150 b) other administrative expenses”.
As regards securities lending transactions with a guarantee represented by other securities or without a guarantee, the clarifications received from the Supervisory Body establish, among other things, that the relative returns must be recognised by the lender under “Fee and commission income” and by the borrower under “Fee and commission expense”. Securities lending transactions guaranteed by cash that is not allocated to the available funds of the lender must be treated in the same way. By virtue of the fact that in the financial statements at 31 December 2010, the accruals of the described transactions has been recognised in the interest margin, the appropriate reclassifications were made. Therefore, the securities loaned and recognised under item “10 Interest income”, corresponding to euro 946.3 thousand, were reclassified under item “40 Fee and commission income”; similarly, the cost of the securities loaned, corresponding to euro 468.8 thousand, has been reclassified from item “20 Interest income” to item “50 Fee and commission expense”.
The income statement schedule was also amended to retroactively reflect the economic effects relating to the investments held in Liberty, Itaca Service, Bio Energy, Glass Italy, Stichting Glass and Bormioli Rocco & Figlio, classified as “assets held for sale” in 2011, as required by IFRS 5. Specifically, the contribution of those discontinued operations or held for disposal to the consolidated financial statements, a positive figure of euro 26.3 million, was shown under income statement item “310. Income (Loss) after tax from discontinued operations”.

In order to aid understanding of the quantitative impacts of the changes to representation criteria implemented in 2011, the attachments to the financial statements include the reclassified income statement schedule relating to the previous year reconciliated with the figures originally published in the 2010 financial statements.

A.2 - KEY FINANCIAL STATEMENT ITEMS

The financial statements as at 31 December 2011 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 2010, set forth 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.

For determining 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. For more details, please refer to section “18 - Other information, Methods for determining the fair value of financial instruments”.

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, Assets 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 Assets 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.
The fair value is determined based on the criteria previously illustrated for financial assets held for trading.
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. Specifically, the Group has considered a fair value reduction to be significant when in excess of 30% and prolonged when it progresses without interruption for 24 months. Barring exceptional circumstances, the violation of one of the two thresholds requires the recognition of impairment of the security, with an impact on the income statement.
In 2011, a specific policy was introduced for several types of investment, similar to equity instruments, but characterised by distinctive aspects with respect to a direct stock investment. These are private equity funds and similar investment vehicles: more specifically, this category includes 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 other corporate vehicles. As these 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;
- a persistent decrease for an uninterrupted period exceeding 60 months;
- 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.

In the event of objective evidence, the impairment loss recognised following said test 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 assets 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, unrecurring event, out of the company's control that could not reasonably be foreseen, for example a material downgrading of the creditworthiness of the entity who 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. 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 doubtful, substandard or restructured under the current rules of the Bank of Italy, in line with IAS requirements.

Said non-performing loans undergo an analytical, or individual valuation, whereby the adjustment to each loan is equal 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 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.

Non-performing loans include also past due loans, that is, loans reporting uninterrupted overdrafts or payment delays, automatically identified by the Group's IT procedures, based on the current rules established by the Bank of Italy. Adjustments to these loans, albeit measured according to a forfeit/statistical method, are reported as "Specific adjustments", in compliance with the provisions set forth in the Bank of Italy Circular no. 262.

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 be estimated taking into account time series, based on elements observable as of the valuation date. Adjustments determined collectively are charged to the income statement. At each balance sheet and interim report date, any additional adjustments or recoveries are recalculated differentially referring to the entire performing loan book on the same date.

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.
The fair value is determined based on the criteria previously illustrated for Financial assets held for trading.

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 aim at neutralising 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 aim at hedging exposure to changes in the fair value of a balance sheet asset or liability, attributable to a specific risk;
- cash flow hedges, which aim at hedging the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items;
- hedges of foreign currency transactions, which aim at hedging 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 relating to internal transactions between different 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 detail:

- 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 offset 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 n business and financial decisions of the investees.
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. 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. Income (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, revaluation of property, plant and machinery), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "140. Valuation reserves".

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. Should the resulting recoverable amount be lower than the book value, the difference is charged to 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.

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.

Property and equipment is 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.
Leasehold improvements for rented buildings are capitalised according to the rationale that throughout the lease contract life the lessee retains control over the assets and may obtain future economic benefits from it. These expenses are amortised over a period not exceeding the life of the lease contract.
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, is measured at cost, less any depreciation and impairment. Property and equipment is systematically depreciated throughout its 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 balance sheet 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 balance sheet 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.

Income taxes, calculated in compliance with current tax regulations, is charged to the income statement based on the accrual principle, consistent with the recognition of the costs and revenues that generated the taxes in the financial statements. Taxes on items charged or credited directly to shareholders' equity are an exception, as they as well are consistently recognised directly through shareholders' equity.

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. 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.
Current tax assets and liabilities are shown as a net balance in the balance sheet, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.
Tax liabilities include allocations made in compliance with IAS 37, to cover charges that may be generated by tax assessments already notified or in any case outstanding disputes with the tax authorities.

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, 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.

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.
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, Methods for determining the fair value of financial instruments”.

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 balance sheet 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) leasehold improvements and incremental expenses incurred on third party assets other than those attributable to the item “property and equipment”. In detail, assets that form an integral part of the goods they belong to and cannot be used separately are classified under this item. These costs are recognised under other assets because, as a result of the lease contract, the lessee retains control over the assets and may obtain future economic benefits from their use;
e) receivables associated with providing non-financial goods or services.

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 balance sheet 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

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.
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” based on IAS 19; the charge is limited to the benefits defined under the Italian Civil Code, without applying any actuarial methodology.
The provisions for employee termination indemnities accrued up to 31 December 2006 continues to be accounted for as a defined benefit plan under the classification indicated by IAS 19. Nonetheless, for companies with an average of at least 50 employees during 2006, the liability associates with employee termination indemnities accrued is subject to actuarial valuation without applying the pro-rata value of the rendered service since the benefit to be measured may be considered fully accrued.
Pension plans and liabilities associated with “personnel seniority bonuses” are divided into two categories: defined benefit plans and defined contribution plans.
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 an external 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, liabilities are measured based on the actuarial methodology envisaged by IAS 19, as 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 determination of the actuarial values required by application of the above standard is carried out by an external actuary.
In detail, commitments associated with plans where the company has guaranteed capital repayment and/or returns in favour of beneficiaries, are recognised under “Company retirement plans and similar obligations”, while seniority bonuses are recognised under “Provisions for risks and charges – other”.
For all defined benefit plans, actuarial gains and losses are recognised immediately in the income statement. Said actuarial gains and losses originate from changes in the previous actuarial assumptions, as a result of the actual experienced obtained or as a result of changes to the assumptions themselves.

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, and the portion of valuation reserves of investments carried at equity. 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 detail:

- default interest, if provided for by contract, are 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 positive margin, depending on the specific counterparty with which the financial instrument has been contracted (credit risk adjustment);
- 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);
- revenues on bond issues generated by the difference between the price collected and the instrument's fair value are recognised in the income statement at the issue date if the fair value can be determined based on observable parameters or on recent transactions observable on the same market where the instrument is traded. In the event that said parameters cannot be directly observed on the market, the valuation technique used to determine the fair value takes the commercial spread as the adjusting factor to discount cash flows. The resulting fair value is equivalent to the price collected: hence, no profit is recorded on the issue date. In order to guarantee substantial representation of the cost of the funding transaction based on the correlation between costs and revenues, in case of placement fees paid to companies that do not belong to the Group, which are charged to the income statement at the issue date, revenue is recognised on the same date, represented by the commercial spread, up to the amount of the cost of the placement fee expenses.

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.
For transactions finalised after the above mentioned date, the loans sold are not derecognised from the financial statements 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 financial statements as "Assets sold and not derecognised"; the notes issued by the SPE to fund the assignment are recorded under "Debt securities issued", net of the securities subscribed by the assigning banks.

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".
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 "Loan" 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 – Fair value disclosure".

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 "Consolidated and 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.

With regard to sales of investments in associates which involve 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 (IAS 28) or a jointly-controlled entity (IAS 31).

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 8.10, 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 the fair value of financial instruments

The fair value represents the consideration at which an asset could be traded or a liability cancelled, in a free transaction performed at arm's length between independent and knowledgeable parties, at a given measurement date.
The fair value is the price that would be paid in an ordinary transaction, that is, a transaction involving market participants who wish to negotiate, thus excluding any type of forced transaction.
The determination of fair value of financial instruments is based on the assumption that the company is a going concern, namely it is assumed that the company shall continue to be fully operational and will not liquidate or significantly reduce its operations, nor will it carry out transactions at unfavourable terms.

Financial assets and liabilities held for trading, Financial assets 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, a "fair value policy" is in place, which assigns the maximum priority to the official prices available on active markets (mark to market) and lower priority to the use of inputs which cannot be observed, since they are more discretional (mark to model).

Mark to Market

To determine fair value, the Bank uses information based on market data, any time it is available, obtained from independent sources, in that this is considered to be the best evidence of fair value. In this case, the fair value is the market price of the same financial instrument assessed, meaning without changes in or recomposition of the instrument, which can be taken from the listings expressed by an active market. A market is considered active if the listed prices reflect the normal market transactions, are duly and promptly available via stock markets, listing services, brokers and if these prices represent effective and regular market transactions.
The following are generally considered active markets:
- regulated securities and derivative markets, with the exception of the "Luxembourg" stock market;
- alternative trading systems;
- certain OTC electronic trading networks (for example, 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 must settle units. The NAV can be suitably adjusted to account for the fund's diminished liquidity, i.e., the time span between the date of the request for redemption and that of the actual redemption, as well as for possible exit commissions.

Mark to Model

When the Mark to Market policy is not applicable, because there are no market 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 detail:

- Debt securities are measured by discounting expected cash flows, suitably adjusted to account for issuer risk;
- 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. For some particularly complex derivative contracts in terms of pay-off structure, the fair value is adjusted to take said factors of complexity and illiquidity into account. More specifically, it is a corrective factor relating to the so-called "model risk", namely the risk that the pricing model could generate fair values that are not directly comparable with market values;
- 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

The above "fair value policy", results in a three-tiered hierarchy of fair value, based on the availability of market parameters:

1. **Listed prices taken from active markets (Level 1):**
   The valuation is the market price of the same financial instrument assessed, which can be taken from the listings expressed by an active market.
2. **Valuation methods based on observable market parameters (Level 2)**
   The valuation of the financial instrument is not based on prices of the financial instrument assessed which can be taken from market listing 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.

Financial liabilities designated at fair value through profit and loss and determination of own creditworthiness

"Financial liabilities designated at fair value through profit and loss" include liabilities issued by the bank, to which the fair value option has been activated . In detail, the scope of the fair value options involves the following types of issues:

- fixed-rate plain vanilla bonds;
- structured bonds whose pay-off is linked to equity components (securities or indices) or to exchange rate components;
- structured bonds whose pay-off is linked to interest rate or inflation rate structures or similar indices.

In these cases, the adoption of the Fair Value Option makes it possible to avoid the otherwise ensuing accounting mismatch, by measuring the bond at its amortised cost and the related derivative at fair value.
In addition to simplifying the administrative and accounting management of hedges, the reason why the Group opted to apply 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.
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 risk factor that generated them, including the issuer's credit risk.
As of the second half of 2009, in order to reduce the income statement volatility caused by the fluctuations of its own creditworthiness, the Group decided to apply hedge accounting rules for several new issues of significant amounts, hedged with derivative instruments. Specifically, these are several issues which are considered as institutional issues due to that

illustrated below. To demonstrate the actual transfer of the hedged risk outside the Group and pass the effectiveness test at consolidated level, traceable hedging transactions have been executed for each individual bond issue, as required in the above paragraph “6- Hedging transactions”.
In addition, hedges of bond issues of the subsidiary Banca Italease, which joined the Group’s scope of consolidation in the second half of 2009 following the Public Offering, are managed under hedge accounting at Group level.

For own bond issues, the Group’s fair value policy envisages a distinction based on the factors that are considered significant by market participants in fixing the exchange price for a hypothetical transaction on the secondary market.
When determining fair value, changes in own creditworthiness occurring after the issue date are not taken into consideration if this reflects general market practices. This occurs, for example, for retail issues, targeted to Group customers, which are listed on an organised trading system based on a pricing policy that tends to confirm credit spreads existing at the issue date. In this case, the fair value will be taken as the price of Group securities observed on the organised trading system, as it is considered an active market.
On the contrary, for bond issues whose subsequent transactions are affected by changes in own credit spread, the valuation method is based on the discounting of cash flows, where the curve used for discounting is equal to the risk-free market interest rate, plus the own creditworthiness curve. This policy applies, for example, to issues targeted to institutional customers, where the price observed on the market or applicable to a hypothetical transaction considers changes in creditworthiness occurring after the issue date as a significant input. As illustrated above, for some significant bond issues starting from the second half of 2009, falling in the latter category, the Group adopted hedge accounting rules instead of the fair value option, to sterilise the economic impact associated with changes in own creditworthiness. For prior issues, the fair value option rules are confirmed, since designation is irrevocable.
Note, that the issue of this latter type of bonds, which are hedged against interest rate risk, is generally reserved to the Parent Company – Banco Popolare.
The creditworthiness curve is plotted by maximising the use of observable market parameters considered significant, based on the related liquidity. Starting from financial year 2008, the market reference that could best express our creditworthiness was considered to be the Credit Default Swap (CDS) curve – senior or subordinated – based on the issue’s level of subordination and the maturity date.
Note, that for all the Companies of the Group, the specific CDS curve used is the Parent Company’s – Banco Popolare – as it is the guarantor of last resort, with no additional adjustment.
Once the appropriate market parameters that can best reflect one’s creditworthiness have been identified, the change in fair value attributable to the factor in question from the issue date to the valuation date is obtained by calculating the difference between the pricing obtained - considering all risk factors to which the bond is exposed, including credit risk - and the fair value resulting when considering the same factors, except the change in credit risk change arising during the period.

In addition, in discounting cash flows, the valuation technique considers a spread adjustment in order to sterilise, from the issue date, any profit deriving from the difference between the fair value and the price collected by the customer, net of transaction costs. As recognised under “Dividends and revenue recognition”, this spread adjustment is equal to the commercial spread implicit in the issue, net of placement fee expenses paid to companies external to the Group, which are fully charged to the income statement at the issue date. As a result, at the issue date, profit is recognised in an amount equal to the placement fee expenses, which are both recorded under the income statement item “110 Profits (losses) on financial assets and liabilities designated at fair value”.

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. In detail:

- for non-performing medium/long-term loans (doubtful and substandard loans), fair value is determined by discounting contractual flows, net of expected losses, based on a risk-free market rate. 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, are discounted based on a risk-free market rate, plus a component considered as expressing risk aversion, in order to take into account other factors in addition to expected loss;
- for assets and liabilities on demand or with a short-term or undefined maturity, the book value at which they are recognised is considered a good approximation of fair value;
- for bonds measured in the financial statements at amortised cost, fair value is measured by 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, based on the methodology described for “Financial 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.

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.

A.3 – FAIR VALUE DISCLOSURE

A.3.1 Transfers between portfolios

A.3.1.1 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 trading assets 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 sale, 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 2011, no further reclassifications of the portfolio took place.

The following table shows the book value of the reclassified assets remaining as at 31 December 2011, 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 31.12.2011	Fair value as at 31.12.2011	Income items in absence of the transfer (pre tax)		Income items registered in the period (pre tax)	
					Valutational	Other	Valutational	Other
Debt securities	Financial assets held for trading (item 20)	Due from banks (item 60)	23,413	18,808	1,873	445	-	781
Debt securities	Financial assets held for trading (item 20)	Loans to customers (item 70)	148,276	129,789	(16,748)	5,392	(3,500)	5,400
UCIT units	Financial assets held for trading (item 20)	Financial assets available for sale (item 40)	733	733	(34)	-	(34)	-
Total			**172,422**	**149,330**	**(14,909)**	**5,837**	**(3,534)**	**6,181**

Debt securities

As at 31 December 2011, the reclassified portfolio represented by "Debt securities" comprised 7 securities from corporate issuers (9 securities as at 31 December 2010) – mainly of banks and financial institutions – and 12 Asset Backed Securities (ABS) (12 securities as at 31 December 2010).
The change in the reclassified securities portfolio refers to the natural changes resulting from the redemption on maturity, or the redemption due to the depreciation of several ABS securities, as well as on the subscription to the buy-back - launched by the issuing bank in the first quarter of 2011 - regarding the Allied Irish Bank subordinated bond.
Securities redeemed or sold in total during 2011 amounted to a nominal value of euro 52.8 million.

The book value of the position in debt securities as at 31 December 2011 amounted to euro 171.7 million (euro 215.3 million as at 31 December 2010) and their fair value comes to euro 148.6 million (euro 204 million as at 31 December 2010).

In detail, with regard to the ABS securities, the reclassified positions, for an equivalent book value as at 31 December 2011 of 58.1 million (NV 59 million), represent over 99% of the Group's position in structured credit products. All the ABS 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 Italian residential mortgage loans and those of other European countries.
With reference to the corporate securities, outstanding with a par value of 145.5 million, corresponding to a book value of 113.6 million, they are mainly made up of issues from leading banks and financial institutions in the US (42%), Europe (41%), and Italy (17%); there is no position in structured credit securities. More specifically, around 66% of these securities are represented by plain vanilla issues (namely non-structured issues subject to only interest rate/counterparty risk) while the remainder represented by subordinated issues of European and Italian banks.

The cumulative effect as at 31 December 2011 consequent to the reclassification presented a positive balance of euro 23 million, compared with euro 11.3 million as at 31 December 2010 (as emerges from the difference between the "Book value as at 31 December 2011" column and the "Fair value as at 31 December 2011"), as analysed below:
- failure to recognise net losses due to the adjustment to fair value of euro 19 million, which would have been recorded if the securities had remained in the trading category;
- recognition of income items represented by additional interest income due to the application of the amortised cost to the reclassified assets for 4 million.

In terms of the income statement, the reclassification resulted in the recording of:
- additional interest income due to the application of amortised cost of 2.1 million;
- lower net gains from valuation and trading that would have been recorded if the transfer had not taken place, of euro 9.6 million.

Therefore, the income statement result as at 31 December 2011 is euro 11.7 million higher than it would have been in the absence of the reclassification from the trading category 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 2011, the residual book value of the UCIT units transferred was euro 0.7 million (8.4 million as at 31 December 2010); the change compared to last year is due almost exclusively to sales made during the course of 2011.

A.3.1.2 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 2011 no transfers of portfolios were carried out, and, therefore, there is no disclosure to be provided.

A.3.1.3 Transfers of financial assets held for trading

For the reasons underlying the reclassification, please refer to the previous paragraph A.3.1.1.
In addition, note that at the time when Banco Popolare had carried out the reclassification, the IABS 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.3.1.4 Effective interest rate and cash flows expected from reclassified assets

There is no disclosure to make as no portfolio reclassification was made in 2011.

A.3.2 Fair value hierarchy

A.3.2.1 Accounting portfolios: breakdown by fair value levels

The growing complexity of financial instruments and the turbulence on the financial markets have increasingly heightened the attention on the need to provide complete and transparent disclosure on the methods for determining the fair value both in qualitative and quantitative terms.
For such purposes, in this section the disclosure required by IFRS 7, validated by EC Regulation 1165 of 27 November 2009, for financial asset and liability portfolios designated at fair value has been provided, on the basis of the fair value hierarchy illustrated in the paragraph "Methods for determining the fair value of financial instruments", under "A.2 - Key financial statement items".

Fair value financial assets/liabilities *(in thousands of euro)*	**31/12/2011**			**31/12/2010**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held for trading	3,649,711	5,094,036	1,397	7,602,922	4,001,835	8,549
2. Financial assets designated at fair value through profit and loss	156,361	965	4,521	173,256	2,016	3,659
3. Financial assets available for sale	8,726,951	548,602	547,306	4,498,060	492,397	600,719
4. Hedging derivatives	-	631,994	-	-	201,969	-
Total	**12,533,023**	**6,275,597**	**553,224**	**12,274,238**	**4,698,217**	**612,927**
1. Financial liabilities held for trading	245,154	4,391,851	658	194,040	3,538,409	1,685
2. Financial liabilities designated at fair value through profit and loss	15,493,305	10,098,021	-	17,912,599	8,601,462	-
3. Hedging derivatives	-	451,480	-	-	235,364	-
Total	**15,738,459**	**14,941,352**	**658**	**18,106,639**	**12,375,235**	**1,685**

Financial assets

The financial instruments valued on the basis of prices pertaining to active markets (Level 1) or determined on the basis of parameters which can be observed on the market (Level 2) represent 97.1% of total financial assets designated at fair value through profit and loss, essentially in line with the percentage in the previous year (96.5%).
The instruments valued significantly on the basis of non-observable parameters (Level 3) represent a marginal share (2.9%) and are mainly comprised of financial assets available for sale. Said investments, mostly classified in the "Financial assets available for sale" portfolio, are mainly represented by the following types of cash assets:

- equity instruments valued on the basis of internal models (income, equity or mixed methods), of euro 400.2 million;
- UCIT units of euro 129.6 million, represented by private equity funds, real estate funds and hedge funds; these funds tend to be characterised by poor liquidity and their fair value is measured by means of internal models or determined from sources that are not available to the public;
- insurance policies with underlying securities issued by Icelandic banks, for euro 20.8 million, classified under "Financial assets available for sale" following the public offer of exchange launched in 2010 used to propose that holders of index-linked policies of UGF Assicurazioni and Eurovita Assicurazioni exchange each policy with zero coupon senior bonds issued by Banco Popolare;
- securities from securitisations for euro 2.6 million, almost fully attributable to the transactions originated by Group companies prior to 1 January 2004, for which the option not to recognise in the financial statements loans derecognised based on the previous national accounting standards.

Financial assets include euro 5,476 million in derivative instruments held for trading and hedging; these are almost all Over the Counter (OTC) agreements whose valuation was carried out via valuation models which significantly use parameters which can be observed on the market or obtained 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 through profit and loss are represented by own bond issues subject to hedging by means of derivative instruments, in relation to which the fair value option has been activated. In detail, the securities classified in correspondence with level 1, which represent around 60% of total issues measured at fair value, refer to bonds whose valuation was derived from listings present on the organised trading system relating to Group securities, considered an active market. For further details on the method for determining the financial liabilities under the fair value option, reference should be made to the matters indicated in paragraph "18. Other information" under section "A.2 - Key financial statement items".

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

(in thousands of euro)	FINANCIAL ASSETS			
	held for trading	designated at fair value	available for sale	hedging
1. Opening balance	**8,549**	**3,659**	**600,719**	**-**
2. Increases	**11,387**	**2,558**	**133,301**	**-**
2.1 Purchases	10,283	1,946	86,742	-
of which: for business combinations	-	-	-	-
2.2 Profits charged to:	181	612	27,231	-
2.2.1 Income statement	181	612	12,426	-
of which: capital gains	-	531	3	-
2.2.2 Shareholders' equity	X	X	14,805	-
2.3 Transfers from other levels	-	-	16,057	-
2.4 Other increases	923	-	3,271	-
3. Decreases	**(18,539)**	**(1,696)**	**(186,714)**	**-**
3.1 Sales	**(9,528)**	**(444)**	**(104,649)**	**-**
of which: for business combinations	-	-	-	-
3.2 Redemptions	(5,783)	(58)	(10)	-
3.3 Losses charged to:	(2,095)	(1,181)	(78,663)	-
3.3.1 Income statement	(2,095)	(1,181)	(32,265)	-
of which: capital losses	-	(1,056)	(8,073)	-
3.3.2 Shareholders' equity	X	X	(46,398)	-
3.4 Transfers to other levels	-	-	-	-
3.5 Other decreases	(1,133)	(13)	(3,392)	-
4. Closing balance	**1,397**	**4,521**	**547,306**	**-**

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

(in thousands of euro)	FINANCIAL LIABILITIES		
	held for trading	designated at fair value	hedging
1. Opening balance	**1,685**	**-**	**-**
2. Increases	**373**	**-**	**-**
2.1 Issues	368	-	-
of which: for business combinations	-	-	-
2.2 Losses charged to:	5	-	-
2.2.1 Income statement	5	-	-
of which: capital losses	-	-	-
2.2.2 Shareholders' equity	x	x	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	**(1,400)**	**-**	**-**
3.1 Redemptions	**-**	**-**	**-**
of which: for business combinations	-	-	-
3.2 Repurchases	-	-	-
3.3 Profits charged to::	(1,400)	-	-
3.3.1 Income statement	(1,400)	-	-
of which: capital gains	-	-	-
3.3.2 Shareholders' equity	x	x	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**658**	**-**	**-**

A.3.3 Disclosure on “day one profit/loss”

Pursuant to IFRS 7 paragraph 28, Group financial instruments included options sold in connection with capital guaranteed portfolio management, 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”. The amount recognised through profit or loss in “Profits (losses) on trading” as at 31 December 2011 was a profit of euro 1.4 million. The residual difference still to be recognised totals euro 0.7 million.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

(in thousands of euro)	31/12/2011	31/12/2010
a) Cash	558,328	632,666
b) Demand deposits with Central Banks	19,629	7,266
Total	**577,957**	**639,932**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by instrument

(in thousands of euro)	31/12/2011			31/12/2010		
	L1	L2	L3	L1	L2	L3
A Cash assets						
1. Debt securities	3,098,865	263,651	30	6,415,460	603,513	6,470
1.1. Structured securities	104,075	37,779	28	153,195	80,059	-
1.2. Other debt securities	2,994,790	225,872	**2**	6,262,265	523,454	6,470
2. Equity instruments	210,318	-	28	329,071	-	67
3. UCIT units	273,103	53,597	1,339	802,148	82,589	2,012
4. Loans	-	-	-	-	-	-
4.1. Repurchase agreements	-	-	-	-	-	-
4.2. Other	-	-	-	-	-	-
Total A	**3,582,286**	**317,248**	**1,397**	**7,546,679**	**686,102**	**8,549**
B Derivatives						
1. Financial derivatives	67,425	4,768,887	-	56,243	3,314,189	-
1.1 Trading	67,414	3,949,937	-	56,243	3,226,431	-
1.2 Under the fair value option	-	802,026	-	-	42,836	-
1.3 Other	11	16,924	-	-	44,922	-
2. Credit derivatives	-	7,901	-	-	1,544	-
2.1 Trading	-	7,901	-	-	1,544	-
2.2 Under the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	**67,425**	**4,776,788**	**-**	**56,243**	**3,315,733**	**-**
Total (A+B)	**3,649,711**	**5,094,036**	**1,397**	**7,602,922**	**4,001,835**	**8,549**

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.

The table below presents the breakdown of UCIT units.

(in thousands of euro)	Total 31/12/2011	Total 31/12/2010
a) Share Funds	30,267	7,550
b) Balanced Funds	965	38
c) Bond Funds	38,027	97,444
d) Liquidity Funds	125,837	475,345
e) Flexible Funds	50,111	191,995
f) Hedge Funds	82,302	114,024
g) Real Estate Funds	530	353
Total	**328,039**	**886,749**

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

(in thousands of euro)	31/12/2011	31/12/2010
A CASH ASSETS		
1. Debt securities	**3,362,546**	**7,025,443**
a) Governments and Central Banks	2,433,313	5,106,980
b) Other public entities	297	883
c) Banks	737,040	1,444,210
d) Other issuers	191,896	473,370
2. Equity instruments	**210,346**	**329,138**
a) Banks	63,047	50,391
b) Other issuers:	147,299	278,747
- insurance companies	9,549	12,548
- financial companies	3,422	9,963
- non-financial companies	134,328	256,235
- other	-	1
3. UCIT units	**328,039**	**886,749**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	**3,900,931**	**8,241,330**
B DERIVATIVES		
a) Banks		
- fair value	3,777,747	2,549,066
b) Customers		
- fair value	1,066,466	822,910
Total B	**4,844,213**	**3,371,976**
Total (A+B)	**8,745,144**	**11,613,306**

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	**7,025,443**	**329,138**	**886,749**	**-**	**8,241,330**
B. Increases	**51,536,296**	**4,583,559**	**115,226**	**-**	**56,235,081**
1. Purchases	51,367,775	4,515,989	114,054	-	55,997,818
of which: for business combinations	*-*	*1*	*-*	*-*	*-*
2. Increases in fair value	16,399	4,075	976	-	21,450
3. Other changes	152,122	63,495	196	-	215,813
C. Decreases	**(55,199,193)**	**(4,702,351)**	**(673,936)**	**-**	**(60,575,480)**
1. Sales	(54,033,145)	(4,428,233)	(646,584)	-	(59,107,962)
of which: for business combinations	-	-	-	-	-
2. Redemptions	(905,200)	-	(2,709)	-	(907,909)
3. Decreases in fair value	(81,303)	(44,445)	(10,332)	-	(136,080)
4. Transfers to other portfolios	-	-	-	-	-
5. Other changes	(179,545)	(229,673)	(14,311)	-	(423,529)
D. Closing balance	**3,362,546**	**210,346**	**328,039**	**-**	**3,900,931**

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 instrument

(in thousands of euro)		31/12/2011			31/12/2010		
		L1	L2	L3	L1	L2	L3
1	Debt securities	-	4	-	-	4	-
	1.1 Structured securities	-	-	-	-	-	-
	1.2 Other debt securities	-	4	-	-	4	-
2	Equity instruments	1	961	14	**2**	2,012	55
3	UCIT units	156,360	-	4,507	173,254	-	3,604
4	Loans	-	-	-	-	-	-
	4.1 Structured	-	-	-	-	-	-
	4.2 Other	-	-	-	-	-	-
	Total	**156,361**	**965**	**4,521**	**173,256**	**2,016**	**3,659**
	Cost	**179,221**	**10,009**	**22,683**	**193,057**	**10,434**	**20,855**

Financial assets designated at fair value through profit and loss are mainly comprised by investments in Hedge Funds, for which designation at fair value meets the need to manage and represent a portfolio of financial instruments in consistency with a given investment strategy and based upon a performance target.
"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)		31/12/2011	31/12/2010
a)	Share Funds	909	-
b)	Balanced Funds	-	-
c)	Bond Funds	-	-
d)	Liquidity Funds	-	-
e)	Flexible Funds	4,291	4,563
f)	Hedge Funds	155,366	171,803
g)	Real Estate Funds	301	492
	Total	**160,867**	**176,858**

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

(in thousands of euro)		31/12/2011	31/12/2010
1	**Debt securities**	**4**	**4**
	a) Governments and Central Banks	-	-
	b) Other public entities	-	-
	c) Banks	4	4
	d) Other issuers	-	-
2	**Equity instruments**	**976**	**2,069**
	a) Banks	12	22
	b) Other issuers:	964	2,047
	- insurance companies	949	1,990
	- financial companies	-	-
	- non-financial companies	-	-
	- other	15	57
3	**UCIT units**	**160,867**	**176,858**
4	**Loans**	**-**	**-**
	a) Governments and Central Banks	-	-
	b) Other public entities	-	-
	c) Banks	-	-
	d) Other parties	-	-
	Total	**161,847**	**178,931**

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**	**4**	**2,069**	**176,858**	**-**	**178,931**
B	**Increases**	**778**	**14**	**18,099**	**-**	**18,891**
	1. Purchases	-	5	1,946	-	1,951
	(of which for business combinations)	-	-	-	-	-
	2. Increases in fair value	465	-	1,911	-	2,376
	3. Other changes	313	9	14,242	-	14,564
C	**Decreases**	**(778)**	**(1,107)**	**(34,090)**	**-**	**(35,975)**
	1. Sales	-	(31)	(12,358)	-	(12,389)
	(of which for business combinations)	-	-	-	-	-
	2. Redemptions	(360)	-	(2,947)	-	(3,307)
	3. Decreases in fair value	(171)	(1,062)	(18,575)	-	(19,808)
	4. Other changes	(247)	(14)	(210)	-	(471)
D	**Closing balance**	**4**	**976**	**160,867**	**-**	**161,847**

Section 4 - Financial assets available for sale - Item 40

4.1 Financial assets available for sale: breakdown by instrument

	(in thousands of euro)	31/12/2011			31/12/2010		
		L1	L2	L3	L1	L2	L3
1	Debt securities	8,238,258	503,951	23,355	4,319,284	414,271	24,436
	1.1 Structured securities	-	-	-	-	-	-
	1.2 Other debt securities	8,238,258	503,951	23,355	4,319,284	414,271	24,436
2	Equity instruments	165,869	44,651	400,160	118,022	78,126	427,125
	2.1 Designated at fair value	165,868	44,543	361,599	117,981	75,027	389,102
	2.2 Valued at cost	1	108	38,561	41	3,099	38,023
3	UCIT units	322,824	-	123,791	60,754	-	149,158
4	Loans	-	-	-	-	-	-
	Total	**8,726,951**	**548,602**	**547,306**	**4,498,060**	**492,397**	**600,719**

Financial assets available for sale amounted to euro 9,822.9 million as at 31 December 2011. The significant increase in the debt securities segment compared to the euro 5,591.2 million recorded last year is mainly due to investments made through three Italian Government Bond purchase plans, which focused on the floating-rate segment at the beginning of the year, while regarded fixed-rate bonds with residual terms of between 2 and 3 years and maturing 2025-2026 in the second half of the year. For further details, refer to the paragraph in the Report on Operations relating to Group Services: Group Finance
Most bonds have been hedged using derivatives, as shown in the following table "4.3 Financial assets available for sale subject to micro hedging", to obtain absolute returns on short term interest rates.

Conversely, equity instruments classified as available for sale are represented by shareholdings which cannot be classified as controlling, associated or joint control, and by private equity funds.

The table below presents the breakdown of UCIT units.

	(in thousands of euro)	31/12/2011	31/12/2010
a)	Share Funds	104,083	149,004
b)	Balanced Funds	34,558	-
c)	Bond Funds	56,526	5,643
d)	Liquidity Funds	60,623	-
e)	Flexible Funds	136,833	-
f)	Hedge Funds	16,783	20,310
g)	Real Estate Funds	37,209	34,955
	Total	**446,615**	**209,912**

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

(in thousands of euro)	31/12/2011	31/12/2010
1 Debt securities	**8,765,564**	**4,757,991**
a) Governments and Central Banks	7,591,113	4,219,220
b) Other public entities	5,833	6,181
c) Banks	849,304	291,683
d) Other issuers	319,314	240,907
2 Equity instruments	**610,680**	**623,273**
a) Banks	296,585	169,953
b) Other issuers:	314,095	453,320
- insurance companies	2,920	11,959
- financial companies	72,151	73,260
- non-financial companies	238,964	365,026
- other	60	3,075
3 UCIT units	**446,615**	**209,912**
4 Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**9,822,859**	**5,591,176**

4.3 Financial assets available for sale subject to micro hedging

(in thousands of euro)	31/12/2011	31/12/2010
1 Financial assets subject to micro fair value hedging	**6,385,211**	**4,230,637**
a) interest rate risk	6,385,211	4,175,526
b) price risk	-	-
c) exchange rate risk	-	55,111
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	**6,385,211**	**4,230,637**

4.4 Financial assets available for sale: annual changes

	(in thousands of euro)	Debt securities	Equity instruments	UCIT units	Loans	Total
A	**Opening balance**	**4,757,991**	**623,273**	**209,912**	**-**	**5,591,176**
B	**Increases**	**5,208,249**	**266,904**	**286,870**	**-**	**5,762,023**
	1. Purchases	4,667,104	49,598	281,885	-	4,998,587
	(of which for business combinations)	-	-	-	-	-
	2. Increases in fair value	17,320	13,854	3,161	-	34,335
	3. Recoveries	9,614	-	-	-	9,614
	- charged to the income statement	-	X	-	-	-
	- charged to shareholders' equity	9,614	-	-	-	9,614
	4. Transfers from other portfolios	-	-	-	-	-
	- Financial assets held for trading	-	-	-	-	-
	- Investments held to maturity	-	-	-	-	-
	5. Other changes	514,211	203,452	1,824	-	719,487
C	**Decreases**	**(1,200,676)**	**(279,497)**	**(50,167)**	**-**	**(1,530,340)**
	1. Sales	(158,764)	(191,903)	(39,323)	-	(389,990)
	(of which for business combinations)	-	-	-	-	-
	2. Redemptions	(33,483)	-	-	-	(33,483)
	3. Decreases in fair value	(832,410)	(37,534)	(8,764)	-	(878,708)
	4. Write-downs due to impairment	(25,551)	(49,197)	(2,080)	-	(76,828)
	- charged to the income statement	(25,551)	(49,197)	(2,080)	-	(76,828)
	- charged to shareholders' equity	-	-	-	-	-
	5. Transfers to other portfolios	-	-	-	-	-
	6. Other changes	(150,468)	(863)	-	-	(151,331)
D	**Closing balance**	**8,765,564**	**610,680**	**446,615**	**-**	**9,822,859**

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 above exercise has become increasingly critical, and is characterised by growing uncertainty, due to the continuing crisis, which extended to the whole 2011.
The impairments found in the first half of 2011 on financial assets available for sale totalled euro 76.8 million (against euro 53.6 million as at 31 December 2010), booked to item 130 b) of the income statement.

As regards debt securities, note the write-down made on Greek securities due to issuer risk, of euro 25.4 million, following the alignment of the book value to fair value as at 31 December 2011. Exposure in Greek securities classified in the AFS category amounted to euro 6.8 million in terms of book value; for further details, please refer to the paragraph entitled "Group exposure in debt securities and loans to Sovereign States".

For equity instruments, the main adjustments concerned the following investments:

- Aedes for 18.9 million;
- Banca Network for 12 million;
- Risanamento for 5.5 million;
- Banca della Nuova Terra for 4.5 million;
- Earchimede for 2.7 million;
- UBH for 2.4 million.

As regards equity instruments, the Group's impairment policy, introduced from the financial statements as at 31 December 2009, envisages thresholds representing a significant reduction of fair value of over 30% compared to book value or a prolonged reduction for an uninterrupted period exceeding 24 months. If said thresholds were exceeded, the instrument would be written down, unless exceptional circumstances prevailed.
As of the 2011 interim report, the above policy has been reviewed, to take into account the specific nature of some types of investment that have been categorised as "equity instruments". These are private equity funds and similar investment vehicles: more specifically, this category includes 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. Said 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 three years.

The Group has therefore introduced an *ad hoc* policy for the cited investments, on the basis of which, 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;
- a persistent decrease for an uninterrupted period exceeding 60 months;
- a reduction of fair value exceeding 30% and lasting for an uninterrupted period exceeding 36 months.

The thresholds introduced as of the 2009 financial statements, as indicated above, continue to be applied to investments in shares.

Overall, as at 31 December 2011, the exposure held in the portfolio of “Financial assets available for sale” in private equity funds and similar investment vehicles, in terms of book value, amounted to euro 140.6 million, and the relative valuation reserves, before tax, amounted to euro -10.5 million (corresponding to the imbalance formed by negative reserves of euro 13.1 million and positive reserves of euro 2.6 million).

The following table contains a breakdown of the main investments which, as at 31 December 2011, recorded negative reserves with an indication of the sustainability and significance thresholds.

(in thousands of euro) **Investments**	**31.12.2011**		**Thresholds**	
	Book value	**Negative reserves before tax**	**Sustainability (*)**	**Significance (**)**
Palladio Finanziaria Spa	45,050	(10,692)	30 months	19.18%
ILP3 - SCA, SICAR Cl. A	13,973	(1,229)	36 months	8.51%
Mandarin Capital Part SCA, SICAR CL B	9,254	(254)	36 months	2.67%
Fondo IdEA FoF quota A	2,614	(177)	36 months	6.35%
Fondo GATE quota A	1,751	(501)	36 months	22.26%
Fondo Arca Impresa 2000	260	(84)	27 months	24.32%
Total	**72,902**	**(12,937)**		

(*) meaning a persistent decrease for an uninterrupted period of x months
(**) meaning a reduction of fair value exceeding x% with respect to the original book value

Note that the persistent nature of the financial crisis has meant a decrease of fair value below the original value for a period of 24 months (sustainability threshold). For said investments, the policy revision did not however reveal any impairment: in fact, the Group believes that the right thresholds to automatically identify an “impairment loss” are represented by a lower fair value than the book value for an uninterrupted period of over 60 months or over 36 months if combined with a fair value decrease exceeding 30%, insofar as, for the investments in question, these scenarios are not simply retained to be the result of market volatility or of a specific stage of the economic situation, but actually show evidence of impairment.

On the basis of the thresholds introduced as of 2011 interim report and the qualitative analyses conducted on the remaining investments, no significant impairment losses have been found for individual positions held in private equity funds and similar investment vehicles.

Section 5 - Investments held to maturity - Item 50

5.1 Investments held to maturity: breakdown by instrument

(in thousands of euro)	**31/12/2011**				**31/12/2010**			
	Book value	**Fair Value**			**Book Value**	**Fair Value**		
		Level 1	**Level 2**	**Level 3**		**Level 1**	**Level 2**	**Level 3**
1 Debt securities	63,403	56,403	-	7,000	140,926	131,723	-	10,500
1.1 Structured	-	-	-	-	-	33,452	-	-
1.2 Other	63,403	56,403	-	7,000	140,926	98,271	-	10,500
2 Loans	-	-	-	-	-	-	-	-
Total	**63,403**	**56,403**	**-**	**7,000**	**140,926**	**131,723**	**-**	**10,500**

Investments held to maturity amounted to euro 63.4 million as at 31 December 2011, decreasing by 55% on the same figure at the end of 2010, amounting to euro 140.9 million, attributable to physiological redemptions which occurred during the year.

Level 3 assets, amounting to euro 7 million, are comprised of bonds issued by Lehman Brothers Holding, at a fixed-rate of 4% with maturity in May 2012, for a nominal amount of euro 35 million, considered as non-performing assets. Value adjustments pertaining to the year amounted to euro 3.5 million.

5.2 Investments held to maturity: breakdown by debtor/issuer

(in thousands of euro)	31/12/2011	31/12/2010
1 Debt securities	**63,403**	**140,926**
a) Governments and Central Banks	49,027	124,906
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	14,376	16,020
2 Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**63,403**	**140,926**
Total Fair Value	**63,403**	**142,223**

5.3 Investments held to maturity subject to micro hedging

(in thousands of euro)	31/12/2011	31/12/2010
1 Financial assets subject to micro fair value hedging	**2**	**-**
a) interest rate risk	-	-
b) price risk	2	-
c) exchange rate risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
2 Financial assets subject to micro cash flow hedging	**8,714**	**5,402**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	8,714	5,402
Total	**8,716**	**5,402**

5.4 Investments held to maturity: annual changes

(in thousands of euro)	Debt securities	Loans	Total
A Opening balance	**140,926**	**-**	**140,926**
B Increases	**26,233**	**-**	**26,233**
1. Purchases	25,566	-	25,566
(of which for business combinations)	-	-	-
2. Recoveries	-	-	-
3. Transfers from other portfolios	-	-	-
4. Other changes	667	-	667
C Decreases	**(103,756)**	**-**	**(103,756)**
1. Sales	(25)	-	(25)
(of which for business combinations)	-	-	-
2. Redemptions	(94,550)	-	(94,550)
3. Adjustments	(3,500)	-	(3,500)
4. Transfers to other portfolios	-	-	-
5. Other changes	(5,681)	-	(5,681)
D Closing balance	**63,403**	**-**	**63,403**

The sales relate to the subsidiary company Bipielle Bank (Suisse) S.A. following the liquidation of the company.

Section 6 - Due from banks - Item 60

6.1 Due from banks: breakdown by product

	(in thousands of euro)	31/12/2011	31/12/2010
A	**Due from Central Banks**	**2,820,227**	**667,916**
	1. Time deposits	-	-
	2. Mandatory reserves	1,967,994	663,497
	3. Repurchase agreements	-	-
	4. Other	852,233	4,419
B	**Due from banks**	**5,866,299**	**6,897,187**
	1. Current accounts and demand deposits	1,213,802	2,171,547
	2. Time deposits	2,681,459	3,108,017
	3. Other loans:	1,572,003	1,425,290
	3.1 Repurchase agreements	965,639	384,473
	3.2 Financial leases	10,608	13,177
	3.3 Other	595,756	1,027,640
	4. Debt securities	399,035	192,333
	4.1 Structured securities	-	-
	4.2 Other debt securities	399,035	192,333
	Total (book value)	**8,686,526**	**7,565,103**
	Total (fair value)	**8,686,526**	**7,565,103**

For the 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.

6.2 Due from banks subject to micro hedging

There are no receivables due from banks subject to micro hedging.

6.3 Financial leases

	31/12/2011						**31/12/2010**					
		Minimum payments			**Gross investment**			**Minimum payments**			**Gross investment**	
	Non-performing loans	**Principal**	***of which guaranteed residual value***	**Interest**		***of which non-guaranteed residual value***	**Non-performing loans**	**Principal**	***of which guaranteed residual value***	**Interest**		***of which non-guaranteed residual value***
- On demand	-	139	7	17	156	-	-	211	-	20	230	-
- Up to 3 months	-	366	-	51	417	-	-	395	-	54	449	-
- From 3 months to 1 year	-	1,620	**2**	184	1,804	-	-	1,376	13	199	1,575	-
- From 1 year to 5 years	-	7,048	3,124	412	7,461	-	-	9,681	3,133	539	10,219	-
- Over 5 years	-	995	177	120	1,121	-	-	1,103	177	145	1,248	-
- Undefined term	-	40	40	-	40	-	-	-	-	-	-	-
Net total	**-**	**10,208**	**3,350**	**784**	**10,999**	**-**	**-**	**12,766**	**3,323**	**957**	**13,721**	**-**

The financial lease transactions shown in the table relate to operations of Banca Italease and its subsidiaries. With respect to the book value of receivables for lease transactions, note that the minimum payments of principal for performing loans do not include any portfolio adjustments or the amortised cost effect.

Section 7 - Loans to customers - Item 70

7.1 Loans to customers: breakdown by product

(in thousands of euro)		31/12/2011		31/12/2010	
		Performing	Non-Performing	Performing	Non-Performing
1	Current accounts	14,141,283	1,597,393	14,958,556	1,597,130
2	Repurchase agreements	3,826,010	-	1,763,763	-
3	Mortgage loans	41,328,642	4,454,775	41,539,538	3,934,203
4	Credit cards, personal loans and salary-backed loans	356,714	22,872	343,609	22,516
5	Financial leases	3,177,577	2,385,571	4,180,662	2,253,580
6	Factoring	56,229	282	38,371	**2**
7	Other transactions	19,493,192	1,768,844	21,380,941	1,536,170
8	Debt securities	777,941	7,000	902,364	10,500
	8.1 Structured securities	5,060	-	-	-
	8.2 Other debt securities	772,881	7,000	902,364	10,500
	Total (book value)	**83,157,588**	**10,236,737**	**85,107,804**	**9,354,101**
	Total (fair value)	**86,395,385**	**10,302,076**	**87,424,499**	**9,396,492**

Euro 683.7 million of sub-item "Debt securities" refers to securities relating to securitisation transactions, as detailed in table "C.1.4 Banking Group - Exposures resulting from securitisations classified by portfolio and type" contained in section 1, Part E of these Notes to the consolidated financial statements.
In particular, euro 625.6 million of this exposure relates to securities resulting from securitisations originated by the Banco Popolare group, against assets that have been fully eliminated from the financial statements. More specifically, euro 578.6 million of said securities refers 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".

7.2 Loans to customers: breakdown by debtor/issuer

(in thousands of euro)		31/12/2011		31/12/2010	
		Performing	Non-Performing	Performing	Non-Performing
1	**Debt securities**	**777,941**	**7,000**	**902,364**	**10,500**
	a) Governments	-	-	-	-
	b) Other public entities	-	-	-	-
	c) Other issuers	777,941	7,000	902,364	10,500
	- non-financial companies	6,879	-	2,188	-
	- financial companies	747,015	7,000	835,777	10,500
	- insurance companies	24,047	-	-	-
	- other	-	-	64,399	-
2	**Loans to:**	**82,379,647**	**10,229,737**	**84,205,440**	**9,343,601**
	a) Governments	45,032	2	57,328	2
	b) Other public entities	553,647	2,985	563,891	3,769
	c) Other parties	81,780,968	10,226,750	83,584,221	9,339,830
	- non-financial companies	54,045,473	8,505,215	58,765,337	7,713,567
	- financial companies	7,495,831	255,915	5,851,268	256,481
	- insurance companies	76,543	37	93,457	36
	- other	20,163,121	1,465,583	18,874,159	1,369,746
	Total	**83,157,588**	**10,236,737**	**85,107,804**	**9,354,101**

7.3 Loans to customers subject to micro hedging

Loans to customers subject to micro hedging of fair value for interest rate risk amounted to euro 259.1 million as at 31 December 2011 (265.5 million as at 31 December 2010).

7.4 Financial leases

	31/12/2011						31/12/2010					
	Non-performing loans	Minimum payments			Gross investment		Non-performing loans	Minimum payments			Gross investment	
		Principal	*of which guaranteed residual value*	Interest		*of which non-guaranteed residual value*		Principal	*of which guaranteed residual value*	Interest		*of which non-guaranteed residual value*
- On demand	352	40,401	1,424	9,503	49,907	-	539	50,707	138	11,492	57,603	-
- Up to 3 months	66,825	93,436	5,160	22,513	115,955	-	45,882	126,551	1,679	28,247	142,650	-
- From 3 months to 1 year	647,790	439,376	112,225	87,590	526,626	-	817,361	500,841	18,962	106,572	563,913	-
- From 1 year to 5 years	903,499	1,071,315	119,799	309,066	1,378,733	-	818,151	1,493,444	118,593	363,298	1,731,271	-
- Over 5 years	757,941	1,472,807	573,200	262,571	1,735,377	-	571,297	1,866,336	619,545	322,914	2,098,211	-
- Undefined term	9,126	5,653	1,698	12	5,665	2,046	53	7,477	3,729	80	24,744	2,400
Net total	**2,385,533**	**3,122,988**	**813,506**	**691,255**	**3,812,263**	**2,046**	**2,253,283**	**4,045,356**	**762,646**	**832,603**	**4,618,392**	**2,400**

The financial lease transactions shown in the table relate to operations of Banca Italease and its subsidiaries. With respect to the book value of receivables for lease transactions, note that the minimum payments of principal for performing loans do not include any portfolio adjustments or the amortised cost effect.

Section 8 - Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by hedge type and level

(in thousands of euro)	31/12/2011				31/12/2010			
	Fair Value			NV	Fair Value			NV
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**631,994**	**-**	**14,235,881**	**-**	**201,969**	**-**	**8,842,031**
1. Fair value	-	595,007	-	14,235,881	-	178,845	-	6,492,031
2. Cash flows	-	36,987	-	-	-	23,124	-	2,350,000
3. Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**631,994**	**-**	**14,235,881**	**-**	**201,969**	**-**	**8,842,031**

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 rate risk	Credit risk	Price risk	Multiple Risks				
1 Financial assets available for sale	-	-	-	-	-	X	-	X	X
2 Loans	11,465	-	-	X	-	X	-	X	X
3 Investments held to maturity	X	-	-	X	-	X	36,987	X	X
4 Portfolio	-	-	-	-	-	-	-	-	X
5 Other operations	X	X	X	X	X	X	X	X	-
Total assets	**11,465**	**-**	**-**	**-**	**-**	**-**	**36,987**	**-**	**-**
1 Financial liabilities	583,542	-	-	X	-	X	-	X	X
2 Portfolio	-	-	-	-	-	-	-	-	X
Total liabilities	**583,542**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1 Expected transactions	X	X	X	X	X	X	-	X	X
2 Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

Section 9 - Fair value change of financial assets in macro fair value hedge portfolios - Item 90

9.1 - Fair value change of hedged assets: breakdown by hedged portfolios

(in thousands of euro)	31/12/2011	31/12/2010
1 Positive change	**60,334**	**12,337**
1.1 In specific portfolios:	60,334	12,337
a) loans	60,334	12,337
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	**60,334**	**12,337**

The fair value change of financial assets in macro fair value hedge portfolios regards a portfolio of mortgage loans included in the item "loans to customers". The amount of loans subject to macro hedging is shown in table 9.2 below.
The related hedging derivatives, which had a negative value as at 31 December 2011, are shown in the item 60 "Hedging derivatives" under balance sheet 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)	31/12/2011	31/12/2010
1 Loans	906,971	152,746
2 Financial assets available for sale	-	-
3 Portfolio	-	-
Total	**906,971**	**152,746**

Section 10 - Investments in associates and companies subject to joint control – Item 100

10.1 Investments in companies subject to joint control (carried at equity) and in companies subject to significant influence: information on participative relationships

Company name	Registered offices	Type of relationship (a)	Investment relationship		% of available
			Holder	% held	votes (b)
A. Companies carried at equity					
A.1 Subject to joint control					
N/A					
A.2 Subject to significant influence					
Agos-Ducato S.p.A.	Milan	(8)	Banco Popolare	39.000%	
Alba Leasing S.p.A.	Milan	(8)	Banca Italease	32.790%	
			Mercantile Leasing	n.s.	
Alfa Iota 2002 S.r.l. in liquidation	Milan	(8)	Banco Popolare	35.000%	
Aosta Factor S.p.A.	Aosta	(8)	Banco Popolare	13.793%	
			Banca Italease	6.897%	
Arca SGR S.p.A.	Milan	(8)	Banco Popolare	20.708%	
			Holding di Partecipazioni	7.568%	
Arcene Immobili S.r.l. (in liquidation)	Lodi	(8)	Banco Popolare	50.000%	
Arcene Infra S.r.l. (in liquidation)	Lodi	(8)	Banco Popolare	50.000%	
AviPop Assicurazioni S.p.A.	Milan	(8)	Holding di Partecipazioni	49.999%	
Bussentina S.c.a.r.l.	Rome	(8)	Bipielle Real Estate	20.000%	
Cores Costruzioni Residenziali S.r.l.	Milan	(8)	Banco Popolare	32.500%	
Energreen S.A.	L - Luxembourg	(8)	Banco Popolare	45.000%	
Estates Capital Venture S.A.	L - Luxembourg	(8)	Banco Popolare	43.368%	
Eurocasse SIM S.p.A. (in liquidation)	Milan	(8)	Banco Popolare	20.981%	
Finanziaria ICCRI BBL S.p.A. (in liquidation)	Milan	(8)	Banco Popolare	50.000%	
Finoa S.r.l. (*)	Milan	(8)	Banco Popolare	50.000%	
GEMA Magazzini Generali BPV-BSGSP S.p.A.	Castelnovo Sotto (RE)	(8)	Banco Popolare	33.333%	
HI-MTF SIM S.p.A.	Milan	(8)	Banca Aletti	20.000%	
Immobiliare Centro Milano S.p.A.	Milan	(8)	Release	33.333%	
Immobiliare Marinai d'Italia S.r.l.	Lodi	(8)	Banco Popolare	23.188%	
Novara Promuove S.r.l. (in liquidation)	Novara	(8)	Banco Popolare	49.000%	
Phoenix S.p.A.	Verona	(8)	Banco Popolare	40.000%	
P.M.G. S.r.l. in liquidation	Milan	(8)	Banco Popolare	50.000%	
Popolare Vita S.p.A.	Verona	(8)	Banco Popolare	25.612%	
			Holding di Partecipazioni	24.388%	
Portone S.c.a.r.l. (in liquidation)	Ravenna	(8)	Bipielle Real Estate	30.000%	
Renting Italease S.r.l.	Rome	(8)	Italease Gestione Beni	50.000%	
S.E.T.A. Società Edilizia Tavazzano S.r.l.	Milan	(8)	Banco Popolare	32.500%	
Soc. Coop. fra le Banche Pop. "L.Luzzatti" S.c.r.l.	Rome	(8)	Banco Popolare	26.693%	
Tre Pi S.p.A. (arrangement with creditors)	Rome	(8)	Banco Popolare	20.000%	
B. Companies consolidated proportionately					
N/A					

(a) Type of relationship:
(7) Joint control
(8) Associated company
(b) The availability of effective votes during ordinary shareholders' meetings is only indicated if it differs from the percentage of investment in the share capital.
(*) Company undergoing divestiture as per IFRS 5.

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

The following table shows the latest available figures of companies subject to significant influence that have been used for the purposes of valuation under net equity.

(in thousands of euro)	Total assets	Total revenues	Income (Loss)	Shareholders' equity	Consolidated book value	Fair Value
A. Companies carried at equity						
A.1 Subject to joint control						**X**
A.2 Subject to significant influence					**1,180,387**	
Agos-Ducato S.p.A. (1)	20,964,138	1,638,511	52,820	1,849,782	805,828	*
Alba Leasing S.p.A.	4,812,497	198,915	(9,891)	330,982	108,411	*
Alfa Lota 2002 S.r.l.	94	-	(13)	93	33	*
Aosta Factor S.p.A.	115,775	4,520	(1,549)	25,983	5,376	*
Arca SGR S.p.A.	167,136	160,533	(3,541)	104,911	36,265	*
Arcene Immobili S.r.l. (in liquidation)	2,904	-	(24)	(1,498)	-	*
Arcene Infra S.r.l. (in liquidation)	5,844	-	(47)	(1,004)	-	*
AviPop Assicurazioni S.p.A. (1)	202,163	49,358	2,227	68,553	-	*
Bussentina S.c.a.r.l.	449	-	(18)	(295)	-	*
Cores Costruzioni Residenziali S.r.l.	758	2	(45)	533	-	*
Energreen S.A. (1)	717,008	86,577	12,630	70,610	37,582	*
Estates Capital Venture S.A.	5,031	-	(110)	1,969	40	*
Eurocasse SIM S.p.A. (in liquidation)	9,260	52	(602)	(17,810)	-	*
Finanziaria ICCRI BBL S.p.A. (in liquidation)	2,642	1	(125)	2,245	1,122	*
GEMA Magazzini Generali BPV - BSGSP S.p.A.	4,904	1,025	(310)	3,552	1,344	*
HI-MTF S.p.A.	5,267	2,620	245	4,759	952	*
Immobiliare Centro Milano S.p.A.	94,484	-	(851)	(730)	40	*
Immobiliare Marinai d'Italia S.r.l.	9,368	44	(67)	2,442	-	*
Novara Promuove S.r.l. (in liquidation)	67	2	(20)	64	32	*
Phoenix S.p.A.	159	28	(22)	57	120	*
P.M.G. S.r.l. (in liquidation)	23,700	-	(657)	(6,172)	-	*
Popolare Vita S.p.A. (1)	7,371,813	499,641	(8,364)	345,599	180,172	*
Portone S.c.a.r.l. (in liquidation)	107	20	-	26	-	*
Renting Italease S.r.l.	17,689	14,004	(833)	3,426	1,713	*
S.E.T.A. Società Edilizia Tavazzano S.r.l.	1,515	19	(18)	80	-	*
Società Coop. fra le Banche Pop. "L. Luzzatti" S.c.r.l.	5,540	90	5,080	(8)	1,357	*
Tre Pi S.p.A. (arrangement with creditors)	870	20	(394)	(21,001)	-	*
B. Companies consolidated proportionately						

Notes
* Unlisted company, therefore no fair value indication is required
(1) The figures shown relate to the consolidated financial statements

10.3 Investments in associates and companies subject to joint control: annual changes

(in thousands of euro)	31/12/2011	31/12/2010
A. Opening balance	**1,641,429**	**1,637,221**
B. Increases	**189,748**	**111,209**
B.1 Purchases	120,200	26,213
B.2 Recoveries	-	-
B.3 Revaluations	-	-
B.4 Other changes	69,548	84,996
C. Decreases	**(650,790)**	**(107,001)**
C.1 Sales	(28,769)	(28,078)
C.2 Adjustments	(333,504)	(1,138)
C.3 Other changes	(288,517)	(77,785)
D. Closing balance	**1,180,387**	**1,641,429**
E. Total revaluations	**-**	**-**
F. Total adjustments	**(859,982)**	**(526,478)**

Purchases include payments to cover the losses of the subsidiary Popolare Vita for a total of euro 110 million; payment of the residual portion of euro 10 million to the associate Avipop Assicurazioni relating to the share capital increase resolved by the company in January 2011 and the payment of euro 0.2 million for the future share capital increase of Gema Magazzini Generali.

The other increases include profits on equity valuation of euro 21.8 million and the gain on disposal of investments of euro 47.2 million (details are set forth in Section 16 of the income statement).

Sales represent the value of disposals during the year of shares in Istituto Centrale Banche Popolare Italiane.

Losses on impairment amounted to euro 333.5 million (details in Section 16 of the income statement).

The other decreases include losses on equity valuation of euro 29.7 million (details are set forth in Section 16 of the income statement); the impact of removing the investment in Istituto Centrale Banche Popolari from the scope of consolidation, reclassified under item, 40 Financial assets available for sale, following the sales of its shares (161.2 million); the transfer of investments to item 150 Non-current assets held for sale and discontinued operations (12.5 million) and the changes in reserves of companies carried at equity, attributable to the Group for euro 84.7 million.

<u>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 2011.</u>

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 valuations of investments in associates and companies subject to joint control which had a book value significantly higher than their pro-quota equity are shown below, or:

- for valuation of the investment held in Agos-Ducato, given that there is a Plan in place, it was decided to use the Dividend Discount Model (“DDM”), according to which the value of a company is based on the dividend flows that it is capable of generating with a view to the future. In the case in point, the method used is Excess Capital DDM, which expresses economic value as the sum of the current value of future cash flows 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 a terminal value equal to the perpetual capitalisation of the normalised dividend for the last year of the Plan, based on a pay-out ratio depending on profitability at full operation. In particular, the Terminal Value was calculated by adjusting the Cost of Risk (meaning the amount of allocations to Bad Debt Provisions) of the last year of the Plan to that expected for the same year, but resulting from the former Agos portfolio of receivables only (the portfolio relating to the former Ducato was excluded as in run-off);
- as regards the valuation of the investment in Arca SGR, the value determined by the company’s Board of Directors was used as a reference parameter, to enable the current shareholders to exercise their right of withdrawal;
- as regards the valuation of the investment in Energreen, the adjusted net equity method was used.

For the valuation of the investments in Popolare Vita and Avipop Assicurazioni, refer to that set forth in Section 13 below.

The results of the valuations obtained as above led to the need for the value of the investment in Agos-Ducato corresponding to euro 332.3 million to be adjusted
In addition, value adjustments of 1.3 million were made to smaller investments (Health Finance and Estates Capital Venture).

10.4 Commitments relating to investments in companies subject to joint control

There are no commitments relating to investments in companies subject to joint control.

10.5 Commitments relating to investments in companies subject to significant influence

Commitments deriving from consumer credit agreements with Credit Agricole

Banco Popolare signed a shareholders’ agreement with Credit Agricole Consumer Finance - CACF (Credit 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 if the Bank acquires a new party which controls an entity operating in consumer credit, the Bank should own a new company operating in the above sector, it must offer Agos-Ducato the new entity indirectly acquired, which operates in the consumer credit sector, 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 Fondiaria-SAI

The clauses in the shareholders' agreements assign control of Popolare Vita to Fondiaria-SAI and involve the granting of mutual put and call options in the event that the partnership is wound up. Specifically, according to the provisions of the shareholders' agreement, Fondiaria-SAI may resell its 50% plus one share in the share capital of Popolare Vita to Banco Popolare, if 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 Fondiaria-SAI, 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);
- Banco Popolare, even through its subsidiary Holding di Partecipazioni Finanziarie BP, ceases to hold an interest lower than 50% minus one share in the share capital of Popolare Vita.

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 Popolare Vita and Banco Popolare's networks has a term of ten years (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. Among other aspects, the agreement contains put and call options, in the event 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 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 Aviva Italia Holding, 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, gross of 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.

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 2011, property and equipment amounted to euro 2,147.4 million, compared with euro 2,444.7 million recorded in the previous year. This decrease is mainly due to the loss of the contribution of the real estate assets of the Bormioli Group (which as at 31 December 2010 amounted to euro 252.5 million) following the sale of the same at the end of June. during the year, several real estate disposals were made by the subsidiary Bipielle Real Estate and by companies of the former Italease group.

12.1 Property and equipment: breakdown of assets carried at cost

(in thousands of euro)	31/12/2011	31/12/2010
A) Assets used in operations		
1.1 Owned	**811,494**	**1,095,736**
a) land	236,032	309,668
b) buildings	480,035	540,409
c) furniture	41,148	48,855
d) electronic equipment	37,994	43,675
e) other	16,285	153,129
1.2 Acquired under financial lease	**1,519**	**47,155**
a) land	851	8,874
b) buildings	668	37,417
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	864
Total A	**813,013**	**1,142,891**
B) Assets held for investment purposes		
2.1 Owned	**1,316,123**	**1,247,011**
a) land	622,151	568,758
b) buildings	693,972	678,253
2.2 Acquired under financial lease	**18,307**	**54,847**
a) land	13,167	34,950
b) buildings	5,140	19,897
Total B	**1,334,430**	**1,301,858**
Total (A+B)	**2,147,443**	**2,444,749**

The useful life of property and equipment subject to depreciation is shown below, broken down by asset type:

- land — indefinite
- buildings — 33 years
- assets held for investment purposes — 33 years
- furniture and furnishings — 7-9 years
- equipment — 3-7 years

12.2 Property and equipment: breakdown of assets designated at fair value through profit and loss or revalued

The Group does not hold property and equipment designated at fair value at through profit or loss or revalued.

12.3 Property and equipment used in operations: annual changes

	(in thousands of euro)	Land	Buildings	Furniture	Electrical equipment	Other	Total
A)	**Gross initial balances**	**321,787**	**902,674**	**247,503**	**437,069**	**817,638**	**2,726,671**
	A.1 Total net impairment	(3,245)	(324,848)	(198,648)	(393,394)	(663,645)	(1,583,780)
	A.2 Net initial balances	**318,542**	**577,826**	**48,855**	**43,675**	**153,993**	**1,142,891**
B)	**Increases:**	**939**	**14,777**	**5,813**	**20,545**	**5,537**	**47,611**
	B.1 Purchases	-	4,862	5,780	14,629	3,884	29,155
	(of which for business combinations)	-	-	-	-	-	-
	B.2 Capitalised leasehold improvement costs	-	836	-	-	-	836
	B.3 Recoveries	-	-	-	-	-	-
	B.4) Increases in fair value charged to:						
	a) shareholders' equity	-	-	-	-	-	-
	b) income statement	-	-	-	-	-	-
	B.5 Exchange gains	-	-	2	2	-	4
	B.6 Transfers from properties held for investment purposes	-	-	-	-	-	-
	B.7 Other changes	939	9,079	31	5,914	1,653	17,616
C)	**Decreases**	**(82,598)**	**(111,900)**	**(13,520)**	**(26,226)**	**(143,245)**	**(377,489)**
	C.1 Sales	(57,384)	(72,659)	(2,491)	(6,750)	(134,699)	(273,983)
	(of which for business combinations)	-	-	-	-	-	-
	C.2 Depreciation	-	(23,809)	(10,602)	(18,208)	(6,134)	(58,753)
	C.3 Adjustments for impairment charged to:	(245)	(566)	-	(6)	-	(817)
	a) shareholders' equity	-	-	-	-	-	-
	b) income statement	(245)	(566)	-	(6)	-	(817)
	C.4 Decreases in fair value charged to:						
	a) shareholders' equity	-	-	-	-	-	-
	b) income statement	-	-	-	-	-	-
	C.5 Exchange losses	-	-	-	(2)	-	(2)
	C.6 Transfers to:	(20,033)	(13,213)	(19)	(1,043)	(5)	(34,313)
	a) property and equipment held for investment purposes	(20,033)	(13,174)	-	-	-	(33,207)
	b) non-current assets held for sale and discontinued operations	-	(39)	(19)	(1,043)	(5)	(1,106)
	C.7 Other changes	(4,936)	(1,653)	(408)	(217)	(2,407)	(9,621)
D)	**Net closing balances**	**236,883**	**480,703**	**41,148**	**37,994**	**16,285**	**813,013**
	D.1 Total net impairment	1,286	284,651	204,065	396,702	151,332	1,038,036
	D.2 Gross closing balances	**238,169**	**765,354**	**245,213**	**434,696**	**167,617**	**1,851,049**
E)	Valuation at cost	-	-	-	-	-	-

12.4 Property and equipment held for investment purposes: annual changes

(in thousands of euro)	Land	Buildings	Total
A) Opening balance	**603,708**	**698,150**	**1,301,858**
B) Increases	**136,776**	**90,600**	**227,376**
B.1 Purchases	62,534	49,613	112,147
(of which for business combinations)	-	4,070	4,070
B.2 Capitalised leasehold improvement costs	-	-	-
B.3 Increases in fair value	-	-	-
B.4 Recoveries	-	-	-
B.5 Exchange gains	-	-	-
B.6 Transfers from properties used in operations	20,033	13,174	33,207
B.7 Other changes	54,209	27,813	82,022
C) Decreases	**(105,166)**	**(89,638)**	**(194,804)**
C.1 Sales	(22,792)	(19,969)	(42,761)
(of which for business combinations)	-	-	-
C.2 Depreciation	-	(22,015)	(22,015)
C.3 Decreases in fair value	-	-	-
C.4 Losses on impairment	(5,351)	(6,144)	(11,495)
C.5 Exchange losses	-	-	-
C.6 Transfers to other portfolios of assets	(69,510)	(35,563)	(105,073)
a) properties used in operations	-	-	-
b) non-current assets held for sale	(69,510)	(35,563)	(105,073)
C.7 Other changes	(7,513)	(5,947)	(13,460)
D) Closing balance	**635,318**	**699,112**	**1,334,430**
E) Designation at fair value through profit and loss	**672,727**	**737,410**	**1,410,137**

Losses on impairment result from the adjustment to the lower of market value, net of sale costs, and the book value of several properties mainly relating to the companies of the former Italease group and to Bipielle Real Estate.

12.5 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)	31/12/2011		31/12/2010	
	Defined term	Undefined term	Defined term	Undefined term
A.1 Goodwill	**X**	**1,608,495**	**X**	**4,408,665**
A.1.1 Pertaining to the Group	X	1,608,495	X	4,408,665
A.1.2 Attributable to minority interests	X		X	
A.2 Other intangible assets	**523,928**	**222,200**	**540,877**	**222,200**
A.2.1 Assets carried at cost:	523,928	222,200	540,877	222,200
a) Internally generated intangible assets	-	-	-	-
b) Other assets	523,928	222,200	540,877	222,200
A.2.2 Assets designated at fair value through profit and loss:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**523,928**	**1,830,695**	**540,877**	**4,630,865**

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 393.3 million and relating to the valuation of the Client Relationship, acquired as part of the Banco Popolare 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.
In detail, pursuant to paragraph 66 of IAS 36 if there is evidence that an asset is impaired, the recoverable value of the individual asset must be estimated. If it is not possible to estimate the recoverable value of the individual asset, the recoverable value of the cash generating unit to which the asset belongs must be estimated.

With specific reference to goodwill, paragraph 80 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 2011, the CGU identified with undefined term intangible assets that must undergo impairment testing are as follows:
- Network Divisions CGU (formerly CGU Network Banks). It is comprised of the Network Divisions resulting from the merger by incorporation of the Network Banks (with the exception of Creberg, which has maintained its legal independence) into Banco Popolare. This CGU also includes the banking network of Credito Bergamasco, insofar as its cash flows are strictly dependent on the policies and strategies established at Parent Company level, with a view to the harmonised development of the CGU as a whole rather than the individual banks it encompasses;
- Private & Investment Banking CGU. It includes Banca Aletti and the subsidiary companies (Aletti Fiduciaria and Aletti Trust) as the activities carried out by these investee companies are ancillary to the controlling company's activities;
- Asset Management CGU. Refers to Aletti Gestielle SGR;
- Popolare Vita CGU. Refers to Popolare Vita, a company that operates in the Life Bancassurance segment;
- Avipop Assicurazioni CGU. Refers to Avipop Assicurazioni, a company that operates in the Protection Bancassurance segment;
- BRF Property CGU. Refers to BRF Property, a property development company.

The CGUs were identified in line with the content of the financial statements as at 31 December 2010, with several changes made necessary by the corporate transactions that took place in 2011.
Specifically, it is noted that:
- Bormioli Rocco & Figlio has not been included in the CGUs to be tested, due to the sale of the entire investment in 2011;
- the former Network Banks CGU, corresponding to the aggregation of the financial statements of the legal entities of the network banks (Banca Popolare di Verona – S. Geminiano e S. Prospero, Banca Popolare di Novara, Banca Popolare di Lodi, Cassa di Risparmio di Lucca Pisa e Livorno, Credito Bergamasco, Banca Popolare di Crema and Banca Popolare di Cremona) has been transformed into the "Network Divisions" CGU following the completion of the merger by incorporation of all Network Banks into Banco Popolare, effective as of 1 January 2011 in accounting terms, with the exception of Credito Bergamasco.

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 Isvap dated 3 March 2010;
- the main suggestions contained in a Discussion paper issued by the Italian Valuation Body (I.V.B.) entitled "impairment tests on goodwill at times of financial and real crises".

The procedure for impairment of goodwill and the other intangible assets with undefined useful lives was approved autonomously by the Board of Directors in advance of approval of the draft financial statements 2011, as required by the aforementioned supervisory authorities.

A. Method to calculate the book value of individual CGUs

Following the completion of the cited merger by incorporation of all Network Banks, with the exception of Credito Bergamasco, into Banco Popolare, the book value of the Network Divisions CGU can no longer be recognised as the sum of the book values of assets and liabilities taken from the financial statements of the legal entities that represented CGU. Therefore an alternative method was required to calculate the book value of said CGU, based on operational measurements. To this end, the book value was calculated as the sum of the following:

i) Core Tier 1 capital, namely the minimum capital against weighted risk assets relating to the CGU, in line with prudential regulations - Basel 3 - which will come into force in the reference cash flow period;
ii) goodwill and other intangible assets both defined and undefined term associated to the CGU;
iii) other assets representing elements to deduct for the purpose of calculating the above-mentioned Core Tier 1 capital.

For the remaining CGUs, which correspond to one or more legal entities, the book value has been specifically established as the sum of the book values of the company's balance sheet assets and liabilities recorded in the consolidated financial statements, including therein goodwill and other intangible assets, both defined and undefined term associated to the CGUs.

The following table shows the book values of the individual CGUs as at 31 December 2011, 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 2010:

C.G.U. *(in millions of euro)*	**Book value**	***Of which: Goodwill***	***Of which: Trademarks***
Network Divisions	8,771	*3,276*	*222*
Private & Investment Banking	1,472	*897*	-
Asset Management	86	*14*	-
Popolare Vita	283	*102*	-
Avipop Assicurazioni	69	*77*	-
BRF Property	10	*9*	-
Total	**10,691**	***4,375***	***222***

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. Network Divisions CGU and Private & Investment Banking CGU

Impairment testing relating to the Network Divisions CGU and Private & Investment Banking CGU was conducted using the Value in Use obtained through the application of the Dividend Discount Model.
The results of this approach differ from the estimates made as at 31 December 2010, based on the calculation of fair value, due to the fact that the Group now has an approved business plan, which can be used as reference to estimate the value in use of the cash flow generating units. It is also worth drawing attention to the fact that the current financial market and economic crisis makes it extremely difficult to reliably estimate the fair value of these CGUs on a par with that carried out in previous years.
Note that, following the presentation of the business plan in June 2011, a formal assessment of the recoverable value of the main CGUs was conducted, based on the value in use, for the preparation of the interim report as at 30 June 2011.
According to the Dividend Discount Model (DDM), the value of a company is based on the dividend flows that it is capable of generating with a view to the future. In the case in point, the method used is Excess Capital DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected time period of planning, which can be distributed to shareholders while maintaining a suitable level of capitalisation to guarantee expected future development, and the perpetual capitalisation of the normalised dividend for the last year of the forecast, based on a payout ratio depending on profitability at full operation. The application of the DDM entails the use of the following formula:

$$W = \sum_{k=1}^{n} \frac{D_k}{(1+i)^k} + TV + SA$$

where:
W = General value of economic capital.
i = Cost of own capital (Ke)
Dk = Dividends expected 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:

$$TV = \frac{D_{n+1}}{i-g}\left(1+i\right)^{-n}$$

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 Dividends Expected in the explicit period (D_k) have been calculated on the basis of 2012-2015 forecasts for balance sheet-income statement figures of the CGUs, taking into account a minimum level of capital estimated on the basis of a Common Equity Tier 1 target of 8% with respect to the expected change in risk-weighted assets. For the Network Divisions CGU, the expected risk-weighted assets and Regulatory Capital figures include the effects associated with the introduction of Advanced internal models (AIRB) to measure capital requirements relative to credit risk.
In particular, the estimated cash flows for 2012-2015 used the Business Plan approved by the Board of Directors on 15 July 2011 as reference, insofar as its continues to portray the Group's strategic direction and business mix. However, this Plan incorporates a macroeconomic scenario that is significantly different to the one that actually emerged following the sovereign debt crisis in the Eurozone. Even with a view to the future, note that the most recent forecasts issued by the leading institutions for econometric analysis (such as Prometeia) are considerably different to those available at the time the Plan was drawn up.
The sudden and significant rise in sovereign risk of the Eurozone recorded after the end of the first half of the year led to the substantial and lasting deterioration of the macroeconomic scenario. The extraordinarily low market interest rates combined with the changed regulatory scenario and uncertainties as to the prospects of economic growth in future years have led to a considerable increase in the risk relating to the ability to achieve the Plan's economic objectives. For the purpose of impairment testing only, the management decided to incorporate said higher risk by lowering expected income flows. In particular, in line with standard practice for valuation exercises conducted in contexts characterised by a high level of uncertainty, it was deemed necessary to adopt a multi-scenario approach. The first scenario was constructed starting from the income estimates that could be extrapolated from the Plan, revised downwards to take into account the developments considered most likely on the date of the impairment test. Then, the impact resulting from the lower level of market interest rates currently envisaged for 2012 with respect to the income flows envisaged by the plan was projected for all years, considering that interest rates represent the main variable that is most able to influence the Group's profitability.
Given the continuing uncertainty characterising the macroeconomic scenario, a second alternative scenario was deemed necessary, drawn up by incorporating the most recent forecasts of interest rate trends published by Prometeia in February 2012. Again, for the purpose of conducting impairment tests, management gave this scenario a probability of two thirds.
To estimate the terminal value, the average sustainable dividend after the explicit period (D_{n+1}) is calculated as a function of a sustainable payout, determined as a function of long-term sustainable profitability and the long-term growth rate of the business, corresponding to the nominal growth rate of the economy, prudentially estimated as 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 using the 1-year average yield of 10-year Italian government bonds (BTP). We decided to use an average value given the increasing volatility shown by this indicator in the markets over the past twelve months.

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. In the case in question, we used the following: a) for the Network Divisions CGU, the indicator for Banco Popolare estimated by Bloomberg over a two year time horizon; b) for the Private and Investment Banking CGU, the average indicator of a sample of companies operating in the Investment Banking segment estimated by Bloomberg. The coefficient was measured on a weekly basis for a time horizon of 2 years, in order to best portray systemic risk in line with market best practices.
A market risk premium (R_m-R_f) of 5% was calculated, in line with measurement practices.

B.2. CGU operating in the Bancassurance segment

With regard to Bancassurance CGUs, Popolare Vita and Avipop Assicurazioni, 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: i) Adjusted Shareholders' Equity (ASE), determined on the basis of the book value of the shareholders' equity at the reference date of the valuation, adjusted to discount balance sheet 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 (in the valuation, a scenario was prudentially assumed in which a fall in the issue of premiums was envisaged with respect to the forecast amount and the cash flows of the explicit period only were considered, without taking the terminal value into account). The present value was estimated using a cost of capital of 11.65%, 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 weekly basis on a time horizon of two years, in order to best portray systemic risk.

B.3. Minor CGUs

The following paragraphs provide some brief comments on the way in which the recoverable value of the remaining CGUs was calculated, which have been allocated total goodwill of euro 25 million.
For the Asset management CGU, the valuation was made in terms of fair value through the application of the Market Multiples model. To apply the model (i) comparable listed companies were identified, whose principal business activity was most similar to the CGU (ii) the multiples deemed most significant were identified, on the basis of the characteristics of the sector which the company being analysed belongs to. More specifically, the Price/Earnings and Goodwill/Assets multiples were identified.
As regards the valuation of the BRF property CGU, the Adjusted Shareholders' Equity (ASE) method was used. The value was calculated on the basis of the book value of shareholders' equity on the reference date, appropriately adjusted to reflect current market values and/or estimated balance sheet assets and liabilities.

<u>*C. Overview of the methods used and the main valuation parameters*</u>

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"
Network Divisions	Value in use – Dividend Discount Model	11.12%	2.00%
Private & Investment Banking	Value in use – Dividend Discount Model	11.71%	2.00%
Popolare Vita	Value in use – Appraisal Value	11.65%	2.00%
Avipop Assicurazioni	Value in use – Appraisal Value	11.65%	2.00%
Asset Management (*)	Fair value – Market multiples	n.a.	n.a.
BRF Property (**)	Fair value – Adjusted shareholders' equity	n.a.	n.a.

n.a.: means not applicable

As stated in the introduction, the valuation methods used to calculate the recoverable value and the relative input parameters (estimated cash flows, discounting rate, growth rate) were specifically approved in advance by the Board of Directors.

D. Summary of results

On the basis of the guidelines illustrated, the impairment test as at 31 December 2011 highlighted the need to make value adjustments to recognised goodwill of euro 2,767 million, broken down by individual CGU below:

C.G.U. ***(in millions of euro)***	**Total intangible assets with undefined useful life subject to impairment testing**	**Impairment**	**Total intangible assets with undefined useful life as at 31 December 2011 (after impairment)**
Network Divisions	3,498	(2,661)	837
Private & Investment Banking	897	-	897
Asset Management	14	(14)	-
Popolare Vita	102	(77)	25
Avipop Assicurazioni	77	(6)	71
BRF Property	9	(9)	-
Total	**4,597**	**(2,767)**	**1,830**

The reasons that led to the recognition as at 31 December 2011 of the above-illustrated value adjustments are totally due to the changes that occurred in the reference scenario. As already mentioned, the considerable increase in the risk related to the achievement of the economic objectives of the business plan approved just after the end of the first half of the year meant that a substantial downwards adjustment of estimated future income was necessary and inevitable, exclusively with a view to conducting annual impairment testing. Said circumstance, combined with the impact on the valuation parameters resulting from higher country risk, led to a substantial reduction of the estimated recoverable value of goodwill recognised in the financial statements and the consequent recognition of the value adjustments illustrated.
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.

In particular, as regards the Network Divisions CGU, the extent to which the recoverable value (and therefore the losses recorded) would have changed was verified , both in absolute and percentage terms, on the assumption of increasing or decreasing the growth rate (g) and/or the cost of capital (Ke) by 50 basis points compared to the rates actually used of 2% and 11.12% respectively:

Growth rate of terminal value "g"/Discounting rate "ke" ***(in millions of euro)***							
		(Ke)					
		10.62%		**11.12%**		**11.62%**	
	1.50%	242	4.0%	-118	-1.9%	-441	-7.2%
(g)	**2.00%**	384	6.3%	-	-	-343	-5.6%
	2.50%	543	8.9%	131	2.1%	-235	-3.8%

As regards the Private & Investment Banking CGU, whose value in use is higher than the book value, the same sensitivity analysis conducted for the Network Divisions CGU was conducted, obtained by changing the cost of capital by +/- 50 basis points and the long-term growth rate by +/- 50 basis points, which confirmed the full recoverability of goodwill.
More specifically, note that with a (g) corresponding to 2% - equal to that used for the valuation -, the (Ke) that sets the Value in Use equal to the Book Value is 12.67%; while with a (Ke) of 11.71% - equal to that used for the valuation -, the (g) that sets the Value in Use equal to the Book Value is 0.32%.

F. Intrinsic signs of impairment

The misalignment between the Banco Popolare Group's market capitalisation and its shareholders' equity continues. The reasons for this misalignment should essentially be sought in the heavy heritage of the global economic crisis which hit the banking sector quite vigorously, penalised by low market interest rates and by uncertainties as to future regulatory provisions; it is also useful to recall how, prior to the crisis, the valuations expressed by the financial markets were, on the contrary, abundantly higher than the shareholders' equity and more in line with the historic average.
In this regard, note that market values are the result of the 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.
Therefore, we do not consider it necessary to make any further value adjustments in addition to those already made in the income statement for the year.

Lastly, note that, as an additional guarantee, an independent expert (KPMG Corporate Finance) issued a fairness opinion on the adequacy of the valuation methods adopted by the Group, insofar as in reasonable and non-arbitrary circumstances, and 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	**4,894,441**	**-**	**-**	**1,275,690**	**222,200**	**6,392,331**
A.1 Total net impairment	(485,776)	-	-	(734,813)	-	(1,220,589)
A.2 Net opening balance	**4,408,665**	**-**	**-**	**540,877**	**222,200**	**5,171,742**
B. Increases:	**-**	**-**	**-**	**68,476**	**-**	**68,476**
B.1 Purchases	-	-	-	68,038	-	68,038
(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	-	-	-	-	-	-
B.6 Other changes	-	-	-	438	-	438
C. Decreases	**(2,800,170)**	**-**	**-**	**(85,425)**	**-**	**(2,885,595)**
C.1 Sales	(33,463)	-	-	(1,501)	-	(34,964)
(of which for business combinations)	-	-	-	-	-	-
C.2 Adjustments	(2,766,564)	-	-	(79,368)	-	(2,845,932)
- Amortisation	X	-	-	(73,640)	-	(73,640)
- Write-downs	(2,766,564)	-	-	(5,728)	-	(2,772,292)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	(2,766,564)	-	-	(5,728)	-	(2,772,292)
C.3 Decreases in fair value	-	-	-	-	-	-
- at equity	X	-	-	-	-	-
- through profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	(4,186)	-	(4,186)
C.5 Exchange losses	-	-	-	(80)	-	(80)
C.6 Other changes	(143)	-	-	(290)	-	(433)
D. Net closing balance	**1,608,495**	**-**	**-**	**523,928**	**222,200**	**2,354,623**
D.1 Total net adjustments	(3,136,228)	-	-	(679,990)	-	(3,816,218)
E. Gross closing balance	**4,744,723**	**-**	**-**	**1,203,918**	**222,200**	**6,170,841**
F. Valuation at cost	-	-	-	-	-	-

Key:
DEF: defined term
UNDEF: undefined term

As regards value adjustments on goodwill, refer to paragraph 13.1.1 above.
Write-downs of other intangible assets, on the other hand, include the adjustments made by the subsidiary company Aletti Gestielle for the Client Relationship (3 million) and the write-down of software products by Società Gestione Servizi (2.7 million).

13.3 Other information

As at 31 December 2011 there were no commitments relating to intangible assets.

Section 14 - Tax assets and liabilities – Item 140 under assets and Item 80 under liabilities

14.1 Deferred tax assets: breakdown

(in thousands of euro)	IRES	IRAP	Other	31/12/2011	31/12/2010
A) Matching balance to the Income Statement					
Loan write-downs deductible in coming years	1,077,198	-	-	1,077,198	1,030,364
Allocations and adjustments deductible in coming years	103,083	788	-	103,871	211,619
Designation of financial assets and liabilities at fair value through profit and loss deductible in coming years	92,285	277	-	92,562	99,056
Deferred tax assets on intergroup capital gains eliminated on consolidation	25,476	-	-	25,476	25,476
Personnel expenses and allocations to employee termination indemnities deductible in coming years	68,593	-	-	68,593	42,341
Write-downs of investments in associates and companies subject to joint control deductible in coming years	-	-	-	-	5,617
Depreciation of non-operating real estate deductible in coming years	7,605	1,284	-	8,889	1,185
Amortisation of goodwill and other intangible assets	1,237,132	254,911	-	1,492,043	738,307
Losses from previous years	13,642	-	541	14,183	11,195
Other	58,408	8,927	664	67,999	178,557
Total A	**2,683,422**	**266,187**	**1,205**	**2,950,814**	**2,343,717**
B) Matching balance to Shareholders' Equity					
Designation at fair value through profit and loss of financial assets available for sale	232,214	45,790	-	278,004	40,783
Other	34,849	1,686	-	36,535	29,382
Total B	**267,063**	**47,476**	**-**	**314,539**	**70,165**
Total (A+B)	**2,950,485**	**313,663**	**1,205**	**3,265,353**	**2,413,882**

Other deferred tax assets which are a matching entry to the Income Statement as at 31 December 2011 include the deferred tax effects on consolidation entries for a total of euro 70.5 million (of which euro 62.9 million for IRES and euro 7.6 for IRAP).

14.2 Deferred tax liabilities: breakdown

(in thousands of euro)	IRES	IRAP	Other	31/12/2011	31/12/2010
A) Matching balance to the Income Statement					
Designation at fair value through profit and loss of financial instruments taxable in coming years	4,571	-	-	4,571	7,447
Adjustments on goodwill deducted but not yet charged to the income statement	8,398	6,574	-	14,972	64,222
Other adjustments on goodwill deducted but not yet charged to the income statement	6,159	664	-	6,823	23,931
Deferred taxes on income of subsidiaries taxable in coming years	700	1,418	-	2,118	11,177
Capital gains taxable in coming years	8,979	-	-	8,979	15,743
Adjustments taxable in coming years relating to business combinations (PPA)	229,304	44,442	-	273,746	333,955
Other	56,405	8,351	346	65,102	106,395
Total A	**314,516**	**61,449**	**346**	**376,311**	**562,870**
B) Matching balance to Shareholders' Equity					
Designation at fair value through profit and loss of financial assets available for sale	5,978	3,510	-	9,488	5,741
Other	704	261	1,021	1,986	4,560
Total B	**6,682**	**3,771**	**1,021**	**11,474**	**10,301**
Total (A+B)	**321,198**	**65,220**	**1,367**	**387,785**	**573,171**

Other deferred tax liabilities which are a matching entry to the Income Statement as at 31 December 2011 include the deferred tax effects on consolidation entries for a total of euro 48.8 million (of which euro 39.5 million for IRES and euro 9.3 for IRAP).

14.3 Changes in deferred tax assets (as a matching entry to the income statement)

(in thousands of euro)	2011	2010
1. Opening amount	**2,343,717**	**2,060,909**
2. Increases	**1,129,801**	**590,897**
2.1 Deferred tax assets recorded during the year	1,096,420	584,523
a) referring to previous years	30,506	307,167
b) due to changes in accounting criteria	-	-
c) recoveries	19,697	-
d) other	1,046,217	277,356
2.2 New taxes or increases in tax rates	19,737	2,166
2.3 Other increases	13,644	4,208
(of which for business combinations)	-	1,343
3. Decreases	**(522,704)**	**(308,089)**
3.1 Deferred tax assets cancelled during the year	(471,070)	(292,503)
a) reversals	(408,187)	(286,508)
b) write-downs due to unrecoverability	(9,762)	(1,201)
c) due to changes in accounting criteria	-	-
d) other	(53,121)	(4,794)
3.2 Decreases in tax rates	-	(2,981)
3.3 Other decreases	(51,634)	(12,605)
(of which for business combinations)	-	-
4. Closing amount	**2,950,814**	**2,343,717**

As at 31 December 2011, deferred tax assets recorded in the consolidated financial statements totalled euro 3,265.4 million, while deferred tax liabilities amounted in total to euro 387.8 million.
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 (1,077.2 million) and to deductible temporary differences relating to goodwill and other intangible assets (1,492 million).
Deferred tax assets rose considerably compared to last year. The increase of deferred tax assets recognised as a balancing entry to the income statement is mainly due to the registration of new assets following the decision to exempt the following for tax purposes:

- the higher value of investments relating to goodwill, trademarks and intangible assets recorded in the separate financial statements of the Parent Company pursuant to the provisions of Article 15, paragraphs 10 bis and 10 ter of Italian Decree Law no. 185 of 29 November 2008, introduced through the corrective manoeuvre of 2011. This decision led to the recognition of new deferred tax assets totalling euro 395 million;
- the higher book value of trademarks and of other intangible assets recorded in the separate financial statements of the Parent Company due to the merger by incorporation of the Network Banks pursuant to Article 5, paragraph 10 of Italian Decree Law no. 185 of 29 November 2008. This decision led to the recognition of new deferred tax assets totalling euro 202.9 million.

For more information please refer to the following paragraph 14.7 “Other information”.

In addition to the exemptions illustrated above, it should be noted that the recognition of value adjustments on goodwill, insofar as it led to the emergence of new and different misalignments between the book value of goodwill and the value recognised for tax purposes, resulted in the recognition of further deferred tax assets totalling euro 193 million and the derecognition of deferred tax liabilities of euro 84.3 million.

As regards “tax capability” and the analysis of whether deferred tax assets may be recognised in the financial statements, we need to consider several recent changes to tax legislation.

Firstly, we draw attention to the change introduced by Article 2, paragraphs 55 to 58 of the Italian Decree known as “Mille proroghe 2010”, on the basis of which deferred tax assets relating both to write-downs of receivables not yet deducted from taxable income pursuant to paragraph 3 of Article 106 of Italian Presidential Decree no. 917 of 22 December 1986, and to amortisation charges relating to goodwill and other intangible assets pursuant to Article 103 of the ITCL, are transformed into tax credit if a loss for the year is recorded in the separate financial statements of the company. This principle, already applicable from 2011, enabled Group companies that recorded a statutory loss in 2010 to transform the deferred tax assets recorded in the financial statements into tax credit.

With regard to the provisions of Article 9, paragraph 56 bis of Italian Decree Law no. 201/2011 (Rescue Italy Decree), the above principle of transforming deferred tax assets into tax credit, illustrated above, was extended further to the portion of deferred tax assets for IRES recorded in the financial statements relating to tax losses resulting from the deduction of the following negative income components:

- write-downs of receivables which have not yet been deducted from taxable income pursuant to paragraph 3 of Article 106 of Italian Presidential Decree no. 917 of 22 December 1986;
- the value of goodwill and other intangible assets, whose negative components can be deducted over several tax periods for the purpose of income taxes.

Secondly, the provisions regarding "carrying over tax losses" should be taken into considerations, relating to the "manoeuvre for financial stability" approved by Italian Decree Law 98/2011, converted into Law 111/2011, which introduced the new Article 84, paragraph 1 of Italian Presidential Decree no. 917 of 22 December 1986.
As of tax year 2011, the above manoeuvre eliminates the previous five-year limit to the carry-over of tax losses; now there is no limit to the same.

Therefore, with regard to deferred tax assets resulting from write-downs of receivables not yet deducted from taxable income pursuant to paragraph 3 of Article 106 of Italian Presidential Decree no. 917 of 22 December 1986 (1,077.2 million) and to deferred tax assets relating to the value of goodwill and of other intangible assets, whose negative components may be deducted over several years (1,492 million), the risk of not recovering the same has been totally eliminated by virtue of the current provisions of Article 9, paragraph 56 bis of Decree Law 201/2011.
Instead, as regards residual deferred tax assets, whose recovery is strictly dependent on the Group's "tax capability", 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 was negative (tax loss), pursuant to the new Article 84, paragraph 1, of Italian Presidential Decree no. 917 of 22 December 1986, Banco Popolare would have the opportunity to recover said loss without any time restriction. Furthermore, the consolidated 2011–2013/2015 business plan approved at the end of the first half of 2011 and also the recently approved 2012 budget forecast positive income prospects.
In terms of IRAP, the merger by incorporation of the Network Banks completed on 27 December 2011 resulted in a substantial increase of the taxable income (value of production) of Banco Popolare. The higher taxable income following the completion of the mergers means that the deferred tax assets relating to decreases to be made with reference to 2011 can be fully recovered.
The level of taxable income for IRAP purposes which is expected to be generated in future years means that it is likely that the full amount of the residual deferred tax assets recorded in the financial statements will be recovered.

14.4 Changes in deferred tax liabilities (as a matching entry to the income statement)

(in thousands of euro)	**2011**	**2010**
1. Opening amount	**562,870**	**678,733**
2. Increases	**313,665**	**52,107**
2.1 Deferred tax liabilities recorded during the year:	101,144	42,055
a) referring to previous years	7,916	16,410
b) due to changes in accounting criteria	-	-
c) other	93,228	25,645
2.2 New taxes or increases in tax rates	6,143	61
2.3 Other increases	206,378	9,991
(of which for business combinations)	-	7,428
3. Decreases	**(500,224)**	**(167,970)**
3.1 Deferred tax liabilities cancelled during the year:	(257,139)	(146,966)
a) reversals	(255,992)	(137,158)
b) due to changes in accounting criteria	-	-
c) other	(1,147)	(9,808)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(243,085)	(21,004)
(of which for business combinations)	-	-
4. Closing Amount	**376,311**	**562,870**

14.5 Changes in deferred tax assets (as a matching entry to shareholders' equity)

(in thousands of euro)	2011	2010
1. Opening amount	**70,165**	**47,768**
2. Increases	**298,161**	**36,426**
2.1 Deferred tax assets recorded during the year	297,907	35,943
a) referring to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	297,907	35,943
2.2 New taxes or increases in tax rates	252	6
2.3 Other increases	**2**	477
(of which for business combinations)	-	-
3. Decreases	**(53,787)**	**(14,029)**
3.1 Deferred tax assets cancelled during the year	(53,155)	(12,314)
a) reversals	(50,299)	(11,875)
b) write-downs due to unrecoverability	-	-
c) changes in accounting criteria	-	-
d) other	(2,856)	(439)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(632)	(1,715)
(of which for business combinations)	-	-
4. Closing amount	**314,539**	**70,165**

14.6 Changes in deferred tax liabilities (as a matching entry to shareholders' equity)

(in thousands of euro)	2011	2010
1. Opening amount	**10,301**	**11,413**
2. Increases	**4,125**	**1,527**
2.1 Deferred tax liabilities recorded during the year:	3,742	1,351
a) referring to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	3,742	1,351
2.2 New taxes or increases in tax rates	150	1
2.3 Other increases	233	175
(of which for business combinations)	-	-
3. Decreases	**(2,952)**	**(2,639)**
3.1 Deferred tax liabilities cancelled during the year:	(2,879)	(2,360)
a) reversals	(2,879)	(669)
b) due to changes in accounting criteria	-	-
c) other	-	(1,691)
3.2 Decreases in tax rates	-	(5)
3.3 Other decreases	(73)	(274)
(of which for business combinations)	-	-
4. Closing Amount	**11,474**	**10,301**

14.7 Other information

Exemptions made in 2011

Italian Decree Law no. 98 of 6 July 2011 (known as the *2011 corrective manoeuvre*), and the provisions of new paragraphs 10 bis and 10 ter of Article 15 of Decree Law no. 185 of 29 November 2008, introduced the option of making a portion of the book value of controlling investments, which when consolidated are recognised as goodwill, trademarks or intangible assets relevant for tax purposes, through the payment of a substitute tax of 16% of the value to be exempted.
In the fourth quarter of the year, the Parent Company Banco Popolare decided to exempt the above-mentioned higher values recognised in the consolidated financial statements relating to 31 December 2010.

Also in 2011, the Parent Company Banco Popolare completed the merger by incorporation of all of its owned Network Banks, with the exception of Credito Bergamasco. The recording of the merger transaction entailed the recognition of trademarks and other intangible assets amounting to a total of 650.7 million in the financial statements of the Parent Company, effective as of 1 January 2011. In the fourth quarter of the year, pursuant to Article 15, paragraph 10, of Italian

Decree Law no. 185 of 29 November 2008, the Parent Company decided to exempt the above-mentioned intangible assets amounting to 614.0 million, corresponding to their recognition value in the financial statements as at 31 December 2011.

As there are no explicit provisions in international accounting standards regarding the recognition of "tax exemptions", Company management had to establish an accounting principle able to substantially reflect the impact of the transaction, as required by IAS 8 "Accounting policies, changes in accounting estimates and errors". In establishing said treatment, reference was also made to the guidelines of the OIC document published in 2009, regarding the accounting effects resulting from the exemption of goodwill pursuant to Italian Decree Law no. 185/2008.
More specifically, Company management deemed that the exemption represents a separate and independent transaction with respect to the initial recognition of the items to which said exemption refers; in other words, the exemption is seen as an event able to lead to the creation of a new deductible temporary difference. This entails immediate recognition in the income statement:

- of the tax benefit expected from the future deductibility of the assets exempted as a balancing entry to the recognition of deferred tax assets of the same amount, without prejudice to the recoverability requirements envisaged by IAS 12;
- of the cost of the substitute tax due.

Deferred tax assets will be charged to the income statement each year for an amount corresponding to the portion that could be deducted when calculating current taxes.

The accounting recognition of "tax exemptions" decided in 2011, in the manner described above, resulted in the recognition in the income statement, under the item "taxes on income from continuing operations" of the following components:

- substitute taxes totalling euro 290.2 million;
- increases of deferred tax assets totalling euro 597.9 million.

The positive impact on the income statement for the year of the "tax exemptions" was therefore euro 307.7 million.

The following table summarises the assets that were subject to exemption by Banco Popolare in 2011 and the relative tax benefit (figures in thousands of euro):

Type of asset exempted	Cost of substitute tax (B)	Benefit due to recognition of deferred tax assets (A)	Positive impact on the income statement (A)-(B)
Goodwill included in the book value of investments	(192,000)	395,039	203,039
Trademarks (*)	(35,552)	73,415	37,863
Other intangible assets – Client Relationship (*)	(62,689)	129,453	66,764
Total	**(290,241)**	**597,907**	**307,666**

(*) Assets recognised in the separate financial statements of Banco Popolare following the allocation of the cancellation difference from the merger of the network banks merged by incorporation up to the values recognised in the consolidated financial statements.

Group tax situation

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 Authorities in 2011 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. Following 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 2011 to 384.5 million, of which 354.1 million relate to notices of assessment and 30.4 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 consider any interest, while the estimate of potential liabilities relating to formal reports on findings does not include interest or fines, insofar as they are not indicated in the latter document.

As at 31 December 2010, the claims of the Tax Authority resulting from the notices of assessment and the formal reports on findings served amounted to euro 1,562.6 million.

2011 was therefore characterised by considerable efforts directed at reducing the potential liabilities given the negative impact that the existence of these claims for such large amounts has on the valuation of Banco Popolare's prospects and potential.
As illustrated in more detail below, the Group's efforts have been directed in particular towards settling the tax dispute outstanding at the beginning of the year regarding Banca Italease and the companies directly controlled by the same. As at this date, the potential liabilities relating to the Italease group represented over 90% of the Group's total liabilities (euro 1,413.6 million).

The substantial reduction of potential liabilities was made possible by out-of-court settlements reached with the Tax Authority for a total of 1,363.7 million. In this regard, the main settlement was that finalised on 15 March 2011 for Banca Italease and its subsidiaries, which enabled potential liabilities to be reduced by 1,328.8 million.

<u>Developments in 2011</u>

Disputes relating to Banca Italease and its direct subsidiaries

As already mentioned, as at 31 December 2010, the largest share of the disputes in question referred to the claims made in a series of formal reports on findings and notices of assessment sent to Banca Italease and its subsidiaries Mercantile Leasing and Italease Gestione Beni relating to tax years 2001 to 2009. The Tax Authority claims resulting from the notices of assessment regarding Banca Italease and its subsidiaries amounted to euro 603 million, while those resulting from formal reports on findings amount to euro 810 million (additional taxes and fines, the latter only where shown in the report).
As illustrated in the 2010 Annual report, on 15 March 2011, Banco Popolare, Banca Italease and its subsidiaries signed an agreement with the Tax Authority for the full settlement of almost all of the above-cited disputes. In formalising this agreement, the parties undertook to settle the individual pending disputes, the individual assessments which have not yet been disputed, and the findings of each of the formal reports against payment by Banca Italease and its direct subsidiaries Mercantile Leasing and Italease Gestione Beni of the total amount of euro 210.1 million in additional taxes (primarily VAT), fines and interest.
The above charge has already been deducted from the consolidated income statement for 2010 through provisions made by Banca Italease and its direct subsidiaries.

As at 31 December 2010, a dispute involving the subsidiary Banca Italease regarding notices of assessment relating to 1995, 1996 and 1997 had not been settled; these notices which fully encompass the charges contained in the formal report on findings served on 22 July 1999 by the Tax Police, regard disputes on the accrual accounting of lease instalments paid on signature of contracts (so-called maxi-instalments) and on the commissions paid to the banks backing the lease transactions. The potential liability was euro 64.8 million (higher IRPEG and ILOR taxes ascertained of euro 32.4 million plus administrative fines of an equal amount). Even though the ruling of the Regional Tax Commission on 16 September 2005 was fully in favour of Banca Italease, at the end of the last financial year, the appeal submitted by the General Prosecutor of the State was still pending in the Supreme Court. In a ruling dated 8 March 2011, the Supreme Court definitively rejected the above appeal and therefore the relative potential liability was extinguished.

In December 2011, an agreement was reached with the Tax Authority also with regard to the formal report on findings served to Mercantile Leasing Spa on 19 October 2010 regarding the application of direct taxes and VAT for 2005, 2006 and 2007. Said document had not been able to be included in the final agreement dated 15 March 2011. The claims of the Tax Authority mostly regards the undue application of subsidised VAT in the presence of "clues" on the basis of which the inspectors challenged the transfer of contracts from the category of financial lease to that of sale agreements, the omitted application of tax with regard to cases of nautical leases in which the vessels leased were not entirely used outside of Community waters, the omitted application of VAT relating to cases in which the undue application of non-taxable out-of-territory VAT was found.
The settlement reached enabled the relative tax liability to be extinguished, which in the meantime had risen to euro 22.4 million, also due to new claims relating to 2008, incurring a total charge of euro 8.6 million.

As a consequence of the above events, the potential liabilities relating to outstanding disputes against Banca Italease and the companies directly controlled by the same are considerably lower and are limited to those stated in the notices of assessment, totalling euro 12.8 million (higher taxation ascertained and relative fines).

Disputes relating to Banco Popolare and to other subsidiaries

The increase recorded in the year relates to the following notices of assessment received:

- Banco Popolare soc. coop. as incorporating company of the former Banca Popolare Italiana IRES 2005 and IRAP 2005
  On 19 December 2011, the Tax Authority - Lombardy Regional Headquarters - Large Taxpayers Office, sent notices of assessment no. TMB086G00748/2011 – IRES 2005 and no. TMB036G00747 - IRAP 2005. Said notices relate to the formal report on findings sent on 30 June 2011.
  The higher taxes ascertained amount to euro 52.4 million for IRES and euro 4.5 million for IRAP. Given the asserted insidious nature of the infringements claimed and the amount of the taxes claimed to be evaded, the maximum level of fines has been applied, namely 200% of the higher taxes claimed, totalling euro 104.7 million for IRES and euro 8.9 million for IRAP.
  The Tax Authority claim therefore amounts to euro 170.5 million (excluding interest).
  Banco Popolare has submitted an appeal against the notice of assessment.
  The claims of the Tax Authority originate from an inspection that started at the end of 2010 and refer to the economic transactions between the former Banca Popolare Italiana and the Magiste Group as regards the attempted takeover of Banca Antonveneta. They are based on a very generous interpretation of the concept of "costs and expenses relating to facts or actions that are considered offences" contained in Article 14, paragraph 4 bis of Italian Law no 537/1993, considering undeductible even costs that are not ontologically preordained to the commission of the offences charged to the then management bodies of the former Banca Popolare Italiana. This interpretation originates from Circular no. 42/E of the Tax Authority issued on 26 September 2005 and has been widely challenged, so much so that through Article 8, paragraphs 1 to 3 of Italian Decree Law no. 16 of 2 March 2012, the legislator intervened by directly amending paragraph 4 bis of Article 14-bis of Italian Law no. 537/1993. In the amended article, the scope of application of the law is circumscribed and limited to only costs and expenses relating to goods or services rendered directly used to perform actions or activities that are qualified as an offence committed with criminal intent, for which the judge issued a decree that states the ruling.
  As regards the effectiveness of the new law, it is envisaged that the amended provision will be applicable where it is more favourable compared to that provided for by the previous paragraph 4-bis, for facts, actions or activities that took place before the entry into force of the new provisions, unless any rulings made on the basis of the above-mentioned previous paragraph 4-bis has been declared final. Therefore the amended provisions are applicable to the tax dispute in question.
  With regard to the claimed non-deductibility of part of the value adjustments to the receivables disbursed to the Magiste Group, further formal reports on findings were received relating to tax year 2006 of the former Banca Popolare Italiana and to tax years 2007, 2008 and 2009 of Banco Popolare. In said formal reports on findings, the pro-rata annual tax deductions over a period of 18 years of value adjustments to receivables recognised in 2005 and 2006 by the former Banca Popolare Italiana are contested insofar as they exceed the annual deductible limit envisaged by Article 106, paragraph 3 of Italian Presidential Decree no. 917/1986. The potential liabilities resulting from the above-mentioned formal report on findings amount to euro 7 million.
  Also in the light of the amendment recently made, we retain, with the support of authoritative external opinions, that the claims made by the Tax Authority are groundless and that the potential liability should be retained possible but unlikely. Therefore, no allocation to provisions has been made in Banco Popolare's financial statements relating to the above dispute.

- Notice of assessment and formal written notice regarding the presumed failure to apply withholding tax to dividends by Banca Aletti
  On 29 December 2011, the Tax Authority - Lombardy Regional Headquarters - Large Taxpayers Office, sent notice of assessment no. TMB032C01217/2011 and formal written notice no. TMBO2C00328/2011.
  Said notices relate to the formal report on findings sent on 25 October 2011.
  Banca Aletti is accused of having failed to apply withholding tax to dividends as envisaged for securities lending transactions by Article 26, paragraph 3 bis, of Italian Presidential Decree no. 600 of 29 September 1973. The withholding tax that is claimed to have been omitted amounts to euro 17,603,612. With regard to said accusation, the Tax Authority has issued fines to the subsidiary, envisaged for the submission of an inaccurate tax return and for the failure to apply withholding tax at source, applied to the maximum extent of 120%, for a total of euro 21,124,334. It also issued fines for the failure to pay withholding tax, to the maximum extent (30% of the withholding tax claimed not to have been applied) for a total of euro 5,281,084.
  The Tax Authority claim therefore amounts to euro 44.0 million (excluding interest).
  Said claim is based on mere assumptions and limited evidence. The higher withholding tax claimed has been calculated without identifying the presumed beneficiaries of the dividends and assuming that the same are all non-resident counterparties. The application of withholding tax at 27% is also debatable in the light of treaties against double taxation and/or on the basis of the principles established by ruling C-540/08 of the European Court of Justice.
  Even though there are valid arguments against the claim, we believed it was appropriate to open discussions with the Tax Authority in order to agree on a settlement with a view to decreasing the amount of the dispute. As regards Banca Aletti, any settlement must consider the reduction of the percentage of withholding tax applied to a level that is consistent with that envisaged by treaties against double taxation and/or on the basis of the principles established by ruling C-540/08 of the European Court of Justice.

With the support of authoritative external opinions, we retain that the claims made by the Tax Authority are groundless and that the potential liability should be retained possible but unlikely. Therefore, no specific allocation to provisions has been made in Banco Aletti's financial statements relating to the above dispute.

- Notices of assessment and Formal reports on findings regarding the claimed failure to apply VAT to fees invoiced for custodian banking services for mutual investment funds.
  During the year, as series of formal reports on findings and notices of assessment were sent to Banco Popolare, companies merged or incorporated, whose liabilities were legitimately transferred to the former and other subsidiary companies regarding the claimed failure to apply VAT to fees invoiced for custodian banking services for mutual investment funds. The potential liability amounts to a total of euro 39.8 million. This dispute involves the banking system as a whole insofar as the claim of the Tax Authority clashes with the practically standard behaviour of all banks and SGRs. In this regard, it is worth noting that the ABI (Italian Banking Association) reviewed the matter in a circular - tax series no. 25 of 28 December 2010. In the cited circular, the ABI, on the basis of the principles stated in ruling C-169/04, confirmed that it was in favour of exempting VAT from the main services that custodian banks are obliged to render (control, supervision, verification of correct calculation of units, calculation of NAV, issue and redemption of units) and applying a tax only to the custody and administration of financial instruments. Furthermore, given the importance of this matter, the ABI also envisaged the application of Article 12 of Italian Presidential Decree no. 633/1972, retaining that the requirements to qualify accessoriness exist "given the fact that the main transaction resulting from the contract" can be identified as the "management of mutual investment funds" (main reason) the execution of which requires the performance of collateral activities, such as those indicated in Article 7, nos. 1 and 3 (and Article 14, nos. 1 and 3) of Italian Directive 85/611. Said activities are not only preparatory and related to the "management" but also support the main activity and, therefore, can be considered accessory services for the "management of mutual investment funds". Substantially, the above assumption implies that said activities, including therein services for the custody of the financial instruments of funds […] are subject to the same regime as the main transaction (Art. 12 of Italian Presidential Decree no. 633 of 1972), namely the exemption set forth in Article 10, paragraph 1, no. 1, of Italian Presidential Decree no. 633 of 1972".

Given the above, we retain, with the support of authoritative external opinions, that the claims made by the Tax Authority are groundless and that the potential liability should be retained possible but unlikely. Therefore, no allocation to provisions has been made in the financial statements relating to the above dispute.

The policy to decrease the amounts of tax disputes was also applied to those regarding Group companies other than Banca Italease and its directly controlled subsidiaries.

Developments during the year regarding existing disputes include the finalisation of the settlement reached through judicial conciliation of the dispute regarding the incorporated Banco Popolare di Novara relating to a transaction entailing carrying over securities carried out in 2004 between the subsidiary and a stable Italian organisation of Dresdner Bank AG. The transaction was challenged by the Tax Authority on the basis of tax avoidance and abuse.
The settlement entailed a charge of around euro 12.4 million with respect to the Tax Authority's initial claim of euro 27.8 million. The charge was fully booked to the 2011 income statement.

In June 2011, following an inspection made by the Tax Authority - Regional Headquarters for Tuscany - Large Taxpayers Office of Cassa di Risparmio di Lucca Pisa e Livorno relating to tax years 2006 to 2009 for IRES and IRAP, the same received a formal notice of assessment findings. The notice contained a single finding relating to the relevance of several losses on receivables. With a view to reducing the outstanding dispute and for reasons of pure economic convenience, the Tax Authority claims amounting to euro 0.3 million in total have been finalised pursuant to Article 5-bis of Italian Legislative Decree no. 218/97. The liability has been fully booked to the income statement for the year.
In October 2011, the term for the submission of an appeal to the Supreme Court by the Tax Authority regarding the tax dispute relating to the payment of IRAP in 2003 by the former Banca Popolare Italiana (euro 0.7 million) expired. The potential liability has consequently been extinguished.

In November 2011, following an inspection made by the Tax Authority - Provincial Headquarters in Verona of Immobiliare BP relating to tax year 2008, the same received a formal notice of assessment findings. The notice contained several findings mainly regarding the relevance and correlation of costs deducted from a transaction transferring owned operating properties to the real estate fund called ERACLE. With a view to reducing the outstanding dispute, the Tax Authority claims amounting to euro 0.3 million in total have been defined as per Article 5-bis of Italian Legislative Decree No. 218/97 The liability has been fully booked to the income statement for the year.

Details of disputes unresolved as at 31 December 2011

Due to the developments illustrated in the paragraph above, the main tax disputes unresolved as at 31 December 2011 (potential liability equal to or exceeding euro 1 million) are as follows:

Disputes relating to Banca Italease and its direct subsidiaries

- Banca Italease - Notice of assessment regarding IRPEG and ILOR taxes for tax year 1998 - the claim amounts to a total of euro 8.8 million. Following a ruling in Banca Italease's favour in the court of first instance, the Regional Tax Commission partially admitted the appeal of the Tax Authority. Therefore, an appeal has been presented before the Supreme Court by both the parties to the proceedings.
- Banca Italease - Liquidation notices to recover the mortgage and cadastral taxes on a loan stipulated in 2006 - the amount claimed totals 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.

Disputes relating to Banco Popolare and to other subsidiaries

- Banco Popolare (formerly Banca Popolare di Verona e Novara) - 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 Toscana, instead of the higher rate of 5.25% and amount to a total of euro 19.4 million. The tax demands have been contested. With regard to the various tax years, the dispute is at different stages of progress and different rulings have been made. 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. 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.
- Banco Popolare (formerly Banca Popolare Italiana) - 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) - 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.
- Banco Popolare (formerly Banca Popolare Italiana) - notices of assessment and formal reports on findings 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 - The claims amount to euro 177.5 million. An appeal was presented to the Provincial Tax Commission.
- Banco Popolare (formerly Banca Popolare di Novara) - notice of assessment regarding the failure to apply VAT to custodian bank fees invoiced in 2005. - The claim amounts to euro 3.8 million. In December 2011, the Provincial Tax Commission postponed the case for six months.
- Banco Popolare (formerly Banca Popolare di Novara) - notice of assessment regarding the failure to apply VAT to custodian bank fees invoiced in 2006. - The claim amounts to euro 3.5 million.
- Banco Popolare (formerly Banca Popolare di Verona San Geminiano e San Prospero) - notice of assessment regarding the failure to apply VAT to custodian bank fees invoiced in 2007, 2008 and 2009 - The claim amounts to euro 1.5 million.
- Banco Popolare (formerly Banco Popolare di Verona e Novara) - notice of assessment regarding the failure to apply VAT to custodian bank fees invoiced in 2006. - The claim amounts to euro 6.3 million.
- Banco Popolare (formerly Banco Popolare di Verona e Novara) - formal report on findings regarding the failure to apply VAT to custodian bank fees invoiced in 2007. - The claim amounts to euro 1.2 million.
- Banco Popolare (formerly Banco Popolare di Novara) - formal report on findings regarding the failure to apply VAT to custodian bank fees invoiced in 2008 and the relevance of several losses on receivables deducted in the same administrative period. The claim amounts to euro 3.1 million.
- Banco Popolare (formerly Banca Popolare Italiana) - formal report on findings regarding the failure to apply VAT to custodian bank fees in tax years 2006 and 2007 - The claim amounts to euro 2 million.
- Banco Popolare (formerly Banca Popolare Italiana) - formal report on findings regarding the failure to apply VAT to custodian bank fees invoiced in 2007, 2008 and 2009, The claim amounts to euro 5.8 million.
- Banca Aletti - notice of assessment and formal written notice regarding the claimed failure to apply withholding tax to dividends as envisaged for securities lending transactions by Article 26, paragraph 3 bis, of Italian Presidential Decree no. 600 of 29 September 1973 relating to tax year 2007 - The claim amounts to euro 44.0 million. Discussions are underway with the Tax Authority in order to agree on a settlement with a view to decreasing the amount of the dispute.
- Bipielle Real Estate - settlement notices for registration tax regarding the reclassification of a series of property conferrals. - The claim amounts to euro 21.4 million. The appeals submitted to the Provincial and Regional

Commissions have been rejected. Whilst awaiting the Supreme Court appeal, the tax demands have been paid and the relative amount has been charged to the income statement of previous years.

- Bipielle Real Estate - 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 rulings of the Provincial and Regional Commissions have been 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 - formal report on findings regarding IRES, IRAP and VAT for tax year 2007. The claims amount to euro 2.3 million.
- Bipielle Real Estate - notices of assessment regarding VAT and IRAP taxes for tax year 2005 served to Basileus S.r.l., (a subsidiary company sold in 2008, for which Bipielle Real Estate is fiscally liable for the years prior to the disposal). - The claims amount to euro 11.3 million. In January 2012, the ruling of the Lodi Provincial Tax Commission was filed. The ruling annulled the notices of assessment issued against the Company, ordering the Office to pay legal expenses.
- Aletti Fiduciaria - notice to recover taxes due by the fiduciary company pursuant to the personal liability of the shareholder under art. 36, paragraph 3, of Italian Presidential Decree no. 602/1973. - The claim amounts to euro 7.9 million. The company's appeal was fully upheld by the Varese Provincial Tax Commission.
- Credito Bergamasco - formal report on findings regarding the failure to apply VAT to custodian bank fees invoiced in 2006. - The claim amounts to euro 2.8 million.
- Aletti Gestielle SGR – notice of fines for the failure to pay VAT on taxable transactions pursuant to Italian Legislative Decree 471/1997 and more specifically on invoices issued for custodian bank services in 2006 - The claim amounts to euro 3.4 million.
- Aletti Gestielle SGR – formal report on findings almost entirely regarding the claimed failure to pay VAT on taxable transactions pursuant to Italian Legislative Decree 471/1997 and more specifically on invoices issued for custodian bank services in 2007, 2008 and 2009 - The claim amounts to euro 7.5 million.

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 based on specific opinions issued by authoritative external parties, the potential liabilities classified as possible but unlikely amount to a total of euro 360.5 million.
The potential liabilities classified as probable amount in total to approximately euro 24 million and have already been fully debited from the income statement when the tax demands received were paid or are entirely covered by provisions allocated under tax liabilities.

Inspections underway as at 31 December 2011

As at 31 December 2011, the following Tax Authority inspections were in progress:

- Banco Popolare (formerly Efibanca Spa): a general inspection is underway by the Tax Authority - Lazio Regional Headquarters - Large Taxpayers Office regarding direct taxation and VAT relating to tax year 2008;
- Banco Popolare (formerly Banca Popolare di Lodi): an inspection that started on 21 December 2011 by the Tax Authority - Lombardy Regional Headquarters - Large Taxpayers Office, is underway regarding direct taxation and VAT relating to tax year 2008 and 2009;
- Banca Aletti: an inspection by the Finance Police is underway relating to tax years 2007, 2008 and 2009 regarding dividends distributed under art. 89 ITCL;
- Credito Bergamasco S.p.A. - a general inspection by the Tax Authority - Lombardy Regional Headquarters - Large Taxpayers is underway relating to tax year 2008, and as regards tax years 2006, 2007 and 2009 limited to the application of VAT to fees for the custody of mutual investment funds and pension funds;
- Leasimpresa: a general inspection is underway by the Tax Authority - Lombardy Regional Headquarters - Large Taxpayers Office regarding direct taxation and VAT relating to tax year 2007.

At present, based on the preliminary findings stated in the formal reports on findings, there are valid reasons and grounds to challenge the claims that may be made on completion of said inspections.

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 2010-2012, 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.;

6. BP Property Management s.c.r.l.;
7. Credito Bergamasco S.p.A.;
8. Holding di Partecipazioni Finanziarie BP S.p.A.;
9. Immobiliare BP S.r.l.;
10. Italease Gestione Beni S.p.A.;
11. Lido dei Coralli S.r.l.;
12. Mariner S.r.l;
13. Mercantile Leasing S.p.A.;
14. Nadir Immobiliare S.r.l.;
15. Release S.p.A.;
16. Ri. Investimenti 2 S.r.l.;
17. Sirio Immobiliare S.r.l.;
18. Società Gestione Crediti BP S.c.p.A.;
19. Società Gestione Servizi BP S.c.p.A.;
20. Sviluppo Comparto 6 S.r.l.;
21. Sviluppo Comparto 8 S.r.l.;
22. Tecmarket Servizi S.p.A.;
23. Valori Finanziaria S.p.A..

The scope of "tax consolidation" was changed during the year due to the entry of subsidiaries Sviluppo Comparto 8 Srl, Sviluppo Comparto 6 Srl, Ri. Investimenti 2 Srl and Mariner Srl. Instead, Itaca S.p.A. was removed from the scope of tax consolidated following the sale of the entire investment finalised on 1 November 2011 and Efibanca S.p.A., Banca Popolare di Verona - - S. Geminiano e S. Prospero S.p.A., Banca Popolare di Novara S.p.A., Banca Popolare di Lodi S.p.A., Banca Popolare di Cremona S.p.A., Banca Popolare di Crema S.p.A. and Cassa di Risparmio di Lucca Pisa Livorno S.p.A. were also removed from said scope following their incorporation into Banco Popolare effective for tax purposes as of 1 January 2011.

The advantages of exercising the national consolidation option in 2011 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 undeductible 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) ITCL. 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 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 introduced by the 2008 Budget law, the Bank prepared the "consolidation agreements" governing its relations with the above mentioned subsidiaries that joined the consolidated taxation treatment. 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)	31/12/2011	31/12/2010
A. Individual assets		
A.1 Financial assets	-	-
A.2 Investments in associates and companies subject to joint control	49,900	60,000
A.3 Property and equipment	108,517	152,157
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**158,417**	**212,157**
B. Discontinued operations		
B.1 Financial assets held for trading	-	-
B.2 Financial assets designated at fair value through profit and loss	-	-
B.3 Financial assets available for sale	-	-
B.4 Investments held to maturity	-	-
B.5 Due from banks	10	72,608
B.6 Loans to customers	-	82,593
B.7 Investments in associates and companies subject to joint control	-	-
B.8 Property and equipment	15,000	845
B.9 Intangible assets	-	117
B.10 Other assets	15	3,570
Total B	**15,025**	**159,733**
C. Liabilities related to individual assets held for sale		
C.1 Debts	-	22,071
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**22,071**
D. Liabilities related to discontinued operations		
D.1 Due to banks	-	1,801
D.2 Due to customers	-	134,871
D.3 Debt securities issued	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities designated at fair value through profit and loss	-	-
D.6 Provisions	-	-
D.7 Other liabilities	2,962	664
Total D	**2,962**	**137,336**

Non-current assets held for sale include:

- the book value of the associate Finoa for euro 49.9 million;
- euro 108.5 million of property and equipment (euro 152.2 million as at 31 December 2010) euro 85.1 million of which refers to properties of Banca Italease and Release purchased following the full and final settlement of debt positions;
- the assets and liabilities relating to subsidiary Liberty S.r.l. classified as undergoing disposal in accordance with IFRS 5.

The clear decrease compared to the previous year is mainly attributable to the missing contribution of the subsidiary Banco Popolare Ceska Republika, sold during the year.

It should also be noted that during the year, investments in associated companies Pantex International and Bertani Holding were classified under assets held for sale, but do not appear under said item as at 31 December as the sale transactions has already been finalised and the relative economic impact has been booked to item 240 in the income statement.

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)	31/12/2011	31/12/2010
Due from Tax Authority (not classifiable under tax assets)	1,027,085	912,899
Receivables for the disposal of assets and the provision of services	14,538	114,833
Other income to be received	30,660	74,091
Cash and other values on hand	241,699	88,690
Items being processed	357,108	218,634
Items in transit between branches	156,345	171,987
Illiquid items for portfolio transactions	139	-
Securities and coupons to be settled	52,324	72,875
Other operations to be settled	437,595	281,500
Leasehold improvements	40,619	53,818
Accrued income and prepayments not attributable to a specific item	28,622	28,255
Other items	448,080	589,332
Total	**2,834,814**	**2,606,914**

This item includes tax credits such as VAT credits, credits for former IRPEG/ILOR tax, credits relating to activities as withholding agent and other tax items not recognised under item 140 "Tax assets".
"Items being processed" mainly contains the debits not yet due to be charged to customer current accounts and received by external companies, relating to the domiciliation of bills.
"Other operations to be settled" includes euro 347.3 million relating to the sum of UNIPAY bank transfers recorded on 31 December
The item "leashold improvements" includes the expenses incurred on those assets which cannot be included under "property and equipment", whose depreciation charge is recorded under item 220 of the income statement "Other operating expenses and income".
"Other items" include assets relating to the Pension Fund for euro 52.9 million, inventories of assets according to the definition of IAS 2, consolidation adjustments with a positive balance and other assets for euro 385.6 million including customer receivables for invoices issued, various suspended items, amounts waiting to be definitively recorded at the branches and central offices.

The subsidiary Banca Aletti has receivables due from the Swiss Tax Authorities relating to tax periods 2006 to 2008, for an amount of euro 14.9 million.
For these receivables, the Bank received from the Federal Tax Administration a notice of rejection of the related refund petitions.
Nonetheless, the Bank, based on specific legal and tax opinions obtained also in Switzerland, believes that now all the conditions are in place to consider these receivables due from the Swiss Tax Authorities to be fully recoverable, as, in light of the Swiss tax regulations, said notice of rejection is lacking grounds in the merits.
From a procedural point of view, as this notice was not a formal rejection, meaning a challengeable order, it does not meet the requirement of being definite. Therefore, the Bank has requested that the Swiss Tax Authority rule by way of a challengeable order (which has not yet been received), as the Bank intends - for the founded reasons set forth above – to protect its rights through the competent Swiss legal tax bodies.
Lastly, the Bank's assessment of the recoverability of the receivables in question is also supported by the fact that, faced with the same type of underlying operations, the Bank has not had any difficulties in obtaining refunds of tax credits from the tax authorities of countries other than Switzerland.
Also with regard to the residual tax credits due from the Swiss Tax Authorities (relating to years 2009-2011), amounting to euro 31.6 million, for which the Bank has not received any contestation, the Bank deems that there are no reasons to consider these credits as unrecoverable.
The potential liability relating to the failure to collect the full amount is therefore considered possible.

LIABILITIES

Section 1 - Due to banks - Item 10

1.1 Due to banks: breakdown by product

(in thousands of euro)	31/12/2011	31/12/2010
1. Due to central banks	**10,403,246**	**4,301,123**
2. Due to banks	**4,026,562**	**5,191,827**
2.1 Current accounts and demand deposits	1,178,602	1,067,200
2.2 Time deposits	1,158,596	1,856,198
2.3 Loans	1,601,542	2,185,740
2.3.1 repurchase agreements	1,091,930	1,182,598
2.3.2 other	509,612	1,003,142
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	87,822	82,689
Total	**14,429,808**	**9,492,950**
Fair Value	**14,429,808**	**9,492,950**

For amounts due to banks the fair value valuation is almost identical to their book value, as these are mostly short-term payables.

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

At the reporting date, similarly to the end of the previous year, there are no subordinated loans payable to banks.

1.4 Due to banks subject to micro hedging

(in thousands of euro)	31/12/2011	31/12/2010
1. Payables subject to micro fair value hedging	**6,845**	**-**
a) interest rate risk	1,225	-
b) exchange rate risk	-	-
c) multiple risks	5,620	-
2. Payables subject to micro cash flow hedging	**-**	**301,761**
a) interest rate risk	-	301,761
b) exchange rate risk	-	-
c) other	-	-
Total	**6,845**	**301,761**

1.5 Financial lease payables

(in thousands of euro)	31/12/2011			31/12/2010		
	Minimum payments		Gross investment	Minimum payments		Gross investment
	Principal	Interest		Principal	Interest	
Financial lease payables						
Up to 3 months	110	54	164	2,572	328	2,900
From 3 months to 1 year	337	159	496	3,969	930	4,899
From 1 year to 5 years	2,218	822	3,040	13,764	3,044	16,808
Over 5 years	3,783	318	4,101	6,713	452	7,165
Undefined term	-	-	-	-	-	-
Total	**6,448**	**1,353**	**7,801**	**27,018**	**4,754**	**31,772**

The substantial decrease compared to 2010 is due to the cancellation of the majority of active contracts during the year.

Section 2 - Due to customers - Item 20

2.1 Due to customers: breakdown by instrument

(in thousands of euro)	31/12/2011	31/12/2010
1. Current accounts and demand deposits	37,923,611	39,602,043
2. Time deposits	1,426,822	1,311,718
3. Loans	5,571,470	12,980,673
3.1 repurchase agreements	5,353,431	12,949,653
3.2 other	218,039	31,020
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	1,678,789	679,775
Total	**46,600,692**	**54,574,209**
Fair Value	**46,575,360**	**54,549,238**

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

At the reporting date, similarly to the end of the previous year, there are no structured debts payable to customers.

2.4 Due to customers subject to micro hedging

At the reporting date there are no amounts due to customers subject to micro hedging.

2.5 Financial lease payables

(in thousands of euro)	31/12/2011			31/12/2010		
	Minimum payments		Gross investment	Minimum payments		Gross investment
	Principal	Interest		Principal	Interest	
Financial lease payables						
Up to 3 months	5	1	6	753	230	983
From 3 months to 1 year	60	-	60	2,266	663	2,929
From 1 year to 5 years	-	-	-	12,019	2,837	14,856
Over 5 years	-	-	-	11,875	744	12,619
Undefined term	-	-	-	-	-	-
Total	**65**	**1**	**66**	**26,913**	**4,474**	**31,387**

The substantial decrease compared to 2010 is due to the cancellation of the majority of active contracts during the year.

Section 3 - Debt securities issued - Item 30

3.1 Debt securities issued: breakdown by instrument

(in thousands of euro)	Total 31/12/2011				Total 31/12/2010			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds:	25,901,543	7,319,841	15,447,382	-	21,325,647	6,302,404	14,384,022	-
1.1 structured	1,591,572	955,616	564,758	-	2,417,210	1,133,886	1,434,186	-
1.2 other	24,309,971	6,364,225	14,882,624	-	18,908,437	5,168,518	12,949,836	-
2. Other securities:	2,106,398	-	1,974,089	-	2,109,832	-	2,020,608	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	2,106,398	-	1,974,089	-	2,109,832	-	2,020,608	-
Total	**28,007,941**	**7,319,841**	**17,421,471**	**-**	**23,435,479**	**6,302,404**	**16,404,630**	**-**

During the year, issues of Covered Bonds were finalised for a nominal value of euro 4.9 billion. This category includes a funding repurchase agreements carried out with leading counterparties, whose underlying assets are represented by the covered bond repurchased by the issuer for a nominal value of euro 1,300 million. These transactions have been recognised under debt securities issued in accordance with the instructions of the Supervisory Authority.

The sub-item "Level 1 structured securities" refers to 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".

3.2 - Breakdown of item 30 "Debt securities issued": subordinated securities

At the reporting date, subordinated debt securities issued amounted to euro 4,481 million (euro 4,627.4 million at the end of 2010) of which euro 1,037.3 million are represented by perpetual instruments (preferred shares).
During the year, the Parent Company exercised the early redemption option, via authorisation from the Bank of Italy, on a perpetual instrument (preferred share) for a nominal value of euro 75 million, without concurrently issuing an instrument of the same asset quality.
Furthermore, the Parent Company partially cancelled two perpetual instruments, relating to the portion already repurchased within legal limits, corresponding to a nominal total of 98.9 million.

In May, Banco Popolare successfully concluded a Public Exchange Offer on its own Lower Tier 2 bonds, through which bonds belonging to 3 different issues with a total nominal value of 659.1 million, maturing between 2016 and 2017, were repurchased and subsequently cancelled. In exchange it issued ten-year bonds, with the same level of subordination, for a total nominal amount of 660.7 million.
In August, following authorisation from the Bank of Italy, the portion of a subordinated Lower Tier 2 loan, maturing in 2018 with a nominal value of 40 million, which had already repurchased within legal limits, was partially cancelled.
The subsidiary Banco Popolare di Lodi, following authorisation from the Bank of Italy,
redeemed 2 hybrid capitalisation instruments at maturity for a total residual nominal value of 118.25 million.
The subsidiary Cassa di Risparmio di Lucca Pisa Livorno redeemed the third four-year payment instalment of the non-convertible subordinated loan which decreased from a nominal value of euro 20 million to euro 10 million.

Lastly, note that also in 2011, as regards an issue of Preferred Securities worth euro 150 million guaranteed by Banca Italease (ISIN: XS0255673070), the four coupons relating to the year that has just ended were not paid, as the conditions were in place which allow their suspension, according to the contractual and supervisory regulations.
The rating of Caa3 awarded to said issue by Moody's was confirmed.

The characteristics of the subordinated loans which can be calculated for regulatory purposes are set forth in Part F – "Information on consolidated capital".

3.3 Breakdown of item 30 "Debt securities issued": securities subject to micro hedging

(in thousands of euro)	31/12/2011	31/12/2010
1. Payables subject to micro fair value hedging:	**16,356,755**	**7,900,541**
a) interest rate risk	16,356,755	7,900,541
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Payables subject to micro cash flow hedging:	**195,530**	**279,718**
a) interest rate risk	195,530	279,718
b) exchange rate risk	-	-
c) other	-	-
Total	**16,552,285**	**8,180,259**

Section 4 - Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown by instrument

(in thousands of euro)	31/12/2011					31/12/2010				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	3,694	3,373	-	-	3,373	266	266	-	-	266
2. Due to customers	22,084	22,003	-	-	22,003	10,628	10,973	-	-	10,973
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	**25,778**	**25,376**	**-**	**-**	**25,376**	**10,894**	**11,239**	**-**	**-**	**11,239**
B. Derivatives										
1. Financial Derivatives		219,778	4,391,810	658			182,801	3,537,858	1,685	
1.1 Trading	X	219,721	4,082,764	658	X	X	182,791	3,467,095	1,685	X
1.2 Under the fair value option	X	-	282,621	-	X	X	-	184	-	X
1.3 Other	X	57	26,425	-	X	X	10	70,579	-	X
2. Credit Derivatives		-	41	-			-	551	-	
2.1 Trading	X	-	41	-	X	X	-	551	-	X
2.2 Under the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**219,778**	**4,391,851**	**658**	**X**	**X**	**182,801**	**3,538,409**	**1,685**	**X**
Total (A+B)	**X**	**245,154**	**4,391,851**	**658**	**X**	**X**	**194,040**	**3,538,409**	**1,685**	**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..

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

At the reporting date, similarly to the end of the previous year, there are no material structured debts under financial liabilities held for trading.

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 are fully represented by technical overdrafts and there were no changes during the year.

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 instrument

(in thousands of euro)	31/12/2011					31/12/2010				
	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	26,382,897	15,493,305	10,098,021	-	26,474,691	27,222,101	17,912,599	8,601,462	-	26,933,242
3.1 Structured	1,791,341	18,505	1,523,587	-	X	2,142,204	214,603	1,903,263	-	X
3.2 Other	24,591,556	15,474,800	8,574,434	-	X	25,079,897	17,697,996	6,698,199	-	X
Total	**26,382,897**	**15,493,305**	**10,098,021**	**-**	**26,474,691**	**27,222,101**	**17,912,599**	**8,601,462**	**-**	**26,933,242**

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, and are hedged using derivative instruments. In that case, 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

With regard to the financial liabilities designated at fair value through profit and loss outstanding as at 31 December 2011, the change in the creditworthiness, with respect to the issue date of the same, led overall to a lower fair value of the liabilities equal to euro 883.4 million (compared with euro 419.2 million as at 31 December 2010).
The economic effect pertaining to 2011 was therefore positive overall for euro 464.2 million (euro 307.5 million net of taxes), as a consequence of the extension of the Credit Default Swap (CDS) curve in the name of Banco Popolare, following the tension on financial markets originated by Greece's default risk.
The following table shows the effects of the change in the creditworthiness recorded in the income statement for each period and cumulatively as of the issue date of the loan:

Creditworthiness effect ***(in thousands of euro)***	**31/12/2011**	**31/12/2010**
Cumulative gains/losses	883,365	419,181
Profits (losses) on creditworthiness change	464,184	395,497

It has been believed appropriate to highlight that the net cumulative gains recorded as at 31 December 2011 due to the changes in the creditworthiness and which translated into the recording of the liabilities at a lower book value, are destined to negatively reverse in the future income statements to the extent that the liabilities will not be subject to repurchase at prices in line with the recorded book value.
For completeness, it is noted that based on the supervisory regulations in force, the net cumulative gains attributable to the worsening of creditworthiness do not contribute to the determination of regulatory capital, as a result of the application of prudent filters.

5.2 Breakdown of item 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

As at 31 December 2011 financial liabilities designated at fair value through profit and loss with subordination clauses amounted to euro 379.5 million, compared with euro 582.9 million in the previous year.

The characteristics of the subordinated loans which can be calculated for regulatory purposes are set forth in Part F – "Information on consolidated capital".

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	**-**	**-**	**26,514,061**	**26,514,061**
B. Increases:	**-**	**-**	**10,800,439**	**10,800,439**
B.1 Issues	-	-	9,499,980	9,499,980
B.2 Sales	-	-	382	382
B.3 Increases in fair value	-	-	345,891	345,891
B.4 Other changes	-	-	954,186	954,186
C. Decreases	**-**	**-**	**(11,723,174)**	**(11,723,174)**
C.1 Purchases	-	-	(5,483,728)	(5,483,728)
C.2 Redemptions	-	-	(4,742,517)	(4,742,517)
C.3 Decreases in fair value	-	-	(567,495)	(567,495)
C.4 Other changes	-	-	(929,434)	(929,434)
D. Closing balance	**-**	**-**	**25,591,326**	**25,591,326**

Section 6 - Hedging derivatives – Item 60

6.1 Hedging derivatives: breakdown by hedge type and level

(in thousands of euro)	Fair value 31/12/2011			NV 31/12/2011	Fair value 31/12/2010			NV 31/12/2010
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**451,480**	**-**	**9,837,143**	**-**	**235,364**	**-**	**8,521,514**
1. Fair value	-	436,080	-	9,481,959	-	212,952	-	8,083,686
2. Cash flows	-	15,400	-	355,184	-	22,412	-	437,828
3. Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**451,480**	**-**	**9,837,143**	**-**	**235,364**	**-**	**8,521,514**

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 rate risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	314,668	-	-	-	-	X	-	X	X
2. Loans	35,803	-	-	X	-	X	-	X	X
3. Investments held									X
to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	-	-	-	-	-	39,372	-	-	X
5. Other operations	X	X	X	X	X	X	X	X	-
Total Assets	**350,471**	**-**	**-**	**-**	**-**	**39,372**	**-**	**-**	**-**
1. Financial liabilities	46,237	-	-	X	-	X	15,400	X	X
2. Portfolio	-	-	-	-	-	-	-	-	X
Total Liabilities	**46,237**	**-**	**-**	**-**	**-**	**-**	**15,400**	**-**	
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)	31/12/2011	31/12/2010
1. Positive change in financial liabilities	-	7,701
2. Negative change in financial liabilities	-	-
Total	**-**	**7,701**

At the balance sheet date, there were no financial assets in macro hedge portfolios insofar as the derivatives in place as at 31 December 2010 matured in 2011.

7.2 Liabilities subject to macro interest rate risk hedging: breakdown

(in thousands of euro)	31/12/2011	31/12/2010
1. Due to customers	-	350,000
2. Debt securities issued	-	-
3. Subordinated liabilities	-	-
4. Financial liabilities	-	-
5. Portfolio	-	-
6. Due to banks	-	-
Total	**-**	**350,000**

At the reporting date there were no financial liabilities in macro hedge portfolios.

Section 8 - Tax liabilities – Item 80

This section was illustrated in Section 14 of balance sheet assets in Part B – Information on the balance sheet, 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 balance sheet assets in Part B – Information on the balance sheet, of these notes to the financial statements.

Section 10 - Other liabilities – Item 100

10.1 Other liabilities: breakdown

(in thousands of euro)	31/12/2011	31/12/2010
Due to Tax Authority (not classifiable under tax liabilities)	258,259	195,161
Due to personnel	142,767	185,965
Due to Social Security	28,681	28,161
Trade payables	156,325	251,671
Payables for sundry items due to the Tax Collection Service	1,398	40,712
Items in transit between branches not yet allocated to destination accounts	29,873	20,535
Amounts available to be paid to third parties	150,241	138,764
Bank transfers to be cleared	583,579	165,799
Items relating to securities transactions	730,434	21,286
Other items being processed	186,738	188,938
Adjustments for illiquid items in portfolio	287,844	976,245
Accrued liabilities and deferred income not attributable to a specific item	27,650	93,484
Other items	791,970	697,399
Total	**3,375,759**	**3,004,120**

The item “Due to Tax Authority (not classifiable under tax liabilities)” includes net tax liabilities such as VAT payable, 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.

The item “Bank transfers to be cleared” mainly regards outgoing UNIPAY bank transfers, a procedure created in 2011.
“Items relating to securities transactions” is almost entirely comprised of securities cash purchase and sale transactions made between the end of one year and the beginning of the next.
“Other items” is mainly comprised of three sub-items: “Hedging of risks for guarantees given and commitments” of euro 22 million, consolidation adjustments, with a negative balance of euro 30.4 million and the residual sub-item “Other items” of euro 739 million. The latter is mainly comprised of amounts at branches and central entities which have not yet been definitively allocated, sundry invoices from suppliers and temporary accounts.
This residual item also includes the effects of line-by-line consolidation of several mutual funds managed by Aletti Gestielle. 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 Multi Strategy (euro 24.5 million), Gestielle Harmonia Vivace (euro 7.5 million) and Gestielle Hedge Long Short World (euro 15.7 million).

Section 11 - Employee termination indemnities – Item 110

11.1 Employee termination indemnities: annual changes

(in thousands of euro)	**2011**	**2010**
A. Opening balance	**394,985**	**415,688**
B. Increases	**35,538**	**29,575**
B.1 Provisions for the year	26,289	14,194
B.2 Other increases	9,249	15,381
C. Decreases	**(81,417)**	**(50,278)**
C.1 Benefits paid	(39,907)	(22,194)
C.2 Other decreases	(41,510)	(28,084)
D. Closing balance	**349,106**	**394,985**

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. In that case, the portions of employee termination indemnities accruing from 1 January 2007 are classified as “defined-contribution plans” and are recognised under personnel expenses in the subitem “employee termination indemnities”, based on the contributions due, without applying actuarial calculation methods, as an offset to the recognition of “Other liabilities” on the balance sheet, or to an outflow of cash or cash equivalents.

The actuarial valuation of employee termination indemnities, carried out based on the “accrued benefits” methods, using the “Projected Unit Credit” criteria as per IAS 19, is based on the following demographic, economic and financial assumptions:

Main demographic and actuarial assumptions for the valuation of employee termination indemnities as at 31 December 2011	
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
Yearly discounting rate	4.25%, equal to the Iboxx Corporate AA 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)
Annual inflation rate	2.00%. The resulting annual revaluation rate for employee termination indemnities is 3%, i.e., 75% of the inflation rate increased by 1.5 percentage points

It is noted that the demographic and effective assumptions shown above are substantially in line with those used in the previous year. The annual discounting rate for actuarial valuation as at 31 December 2010 stood at 4.30%. There were no changes in the average annual inflation rate and in the resulting annual revaluation rate for employee termination indemnities.

Section 12 - Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

(in thousands of euro)	31/12/2011	31/12/2010
1. Company retirement plans	247,554	254,656
2. Other provisions for risks and charges	547,379	798,481
2.1 legal disputes	259,766	276,878
2.2 personnel expenses	182,379	149,444
2.3 other	105,234	372,159
Total	**794,933**	**1,053,137**

As at 31 December 2011 provisions for risks and charges amounted to euro 794.9 million.

The item "*company retirement plans*" includes two substantial types of plans. The first is defined benefit provisions of euro 83.4 million, provisions which the Group has set up in order to guarantee benefits to retired employees. Euro 12.1 million of this figure refers to Italease and the remainder, corresponding to euro 152.1 million refers to the Parent Company Banco Popolare. This item also includes liabilities relating to the S.I.PRE. (supplementary pension scheme), acknowledged to certain employees; policies to hedge the commitments undertaken have been subscribed against these liabilities, recognised under item 30 "Financial assets designated at fair value through profit and loss" on Balance sheet assets. The second, amounting to euro 164.2 million, comprises defined contribution provisions, which are funded through the annual payment of contributions by the company.

Other provisions for risks and charges include item 2.1 "*legal disputes*" which refers to provisions for clawback actions of 59.3 million (112.1 million as at 31 December 2010) and those for other pending proceedings for the remainder, corresponding to 200.5 million (164.8 million as at 31 December 2010). As regards clawback actions, 3.6 million of the funds originate from provisions made by Credito Bergamasco, 0.5 million by Italease and the remainder by Banco Popolare. The fall in provisions with respect to last year is mainly due to the final settlement of a dispute relating to the former BPV, which entailed the use of the funds allocated at the time, while no other amounts were charged to the 2011 income statement. With regard to other pending lawsuits, the level of provisions is associated to Banca Italease, to the extent of 88.4 million, relating to the legal risks of several cases, most of which do not relate to assets in derivatives and which also include disputes with the shareholders. Euro 79.4 million of provisions refer to Banco Popolare (for details, refer to the notes to the separate financial statements, included in the same set of documents). For the description of the most significant clawback actions and pending lawsuits at group level, refer to the comments in the section on "Risks associated with pending legal proceedings" in the Report on Operations.

The item *"personnel expenses"* mainly includes the allocations for the renewal of the supplementary company agreement, the incentive system, the loyalty bonus and provisions for redundancy incentives (i.e. solidarity fund). The largest part of these expenses, corresponding to 143.5 million, relates to provisions made by the Parent Company Banco Popolare; for details of the same, refer to the notes to the separate financial statements of Banco Popolare, included in the same set of documents).

Item 2.3 "*other*" includes the Group's charity provisions of euro 7.8 million, provisions for possible claims on financial instruments, including positions in derivatives, of euro 11.8 million, and allocations for legal risks relating to subsidiary companies of euro 17.9 million (mostly relating to the Parent Company Banco Popolare), provisions for tax disputes of euro 17.4 million (1.3 million of which refers to Banca Italease and 4.6 million to Mercantile Leasing), expenses relating to the closure of the branches in 2012 envisaged by the business plan of 4.6 million, and lastly provisions relating to the Group's normal operations accounting for the remainder. The substantial decrease of the item in question is due to the settlement of the tax dispute regarding Banca Italease, which entailed the payment of a total 208.1 million in 2011.

12.2 Provisions for risks and charges: annual changes

(in thousands of euro)		Retirement plans	Other provisions	Total
A.	**Opening balance**	**254,656**	**798,481**	**1,053,137**
B.	**Increases**	**29,764**	**245,730**	**275,494**
	B.1 Provisions for the year	6,070	218,178	224,248
	B.2 Changes over time	2,388	1,965	4,353
	B.3 Changes due to changes in the discounting rate	106	231	337
	B.4 Other changes	21,200	25,356	46,556
C.	**Decreases**	**(36,866)**	**(496,832)**	**(533,698)**
	C.1 Uses during the year	(14,203)	(413,437)	(427,640)
	C.2 Changes due to changes in the discounting rate	(11)	(1,396)	(1,407)
	C.3 Other changes	(22,652)	(81,999)	(104,651)
D.	**Closing balance**	**247,554**	**547,379**	**794,933**

Item B.1 “Provisions for the year” of other funds includes 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”.

Item C.1 “Uses during the year” includes the use of euro 208.1 million by Banca Italease to pay the settlement of the tax dispute, as well as personnel expenses, the use of provisions for clawbacks to cover losses on loans recorded in the income statement following the closure of settlements arranged with bankruptcy receivers.

12.3 Defined benefit company retirement plans

12.3.1 Description of the plans

With regard to the defined benefit supplementary pension plans, the determination of present values as required by IAS 19 “Employee benefits” is carried out by an independent Actuary.
The definition of economic forecast assumptions led to the adoption of a discounting rate of 4.25% (as at 31 December 2010 it was 4.3%) and an inflation rate of 2%. 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 capitalization.

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, former Chiavari plan, former BIG (Banca Industriale Gallaratese) plans, former Eurosistemi plan and Adriatico plan; plans for which the Parent Company guarantees defined benefits to a group of retired employees as at 31 December 2011, inherited from the former BPVN S.c.a.r.l.. For greater details on these plans, refer to the specific illustrative section in the Parent Company’s financial statements.
- Banco Popolare as incorporating company of Cassa di Risparmio di Lucca Pisa Livorno: former Cassa di Risparmio di Lucca plan, former Cassa di Risparmi di Livorno plan, former Cassa di Risparmio di Pisa plan;
- Banco Popolare as incorporating company of Banca Popolare di Cremona: Banca Popolare di Cremona plan;
- Banca Italease: Banca Italease Group plan.

The statement of the Banco Popolare internal plans is shown as an attachment to the Parent Company’s separate financial statements, while that referring to Banca Italease is contained in the attachments to these consolidated financial statements.

External plans regard the plans for Credito Bergamasco employees.

12.3.2. Changes in the plans during the year

	Pension plan for Banco Popolare personnel (after the merger)	Pension plan for Creberg personnel and minor plans	Pension plan for Italease Group personnel	31/12/2011
A. Opening balance	**65,711**	**13,654**	**8,640**	**88,005**
B. Increases	**3,906**	**765**	**357**	**5,028**
B.1 Pension costs associated with service	57	1	3	61
B.2 Financial charges due to the passage of time	2,768	701	-	3,469
B.3 Other actuarial losses	-	19	-	19
B.4 Other increases	1,081	44	354	1,479
C. Decreases	**(7,814)**	**(555)**	**(1,284)**	**(9,653)**
C.1 Uses during the year	(5,952)	(55)	(535)	(6,542)
C.2 Changes due to changes in the discounting rate	-	-	-	-
C.3 Other actuarial gains	-	(500)	(749)	(1,249)
C.4 Other decreases	(1,862)	-	-	(1,862)
D. Closing balance	**61,803**	**13,864**	**7,713**	**83,380**

For further details of the Pension Fund for Banco Popolare personnel (after the merger), refer to the notes to the separate financial statements of Banco Popolare, included in this set of documents.

Section 13 - Technical reserves – Item 130

The Group does not hold investments in associates and companies subject to joint control in consolidated insurance companies.

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 2010.

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 2011 was 4,294.1 million and consisted of 1,763,729,753 ordinary shares (640,484,006 ordinary shares at the end of 2010).

The item "treasury shares" is represented by no. 1,740,494 shares of the Parent Company, with a book value of 4.6 million.

15.2 Share capital – Number of Parent Company shares: annual changes

		Ordinary	Other
A.	**Shares issued at the beginning of the year**	**640,484,006**	**-**
	- fully paid-in	640,484,006	-
	- not fully paid-in	-	-
A.1	Treasury shares (-)	(369,205)	-
A.2	**Shares issued: opening balance**	**640,114,801**	**-**
B.	**Increases**	**1,124,723,871**	**-**
B.1	New issues	1,123,245,747	-
	- against payment:	1,123,245,747	-
	- business combinations	194,890	-
	- conversion of bonds	70,453	-
	- exercised warrants	-	-
	- other	1,122,980,404	-
	- scrip issue:	-	-
	- to employees	-	-
	- to directors	-	-
	- other	-	-
B.2	Sale of treasury shares	1,478,124	-
B.3	Other changes	-	-
C.	**Decreases**	**(2,849,413)**	**-**
C.1	Cancellation	-	-
C.2	Purchase of treasury shares	(2,849,413)	-
C.3	Business transfers	-	-
C.4	Other changes	-	-
D.	**Shares issued: closing balance**	**1,761,989,259**	**-**
D.1	Treasury shares (+)	1,740,494	-
D.2	Shares issued at the end of the year	1,763,729,753	-
	- fully paid-in	1,763,729,753	-
	- not fully paid-in	-	-

15.3 Share capital: other information

Ordinary shares do not have a nominal value as resolved by the Shareholders' Meeting held on 11 December 2010. 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)	31/12/2011	31/12/2010
a)	Legal reserve	518,441	511,515
b)	Statutory reserve	519,592	511,535
c)	Other retained earnings	1,669,933	1,334,533
	Total	**2,707,966**	**2,357,583**

15.5 Other information

Item 160 Equity instruments is comprised by the optional component of the "Banco Popolare 2010-2010 4.75% convertible with right to repayment in shares (Poc)" convertible bond, net of directly related costs.

In 2011, the financial instruments pursuant to art. 12 of Italian Law Decree 185/08, converted into Italian Law no. 2 of 28 January 2009, the "Tremonti bonds", issued on 31 July 2009 in favour of the Ministry of the Economy and Finance for an amount of euro 1,450 million, were fully redeemed. At the same time, the final balance of the interest accrued from 1 July 2010 to 14 March 2011, equal to euro 86.4 million was paid, recognised in the accounts as a balancing entry of the debiting of equity reserves.

Section 16 - Minority interests – Item 210

16.1 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)	31/12/2011	31/12/2010
1) Financial guarantees given	1,882,426	2,797,847
a) Banks	589,389	1,383,280
b) Customers	1,293,037	1,414,567
2) Commercial guarantees given	5,357,595	6,899,509
a) Banks	341,839	1,345,214
b) Customers	5,015,756	5,554,295
3) Irrevocable commitments to disburse funds	3,145,196	3,495,462
a) Banks	563,274	448,886
i) certain to be utilised	543,167	299,685
ii) uncertain to be utilised	20,107	149,201
b) Customers	2,581,922	3,046,576
i) certain to be utilised	364,110	332,422
ii) uncertain to be utilised	2,217,812	2,714,154
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged to secure third party obligations	18,035	-
6) Other commitments	364,149	646,173
Total	**10,767,401**	**13,838,991**

2. Assets pledged to secure own liabilities and commitments

(in thousands of euro)	31/12/2011	31/12/2010
1. Financial assets held for trading	1,639,738	3,187,444
2. Financial assets designated at fair value through profit and loss	-	-
3. Financial assets available for sale	4,139,028	3,854,066
4. Investments held to maturity	-	66,008
5. Due from banks	413,822	406,505
6. Loans to customers	10,125,729	5,702,056
7. Property and equipment	-	-
Total	**16,318,317**	**13,216,079**

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 9,311.9 million, as described in detail in paragraph C.3 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 illustrates the details of the assets pledged to secure funding transactions, that are not shown elsewhere in the balance sheet assets (and therefore are not shown in table "2. Assets pledged to secure own liabilities and commitments" above). More specifically, this regards securities of securitisation transactions originated by the Group, securities that the same has issued and repurchased and guaranteed by the State, 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 2011.

4. Breakdown of investments associated with unit-linked and index-linked policies

As at 31 December 2011, 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	4,974,838
1. settled	4,739,130
2. not settled	235,708
b) Sales	5,322,575
1. settled	5,187,175
2. not settled	135,400
2. Portfolio management	
a) individual	10,983,780
b) collective	10,390
3. Custody and safekeeping of securities	
a) third party securities in custody: associated with custodian bank services (excluding portfolio management)	4,465,860
1. securities issued by consolidated companies	29,833
2. other securities	4,436,027
b) other third party securities in custody (excluding portfolio management): other	76,833,347
1. securities issued by consolidated companies	15,069,060
2. other securities	61,764,287
c) third party securities deposited with third parties	66,888,578
d) proprietary securities deposited with third parties	27,567,086
4. Other operations	2,521,639

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.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

The following tables of the Notes to the consolidated financial statements as well as the income statement format also show, in addition to the figures of the period of reference, the corresponding comparison figures changed in compliance with IFRS 5 and in compliance with clarifications on the regulations for compiling the financial statements made known by the Supervisory Body in February 2012. The Attachments contain a statement of reconciliation between the income statement schedule published in the 2010 financial statements and that restated in these financial statements.

Section 1 - Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

(in thousands of euro)	Debt securities	Loans	Other operations	2011	2010
1. Financial assets held for trading	192,966	-	186,540	379,506	628,441
2. Financial assets designated at fair value through profit and loss	-	-	-	-	1
3. Financial assets available for sale	253,140	-	-	253,140	71,242
4. Investments held to maturity	4,519	-	-	4,519	8,062
5. Due from banks	11,296	122,919	157	134,372	105,355
6. Loans to customers	16,903	3,341,311	2,553	3,360,767	2,836,938
7. Hedging derivatives	X	X	66,513	66,513	102,928
8. Other assets	X	X	9,459	9,459	15,147
Total	**478,824**	**3,464,230**	**265,222**	**4,208,276**	**3,768,114**

(in thousands of euro)	2011	2010
Interest on performing loans	3,867,624	3,434,675
Interest on loans classified as "non-performing"	340,652	333,439
Total	**4,208,276**	**3,768,114**

1.2 Interest and similar income: differences relating to hedging transactions

(in thousands of euro)	2011	2010
A. Positive differences relating to hedging transactions	168,937	223,014
B. Negative differences relating to hedging transactions	(102,424)	(120,086)
C. Balance (A-B)	**66,513**	**102,928**

1.3 Interest and similar income: other information

1.3.1 Interest income on currency financial assets

(in thousands of euro)	2011	2010
Interest income on currency assets	70,802	75,671

1.3.2 Interest income on financial lease transactions

(in thousands of euro)	2011	2010
Interest income on financial lease transactions	183,519	207,747

1.4 Interest and similar expense: breakdown

(in thousands of euro)	Debts	Securities	Other operations	2011	2010
1. Due to central banks	39,355	X	-	39,355	30,449
2. Due to banks	79,582	X	38,591	118,173	87,791
3. Due to customers	455,738	X	26,939	482,677	289,797
4. Debt securities issued	X	944,568	-	944,568	640,333
5. Financial liabilities held for trading	32	-	381	413	1,033
6. Financial liabilities designated at fair value through profit and loss	-	807,363	-	807,363	902,857
7. Other liabilities and funds	X	X	2,053	2,053	939
8. Hedging derivatives	X	X	-	-	-
Total	**574,707**	**1,751,931**	**67,964**	**2,394,602**	**1,953,199**

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 2010 as for 2011.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on currency liabilities

(in thousands of euro)	2011	2010
Interest expense on currency liabilities	31,989	24,895

1.6.2 Interest expense on currency liabilities for finance leasing transactions

(in thousands of euro)	2011	2010
Interest expense on financial lease transactions	1,419	5,918

Section 2 - Net fee and commission income and expense– Items 40 and 50

2.1 Fee and commission income: breakdown

(in thousands of euro)	2011	2010
a) guarantees given	54,048	59,555
b) credit derivatives	299	443
c) management, brokerage and advisory services:	612,635	675,249
1. financial instrument trading	21,537	48,278
2. currency trading	2,988	3,058
3. portfolio management	149,755	153,420
3.1 individual	45,089	56,655
3.2 collective	104,666	96,765
4. custody and safekeeping of securities	13,631	11,480
5. custodian bank	11,918	14,761
6. placement of securities	89,586	96,144
7. receiving and sending orders	56,947	48,376
8. advisory activities	1,307	2,629
8.1 on investments	1,307	2,629
8.2 on financial structure	-	-
9. distribution of third party services	264,966	297,103
9.1 portfolio management	87	159
9.1.1 individual	-	1
9.1.2 collective	87	158
9.2 insurance products	151,342	184,104
9.3 other products	113,537	112,840
d) collection and payment services	142,628	151,155
e) servicing for securitisation transactions	933	2,711
f) services for factoring transactions	314	64
g) tax office services	-	-
h) activities for the management of multilateral exchange systems	-	-
i) maintenance and management of current accounts	242,215	234,529
j) other services	314,583	297,087
Total	**1,367,655**	**1,420,793**

The sub-item j) "other services" includes commissions relating to cashpoint and credit card services of 50.6 million (53.7 million as at 31 December 2010) and to the consideration for making funds available (Consideration for Credit Availability) of 164.4 million (126.1 million in the previous year).

2.2 Fee and commission expense: breakdown

(in thousands of euro)	2011	2010
a) Guarantees given	2,094	2,000
b) Credit derivatives	-	-
c) Management and brokerage services:	40,719	70,967
1. financial instrument trading	12,757	36,415
2. currency trading	670	1,385
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated by third parties	-	-
4. custody and safekeeping of securities	6,352	6,897
5. placement of financial instruments	14,839	19,635
6. door-to-door sales of financial instruments, products and services	6,101	6,635
d) Collection and payment services	16,426	36,308
e) Other services	35,036	44,722
Total	**94,275**	**153,997**

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

(in thousands of euro)	2011		2010	
	Dividends	Income from UCIT units	Dividends	Income from UCIT units
A. Financial assets held for trading	57,930	270	361,765	138
B. Financial assets available for sale	7,724	1,785	6,894	5,410
C. Financial assets designated at fair value	-	7	-	15
D. Investments in associates and companies subject to joint control	-	X	-	X
Total	**65,654**	**2,062**	**368,659**	**5,563**

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)	Net result (A+B)-(C+D)
1. Financial assets held for trading	**18,074**	**100,754**	**(127,367)**	**(301,388)**	**(309,927)**
1.1 Debt securities	13,196	62,627	(76,563)	(70,062)	(70,802)
1.2 Equity instruments	3,519	37,380	(44,323)	(212,968)	(216,392)
1.3 UCIT units	1,359	196	(6,481)	(18,358)	(23,284)
1.4 Loans	-	-	-	-	-
1.5 Other	-	551	-	-	551
2. Financial liabilities held for trading	**556**	**7,509**	**(146)**	**(1,910)**	**6,009**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	556	7,509	(146)	(1,910)	6,009
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange-rate differences	**X**	**X**	**X**	**X**	**61,031**
4. Derivatives	**4,519,638**	**5,626,728**	**(4,331,856)**	**(5,501,826)**	**269,036**
4.1 Financial derivatives:	4,511,991	5,617,032	(4,331,029)	(5,493,466)	260,880
- On debt securities and interest rates	3,978,746	5,262,333	(3,867,734)	(5,140,046)	233,299
- On equity instruments and share indices	527,944	353,739	(456,083)	(348,291)	77,309
- On currencies and gold	X	X	X	X	(43,648)
- Other	5,301	960	(7,212)	(5,129)	(6,080)
4.2 Credit derivatives	7,647	9,696	(827)	(8,360)	8,156
Total	**4,538,268**	**5,734,991**	**(4,459,369)**	**(5,805,124)**	**26,149**

Section 5 - Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting

(in thousands of euro)	2011	2010
A. Revenues relevant to:		
A.1 Fair value hedging derivatives	526,304	99,068
A.2 Hedged financial assets (fair value)	283,396	73,963
A.3 Hedged financial liabilities (fair value)	32,146	72,810
A.4 Financial hedging derivatives of the financial flows	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total revenues of hedging activities (A)	**841,846**	**245,841**
B. Expenses relevant to:		
B.1 Fair value hedging derivatives	(312,895)	(160,617)
B.2 Hedged financial assets (fair value)	(1,493)	(25,664)
B.3 Hedged financial liabilities (fair value)	(531,996)	(48,267)
B.4 Financial hedging derivatives of the financial flows	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total hedging expense (B)	**(846,384)**	**(234,548)**
C. Fair value adjustments in hedge accounting (A-B)	**(4,538)**	**11,293**

Section 6 - Profits (losses) on disposal/repurchase – Item 100

6.1 Profits (losses) on disposal/repurchase: breakdown

(in thousands of euro)	2011			2010		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Due from banks	446	(136)	310	2,274	-	2,274
2. Loans to customers	12,392	(12,711)	(319)	7,886	(9,832)	(1,946)
3. Financial assets available for sale	42,323	(4,958)	37,365	11,389	(5,761)	5,628
3.1 Debt securities	10	(4,368)	(4,358)	11	(386)	(375)
3.2 Equity instruments	40,489	(590)	39,899	9,336	(5,375)	3,961
3.3 UCIT units	1,824	-	1,824	2,042	-	2,042
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	-	-	-	-	(8)	(8)
Total Assets	**55,161**	**(17,805)**	**37,356**	**21,549**	**(15,601)**	**5,948**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	61,337	(17,040)	44,297	35,185	(9,198)	25,987
Total Liabilities	**61,337**	**(17,040)**	**44,297**	**35,185**	**(9,198)**	**25,987**

The profits from the disposal of financial assets available for sale mostly refer to the sale of investments of less than 20% in: the London Stock Exchange for euro 25 million, Azimut Holding for euro 9.3 million, Società Aeroporto Toscano Galileo Galilei for 1.4 million and Burgo Group for 3.1 million.

The change in the net result originating from the repurchase of securities issued is euro 18.3 million higher than last year, euro 15 million of which relates to Banco Popolare's subordinate bond exchange operation launched in May 2011, net of relative ancillary costs, as described in the Report on Operations, to which readers are referred.

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)	Net result (A+B)-(C+D)
1. Financial assets	**568**	**12**	**(14,110)**	**(186)**	**(13,716)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	5	-	(1,076)	-	(1,071)
1.3 UCIT units	563	12	(13,034)	(186)	(12,645)
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**584,670**	**163,703**	**(426,941)**	**(35,230)**	**286,202**
2.1 Debt securities	584,670	163,703	(426,941)	(35,230)	286,202
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**	**(343)**
4. Credit and financial derivatives	**533,340**	**128,445**	**(229,016)**	**(182,292)**	**250,477**
Total	**1,118,578**	**292,160**	**(670,067)**	**(217,708)**	**522,620**

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.

It is appropriate to point out that, as prescribed by reference accounting standard, the effect resulting from the change in the creditworthiness of Banco Popolare - occurred after the date of issue - was also considered in determining the fair value. In 2011, the effects entered to the credit of the income statement are positive totalling 464.2 million. For further details, reference is made to section 5 of the balance sheet liabilities of these explanatory notes, 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)	Losses			Recoveries				2011	2010
	Specific		Collective	Specific		Collective			
	Write-offs	Other		A	B	A	B		
A. Due from banks	-	(1,615)	(3)	-	3,900	-	190	2,472	(21,821)
- Loans	-	(1,615)	(3)	-	3,900	-	190	2,472	(11,911)
- Debt securities	-	-	-	-	-	-	-	-	(9,910)
B. Loans to customers	(183,748)	(994,009)	(142,330)	187,637	285,742	13,968	66,246	(766,494)	(760,556)
- Loans	(183,588)	(990,508)	(142,330)	187,637	285,734	13,968	66,246	(762,841)	(760,329)
- Debt securities	(160)	(3,501)	-	-	8	-	-	(3,653)	(227)
C. Total	**(183,748)**	**(995,624)**	**(142,333)**	**187,637**	**289,642**	**13,968**	**66,436**	**(764,022)**	**(782,377)**

A = from interest
B = other recoveries

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

(in thousands of euro)	Losses Specific		Recoveries Specific		2011	2010
	Write-offs	Other	A	B		
A. Debt securities	-	(25,551)	-	-	(25,551)	(16,341)
B. Equity instruments	-	(49,197)	X	X	(49,197)	(36,024)
C. UCIT units	-	(2,080)	X	-	(2,080)	(1,053)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(76,828)**	**-**	**-**	**(76,828)**	**(53,418)**

A = from interest
B = other recoveries

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

(in thousands of euro)	Losses			Recoveries				Total 2011	Total 2010
	Specific		Collective	Specific		Collective			
	Write-offs	Other		A	B	A	B		
A. Debt securities	-	(3,500)	-	-	-	-	-	(3,500)	-
B. Loans to banks	-	-	-	-	-	-	-	-	-
C. Loans to customers	-	-	-	-	-	-	-	-	-
D. Total	**-**	**(3,500)**	**-**	**-**	**-**	**-**	**-**	**(3,500)**	**-**

A= From interest
B= Other recoveries

8.4 Net losses on impairment of other financial activities: breakdown

(in thousands of euro)	Losses			Recoveries				Total 2011	Total 2010
	Specific		Collective	Specific		Collective			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	-	(2,218)	(1,013)	-	4,637	-	5,846	7,252	(6,463)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	(5)	-	48	-	44	87	(21)
D. Other operations	(772)	(2,944)	(10,037)	-	272	-	45	(13,436)	(30,927)
E. Total	**(772)**	**(5,162)**	**(11,055)**	**-**	**4,957**	**-**	**5,935**	**(6,097)**	**(37,411)**

A= From interest
B= Other recoveries

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)	2011	2010
1) Employees	1,461,958	1,484,945
a) wages and salaries	963,592	990,871
b) social security contributions	267,135	271,487
c) employee termination indemnities	52,948	60,020
d) social security expenditure	1,102	570
e) provision to employee termination indemnities	26,289	9,841
f) provision to pension fund and similar commitments:	8,241	13,310
- defined contribution	7,071	7,871
- defined benefit	1,170	5,439
g) payments to external supplementary pension plans:	26,060	20,400
- defined contribution	22,164	17,140
- defined benefit	3,896	3,260
h) costs deriving from payment agreements based on own equity instruments	9	226
i) other employee benefits	116,582	118,220
2) Other personnel in service	10,364	12,939
3) Directors and auditors	19,782	19,887
4) Retired personnel	569	1,654
5) Charge-back of expenses for employees seconded to other companies	(5,083)	(6,622)
6) Charge-back of expenses for third party employees seconded to the bank	3,326	5,252
Total	**1,490,916**	**1,518,055**

11.2 Average number of employees by category and other staff

	2011	2010
Employees	19,653	20,043
a) executives	327	325
b) total middle managers	7,577	7,630
of which: 3rd and 4th level	3,616	3,638
c) other employees	11,749	12,088
Other personnel	144	236
Average number of personnel	**19,797**	**20,279**

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: total costs

(in thousands of euro)	2011	2010
a) Pension cost associated with current service	61	60
b) Pension cost associated with past service	495	965
c) Financial charges	1,883	2,005
d) Expected rate of return on plan assets	355	304
e) Actuarial gains and losses	(1,624)	2,105
f) Gains and losses from impairments or settlements	-	-
Total	**1,170**	**5,439**

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 116.6 million, whereas the corresponding amount for the year 2010 was euro 118.2 million. This amount refers to expenses for redundancy incentives, contribution to canteen expenses, costs for insurance policies taken out in favour of employees, costs for employee professional refresher courses.

11.5 Other administrative expenses: breakdown

(in thousands of euro)	2011	2010
a) expenses relating to real estate:	219,873	212,457
- rentals and maintenance of premises	173,265	170,845
- cleaning expenses	12,121	6,653
- energy, water and heating	34,487	34,959
b) indirect taxes and duties	189,240	163,459
c) postal charges, telephone charges, printed materials and other office expenses	62,582	67,237
d) maintenance and rentals for furniture, machines and plants	35,526	68,114
e) professional and consulting services	139,316	130,376
f) fees for surveys and information	17,405	19,344
g) value supervision and escorting	14,453	12,352
h) services from third parties	143,249	163,696
i) advertising, representation and gifts	31,701	29,844
l) insurance premiums	15,282	14,326
m) transport, hiring and travel	34,367	36,469
n) other costs and sundry expenses	46,035	51,546
Total	**949,029**	**969,220**

Sub-item n) "other costs and sundry expenses" includes amounts relating to reimbursements of expenses for food and lodging of employees on business trips and the cost of kilometric reimbursements, corresponding to euro 24 million as at 31 December 2011 (against euro 23 million the previous year).

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	2011	2010
Net provisions for risks and charges:	(95,820)	31,746	(64,074)	(236,319)
a) legal disputes	(74,870)	28,282	(46,588)	(21,365)
b) personnel expenses	(307)	62	(245)	4,563
c) other	(20,643)	3,402	(17,241)	(219,517)
Total	**(95,820)**	**31,746**	**(64,074)**	**(236,319)**

Section 13 – Net adjustments to/recoveries on property and equipment - Item 200

13.1 Net adjustments to property and equipment: breakdown

(in thousands of euro)	Depreciation (a)	Losses on impairment (b)	Recoveries (c)	Net result (a+b-c)
A. Property and equipment				
A.1 Owned	(77,993)	(12,312)	-	(90,305)
- Used in operations	(57,948)	(817)	-	(58,765)
- For investment	(20,045)	(11,495)	-	(31,540)
A.2 Acquired under financial lease	(2,775)	-	-	(2,775)
- Used in operations	(805)	-	-	(805)
- For investment	(1,970)	-	-	(1,970)
Total	**(80,768)**	**(12,312)**	**-**	**(93,080)**

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

14.1 Net adjustments to intangible assets: breakdown

(in thousands of euro)	Amortisation (a)	Losses on impairment (b)	Recoveries (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned:	(73,640)	(5,728)	-	(79,368)
- internally generated	-	-	-	-
- other	(73,640)	(5,728)	-	(79,368)
A.2 Acquired under financial lease	-	-	-	-
Total	**(73,640)**	**(5,728)**	**-**	**(79,368)**

Section 15 - Other operating expenses and income – Item 220

15.1 Other operating expenses: breakdown

(in thousands of euro)	2011	2010
depreciation of expenses for leasehold improvements	18,450	19,899
others	56,993	65,424
Total	**75,443**	**85,323**

The item "others" includes the costs of legal settlements that exceed the provisions for risks allocated, operating costs incurred by non-financial subsidiaries, as well as costs incurred by Italease group companies regarding receivables assigned without recourse or whose risks and benefits have been transferred to Alba Leasing. Said costs are promptly re-charged (with other operating income) to the above company (7 million).

15.2 Other operating income: breakdown

(in thousands of euro)	2011	2010
tax recovery	146,733	141,167
recovery of expenses	33,759	43,175
rents receivable on real estate	53,492	33,634
others	87,338	132,359
Total	**321,322**	**350,335**

The item "others" is mostly comprised of out-of-period income; it also includes amounts collected following settlements (euro 15.1 million in 2011 and 45.9 million in 2010).

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)	2011	2010
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 result	**-**	**-**
2) Companies subject to significant influence		
A. Income	72,964	76,607
1. Revaluations	21,838	71,570
2. Profits on disposal	51,126	4,822
3. Recoveries	-	-
4. Other income	-	215
B. Expenses	(373,430)	(34,417)
1. Write-downs	(29,741)	(32,968)
2. Losses on impairment	(343,604)	(1,138)
3. Loss on disposal	-	(44)
4. Other expenses	(85)	(267)
Net result	**(300,466)**	**42,190**
Total	**(300,466)**	**42,190**

The items Revaluations and Write-downs include profits and losses, respectively totalling 21.8 million (of which 19.3 million for Agos-Ducato, 1.5 million for Popolare Vita, 0.7 million Energreen and 29.7 million (of which 13.9 million for Avipop Assicurazioni, 13.3 million for Alba Leasing, 1.9 million for Arca SGR), resulting from the net equity valuation of investments subject to significant influence.

The item Profits on disposal mainly refers to the impact of the partial sale of the investment held in I.C.B.P.I. for 47.2 million and to income resulting from the sale of the investment in company Pantex for 2.3 million and in Bertani Holding for 1.2 million. At the time of their disposal, Pantex and Bertani Holding were classified under item 150 Non-current assets held for sale and discontinued operations.

Losses on impairment refer to investments Agos-Ducato for 332.3 million, Estates Capital Venture for 0.8 million, Health Finance for 0.3 million and Finoa for 10.1 million (the latter classified under item 150 Non-current assets held for sale and discontinued operations).

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 led to value adjustments of euro 2,766.6 for 2011.

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.

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.

Section 19 - Profits (losses) on disposal of investments - Item 270

19.1 Profits (losses) on disposal of investments: breakdown

(in thousands of euro)	2011	2010
A. Properties	16,795	2,323
- Profits on disposal	18,497	4,686
- Losses on disposal	(1,702)	(2,363)
B. Other assets	56	5,650
- Profits on disposal	2,018	17,071
- Losses on disposal	(1,962)	(11,421)
Net result	**16,851**	**7,973**

Profits/(losses) on disposal of investments refer to transfers carried out during the year of properties, mainly by companies belonging to Banca Italease.

Section 20 – Taxes on income from continuing operations - Item 290

20.1 Taxes on income from continuing operations: breakdown

(in thousands of euro)	2011	2010
1. Current taxes (-)	(492,063)	(284,650)
2. Changes in current taxes of prior periods (+/-)	(18,972)	3,277
3. Decreases in current taxes for the year (+)	9,920	59
4. Change in deferred tax assets (+/-)	645,086	291,214
5. Change in deferred tax liabilities (+/-)	149,852	104,850
6. Income taxes for the year (-) (-1 +/- 2 + 3 +/- 4 +/- 5)	**293,823**	**114,750**

The item does not include taxes relevant to the companies shown in the specific table 21.2 “Breakdown of income taxes relating to discontinued operations”.

20.2 Reconciliation between theoretical tax expense and actual tax expense of the financial statements

IRES	2011		2010 (*)	
Income (loss) before tax from continuing operations		**(2,550,560)**		**217,937**
Negative components of gross profit definitively not relevant (+)		2,522,588		353,946
non-deductible interest expense	115,617		120,935	
losses on disposal/measurement of investments	384,936		150,265	
non-deductible taxes other than income taxes	7,987		9,359	
losses on non-deductible receivables	7,743		5,899	
administrative expenses with limited deductibility	9,716		13,321	
administrative expenses not relating to the year or not pertinent	62,347		29,108	
impairment of goodwill	1,896,885		-	
losses of companies abroad	13,348		13,535	
impact of consolidation of infragroup investments in associates and companies subject to joint control	804		-	
other	23,205		11,524	
Positive components of gross profit definitively not relevant (-)		(115,077)		(288,368)
not relevant portion of gains on disposal/measurement of investments	(94,089)		(109,277)	
not relevant portion of dividends measured before consolidation entries	(217,809)		(372,185)	
cancellation of infragroup dividends	235,397		384,840	
out-of-period income from closure of allocations “other administrative expenses” of the previous year	(25,881)		(16,950)	
impact of consolidation of infragroup investments in associates and companies subject to joint control	-		(117,292)	
other	(12,695)		(57,504)	
Final increases not related to gross profit components (+)		1,031		6,154
other	1,031		6,154	
Final decreases not related to gross profit components (-)		(41,087)		(78,577)
profits paid to directors	(25)		-	
use of past losses			(14,082)	
donations though special fund set up during profit distribution	(6,985)		(6,399)	
recovery of infragroup interest expense deductibility for tax consolidation scheme	(19,022)		(39,414)	
deductible IRAP	(11,395)		(7,780)	
income components charged to shareholders' equity, relevant for tax purposes	(54)		(4,115)	
ACE	(1,414)		-	
other	(2,192)		(6,787)	
IRES CALCULATION BASE TO I.S.		(183,105)		211,092
IRES nominal rate	27.50%		27.50%	
Actual IRES		(50,354)		58,050
IRES tax rate		1.97%		26.64%

IRAP	2011		2010 (*)	
Income (loss) before tax from continuing operations		**(2,550,560)**		**217,937**
Negative components of gross profit definitively not relevant (+)		5,029,177		2,610,178
non-deductible interest expense	60,053		132,312	
non-deductible portion of depreciations on assets used in operations	7,867		4,374	
other non-deductible administrative expenses	123,830		142,439	
personnel expenses net of allowed deductions (decrease in tax wedge, the disabled, etc.)	1,022,801		1,090,259	
value adjustments on loans net of write-backs	835,044		884,142	
allocations to provisions for credit risk	68,252		212,798	
other operating expenses	533,540		5,224	
losses on investments in associates and companies subject to joint control	262,846		105,914	
non-relevant losses on the disposal of investments	206		144	
impairment of goodwill	2,057,210		-	
losses of companies abroad	13,348		13,535	
impact of consolidation of infragroup investments in associates and companies subject to joint control	804			
other	43,376		19,037	
Positive components of gross profit definitively not relevant (-)		(687,797)		(442,195)
profits on investments in associates and companies subject to joint control	(17,019)		(100,210)	
not relevant portion of dividends (50%) measured before consolidation entries	(137,737)		(393,661)	
cancellation of infragroup dividends	235,397		384,840	
other operating income	(671,088)		(198,920)	
non-relevant profits on disposal of investments	(3,237)		(1,277)	
impact of consolidation of infragroup investments in associates and companies subject to joint control	-		(117,292)	
other	(94,113)		(15,675)	
Final increases not related to gross profit components (+)		41,414		21,934
other (including losses for the year not carried forward)	41,414		21,934	
Final decreases not related to gross profit components (-)		(40,199)		(44,901)
others (mainly recapture of non-relevant negative components from previous years)	(40,199)		(44,901)	
IRAP CALCULATION BASE TO I.S.		1,792,035		2,362,953
IRAP weighted average nominal rate	5.41%		4.74%	
Actual IRAP		97,028		112,083
IRAP tax rate		(3.80%)		51.43%

NON-RELEVANT IRES E IRAP AND OTHER TAXES	2011		2010 (*)	
Total impact		(340,497)		(270,055)
Ires - Current, pre-paid and deferred taxation of prior periods	(18,996)		(293,967)	
Irap - Current, pre-paid and deferred taxation of prior periods	(24,360)		4,636	
Exemption of higher values of investments in associates and companies subject to joint control under art. 15, c. 10-bis and 10-ter, Italian Decree Law 185/2008	(309,105)		-	
Taxes on the profits of companies consolidated line-by-line	(9,048)		444	
Foreign taxes	1,337		391	
Other	19,675		18,441	
Non-relevant IRES and IRAP tax rate and other taxes		13.35%		(123.91%)

TOTAL TAXES ON GROSS PROFIT	2011		2010 (*)	
Total IRES + IRAP + Other taxes		(293,823)		(99,922)
OVERALL TAX RATE		**11.52%**		**(45.85%)**

(*) the figures used as reference for the reconciliation between theoretical and actual tax expenses of the previous year are those published in the 2010 financial statements and therefore have not been reclassified to reflect the effects envisaged by IFRS 5.

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)	2011	2010
1. Income	302,275	637,928
2. Expenses	(277,353)	(603,656)
3. Result of measurements of group of assets and related liabilities	113	-
4. Profit (loss) on disposal	3,756	27,312
5. Taxes and duties	(13,026)	(21,619)
Income (loss)	**15,765**	**39,965**

The item includes the contribution to the income statement for the year (sub-items income and expenses) and capital gains and losses recognised following disposal (sub-item profits/losses on disposal) of the subsidiaries Bormioli Rocco & Figlio, Banco Popolare Ceskà Republika, Itaca Service and Bio Energy International.

21.2 Breakdown of income taxes relating to discontinued operations

(in thousands of euro)	2011	2010
1. Current taxation (-)	(13,940)	(28,410)
2. Change in deferred tax assets (+/-)	127	3,107
3. Change in deferred tax liabilities (-/+)	787	3,684
4. Income taxes for the year (-1 +/- 2 +/- 3)	**(13,026)**	**(21,619)**

The item includes taxes relating to Bormioli Rocco & Figlio S.p.A. and Itaca Service S.p.A. sold during the year.

Section 22 – Net income (loss) attributable to minority interests - Item 330

Section 22.1 Breakdown of item 300 "Net income (loss) attributable to minority interests"

(in thousands of euro)	2011	2010
Credito Bergamasco	16,825	10,631
Cassa di Risparmio Lucca Pisa Livorno	-	(2,539)
Banca Aletti	6,896	4,609
Efibanca	-	(303)
Banca Popolare di Crema	-	(236)
Banca Caripe	-	(356)
Arena Broker	435	372
Bormioli Group	852	1,422
Glass Italy	-	(3)
Partecipazioni Italiane	18	(1)
Banca Italease	(547)	(118)
Italease Gestione Beni	86	(61)
Itaca Service	13	5
Mercantile Leasing	(161)	(396)
Essegibi Promozioni Immobiliari	-	1
Factorit	-	19
Release	(4,871)	10,702
Banca Italease Funding LLC	(4)	(1)
Other	(3,171)	(235)
Total	**16,371**	**23,512**

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 2011			31 December 2010		
	Attributable result (euro)	Weighted average of ordinary shares	EPS (euro)	Attributable result (euro)	Weighted average of ordinary shares	EPS (euro)
Basic EPS	-2,257,343,001	1,763,512,136	-1.280	221,571,159	640,482,219	0.346
Diluted EPS	-2,257,343,001	1,763,512,136	-1.280	336,751,424	1,364,448,825	0.247

24.1 Average number of ordinary shares with diluted capital

Note that as at 31 December 2011, Basic EPS coincides with the Diluted EPS: an "anti-dilutive" effect was recorded for the only active instrument with potential diluting effects, represented by the bond issue convertible into 161,943,608 ordinary shares. The interest rate per ordinary share that can be obtained from the conversion, net of the relative taxes, was actually higher than the basic result per share.

A comparison with the previous year shows, on one hand, a rise in the number of ordinary shares outstanding following the share capital increase completed in February 2011, and on the other hand, the lack of diluting effects related to:
- former Banca Popolare Italiana warrants which expired in December 2010;
- stock option plan, which expired in 2010;
- former Banca Popolare Italiana convertible bond issue which expired in June 2010;
- financial capitalisation instruments as set forth in art. 12 of Italian Legislative Decree 185/08 (Tremonti Bonds) issued in July 2009 and redeemed on 14 March 2011.

Note that the significant difference between diluted and basic EPS in 2010 was due to the potential dilutive effect of the Tremonti Bonds, combined with the further dilutive component represented by the issue of the convertible bond in March 2010.

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**	**(2,240,972)**
Other comprehensive income			
20 Financial assets available for sale:	(749,904)	249,976	(499,928)
a) changes in fair value	(799,394)	274,530	(524,864)
b) transfer to the income statement			
- losses on impairment	11,485	(3,424)	8,061
- profit (loss) on disposal	(30,356)	1,405	(28,951)
c) other changes	68,361	(22,535)	45,826
30 Property and equipment	(1,036)	-	(1,036)
40 Intangible assets	-	-	-
50 Foreign investment hedges:	-	-	-
a) changes in fair value	-	-	-
b) transfer to the income statement	-	-	-
c) other changes	-	-	-
60 Cash flow hedges:	6,908	(3,405)	3,503
a) changes in fair value	8,458	(3,405)	5,053
b) transfer to the income statement	-	-	-
c) other changes	(1,550)	-	(1,550)
70 Exchange rate differences:	-	-	-
a) changes in fair value	-	-	-
b) transfer to the income statement	-	-	-
c) other changes	-	-	-
80 Non-current assets held for sale:	-	-	-
a) changes in fair value	-	-	-
b) transfer to the income statement	-	-	-
c) other changes	-	-	-
90 Actuarial gains (losses) on defined benefit plans	-	-	-
100 Share of valuation reserves related to investments in associates carried at equity:	(87,336)	-	(87,336)
a) changes in fair value	(85,041)	-	(85,041)
b) transfer to the income statement			
- losses on impairment	-	-	-
- profit (loss) on disposal	-	-	-
c) other changes	(2,295)	-	(2,295)
110 Total other comprehensive income	**(831,368)**	**246,571**	**(584,797)**
120 Comprehensive Income (Items 10+110)			**(2,825,769)**
130 Consolidated comprehensive income attributable to minority interests			(16,422)
140 Consolidated comprehensive income attributable to the Parent Company			**(2,842,191)**

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. 263 of 27 December 2006 and subsequent updates, 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

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The Banco Popolare Group pursues lending policy objectives aiming at:

- supporting 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;
- diversifying its portfolio, limiting loan concentration on single counterparties/groups, on single sectors of economic activity or geographical areas;
- adopting a homogeneous and univocal credit management model based on rules, methodologies, processes, IT procedures and internal regulations harmonized 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 quarterly and submitted to the Board of Directors of Group Banks.

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 by borrowers when due, either partially or in full. 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 organizational, 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, 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;
- the changes made to the organisational structures, which are still in progress and which will be completed by the first half of 2012 will further strengthen and increase local presence, thus improving risk control.

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.
In the last few months of 2011, the criteria and the logic underlying decision-making authority were reassessed, giving greater importance to ratings in order to rationalise the authority awarded to the various figures of the credit chain.
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 the credit portfolio quality, including internal ratings. Their calculation is based on models that are differentiated and estimated specifically for each customer segment (large corporate, mid corporate, small business, retail and banks).
Rating plays a key role in loan granting, monitoring and management. Given the occurrence of specific cases, the Rating Desk must examine the positions and decide whether to change the rating (“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. It also contributes to the outcome of creditworthiness assessment systems for retail customers and small-sized businesses, to support the lending decisions of the decision-making bodies.

In 2011, the mechanism to manage and control problem loans was reviewed.
A new procedure was implemented, which 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.
The chain was therefore reviewed, increasing the Parent Company’s guiding role.
With respect to retail customers, a management process was adopted, supported by a new 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.

With regard to credit risk estimation models, in 2011 - with a view to obtaining the authorisation of the Supervisory Authority for the use of “Internal Rating Based” (“IRB”) methods - a complex project was undertaken to update PD and LGD models, also as regards:
- the segmentation “thresholds” of corporate customers (for the estimation of models);
- the “definition of default” at the time of estimation and/or calibration of models);
- the historic series of information underlying the estimation and/or calibration process;
- the “model design”, namely the structure of the elementary modules of the models in question and their integration.

The 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. This model allows to estimate operating capital absorption, taking into account the portfolio concentration and the assumption of a joint default of counterparties, in a predefined context of significant macroeconomic variables. The rate of confidence used is 99.96% and the time horizon of reference is one year.
In particular, the operating capital absorbed by counterparties is determined along a “MonteCarlo” approach that simulates a sufficiently high number of scenarios to provide a good empirical approximation of the theoretical distribution of credit portfolio losses.

In 2011, the project to design a system to establish and monitor credit policy guidelines was fine-tuned.
The purpose of these guidelines for the development and reorganization of the credit portfolio is to contain the cost of credit

risk and to optimise its risk-return ratio in line with the target risk profile defined by company bodies, the available capital and the planned economic and financial growth targets.

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

The Group avails itself of 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.
Non-performing loans are classified according to specific criteria, based on prudence, and objective risk parameters.
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 doubtful and substandard loans that exceed given predefined utilisation ceilings are managed by a separate company, wholly controlled by the Group, which acts as a servicer of impaired loans, specialising in management processes in relation to loan characteristics, to improve loan recovery capabilities and optimise the ratio between costs and collection percentages. As a result, the activity is oriented towards the economic result, by favouring, whenever possible, out-of-court settlements and focusing on the timeless and speed of the recovery action.
This company makes use of peripheral structures, specific IT and performance control tools that systematically produce reports.
In 2011, the dedicated procedure was improved, and the control chain was enhanced and revised.

Disclosure on structured credit products and on exposures to Special Purpose Entities

The crisis of the financial markets has increased the need of the same to have access to information on the type and the extent of the risks undertaken by financial intermediaries when trading in structured credit products directly or through special purpose entities, such as, for example, collateralised debt obligations (CDO), residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), other special purpose entities (SPE) and leveraged finance.
On the basis of the recommendations provided during 2008 by the Financial Stability Forum and the Bank of Italy, disclosure is presented below on the risks undertaken by Banco Popolare with regard to structured credit products, perceived by the market as high risk, distinguished in relation to the role played by the Group (operating in the guise of investor of products issued by third parties or in the capacity as originator).

Structured products issued by third parties and held by the Group

As at 31 December 2011, the main positions in structured credit securities issued by third parties (meaning issued by parties not belonging to the transactions originated from companies belonging to the Group) are represented by ABS and CDOs, mainly attributable to products acquired prior to the financial markets' crisis.

The total exposure to these products, in terms of equivalent book value, amounted to 58.3 million, accounting for a limited portion of the overall portfolio represented by debt securities (lower than 0.5% in percentage terms). Said exposure, which relates entirely to the Parent Company, has a fair value of euro 50.7 million.
Almost all the securities belong to the senior class, or the securities category with contractual right of priority with regard to the principal and interest payments.

The underlying elements are generally represented by Italian residential mortgage loans and those of other European countries, as well as by Italian government receivables; the ratings fluctuate between a double A and a triple A as a rule.

In detail, the ABSs, with a total book value amounting to euro 58.1 million, 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 - Fair value disclosure” in these explanatory notes.

With regard to CDOs, classified under “Financial assets available for sale”, the residual exposure as at 31 December 2011, in terms of book value, was entirely marginal (0.2 million euro).

For further details on held exposures, reference is made to the following table “C.1.3 Exposures deriving from the main “third-party” securitisation transactions broken down by type of securitised asset and by type of exposure”.

Exposures to Special Purpose Entities (SPE) – for securitisations and covered bond issue

The exposures to Special Purpose Entities (SPE), companies established ad hoc to achieve a specific purpose, ensue from securitisation transactions of Group company loans and from the Covered Bond transaction.
As a result of the securitisation transactions, the Group’s receivables are assigned to a special purpose entity, established in accordance with Article 3 of Italian Law no. 130 dated 30 April 1999, which, in order to finance the purchase, issues public or private securities. The commitments undertaken by the entity vis-à-vis the subscribers of the securities are fulfilled exclusively by means of cash flows generated by the assigned receivables.
Otherwise, the Covered Bond transaction requires that the securities be issued by a bank, the Parent Company for the issue programme of the Banco Popolare Group, and that the guarantee of such securities, in addition to the general equity of the issuer, be represented by a separate equity represented by appropriate assets sold to a special purpose entity established ad hoc in accordance with Article 7-bis and 7-ter of Italian law no. 130 of 30 April 1999.
For more information on the purposes, structures and characteristics of the transactions originated by the Group, reference is made to the content of chapter “C. Securitisations and sales of assets” of this section 1 – Credit risk and, for originated securitisations, to the following section 3 – Liquidity risk.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non performing and performing exposures: amounts, 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
	Doubtful loans	Substandard loans	Restructured exposures	Past due loans	Other assets	Non-Performing loans	Other	
1. Financial assets held for trading	162	30,037	2,727	715	8,172,773	-	345	8,206,759
2. Financial assets available for sale	-	6,755	-	-	8,758,809	-	-	8,765,564
3. Investments held to maturity	7,000	-	-	-	56,403	-	-	63,403
4. Due from banks	1,829	-	-	-	8,054,853	-	629,844	8,686,526
5. Loans to customers	3,666,266	3,842,482	2,371,715	356,273	83,155,962	-	1,627	93,394,325
6. Financial assets designated at fair value through profit and loss	-	-	-	-	4	-	-	4
7. Financial assets held for disposal	-	-	-	-	-	-	10	10
8. Hedging derivatives	-	-	-	-	595,007	-	36,987	631,994
Total (31/12/2011)	**3,675,257**	**3,879,274**	**2,374,442**	**356,988**	**108,793,811**	**-**	**668,813**	**119,748,585**
Total (31/12/2010)	**2,909,034**	**4,346,412**	**1,709,629**	**439,653**	**106,769,920**	**-**	**1,505,871**	**117,680,519**

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 assets Gross exposure	Specific adjustments	Net exposure	Performing Gross exposure	Collective adjustments	Net exposure	Total
A. Banking group							
1. Financial assets held for trading	104,569	(70,928)	33,641	X	X	8,172,773	8,206,414
2. Financial assets available for sale	28,361	(21,606)	6,755	8,764,506	(5,697)	8,758,809	8,765,564
3. Investments held to maturity	34,075	(27,075)	7,000	56,403	-	56,403	63,403
4. Due from banks	25,712	(23,883)	1,829	8,055,073	(220)	8,054,853	8,056,682
5. Loans to customers	13,828,880	(3,592,144)	10,236,736	83,679,111	(523,149)	83,155,962	93,392,698
6. Financial assets designated at fair value through profit and loss	-	-	-	X	X	4	4
7. Financial assets held for disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	595,007	595,007
Total A	**14,021,597**	**(3,735,636)**	**10,285,961**	**100,555,093**	**(529,066)**	**108,793,811**	**119,079,772**
B. Other consolidated companies							
1. Financial assets held for trading	-	-	-	X	X	345	345
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	629,844	-	629,844	629,844
5. Loans to customers	-	-	-	1,627	-	1,627	1,627
6. Financial assets designated at fair value through profit and loss	-	-	-	X	X	-	-
7. Financial assets held for disposal	-	-	-	10	-	10	10
8. Hedging derivatives	-	-	-	X	X	36,987	36,987
Total B	**-**	**-**	**-**	**631,481**	**-**	**668,813**	**668,813**
31/12/2011	**14,021,597**	**(3,735,636)**	**10,285,961**	**101,186,574**	**(529,066)**	**109,462,624**	**119,748,585**
31/12/2010	**13,170,473**	**(3,765,745)**	**9,404,728**	**98,251,533**	**(563,280)**	**108,275,791**	**117,680,519**

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 detailed disclosure requested by the Bank of Italy on 16 February 2011 with reference to the net exposure figure is provided below, stating beforehand some useful clarifications for a better understanding of the said disclosure.
More specifically, the Supervisory Body requires to provide the breakdown, by portfolios, of performing loans, distinguishing between exposures subject to renegotiation within collective agreements and other exposures, and points out the need to provide, for both categories, an analysis of the length of expiry, on the basis of the provisions in IFRS 7 “Financial Instruments: Disclosures”.

Renegotiated performing loans

As regards the disclosure requirement related to renegotiated loans, it should be noted that the scope corresponds to all the Agreements whose conditions and operations are regulated in accordance with laws, protocols of intent or agreements signed by trade associations or Federations, to which the Banco Popolare Group has subscribed, and which require a suspension of payment (principal and/or interest) whose moratorium terms are still in progress on 31 December 2011.
Renegotiations carried out on the basis of voluntary initiatives undertaken by the Group or the Agreements that contemplate a modification of the instalment do not fall under the said scope.

It is specified that what was indicated in connection with the renegotiated loans refers to the total exposure of the relation, apart from the amounts subject to renegotiation (example: a number of instalments).

Past due performing loans

The IFRS 7 accounting standard provides that each financial asset that has not been impaired should be given a length of expiry that occurs when the counterpart fails to pay the asset within the contractually due date. The decision on the length of expiry brackets is left at the discretion of the management, which will then need to select those most appropriate to ensure relevance and significance of the disclosure.
On the basis of the definition of past due loans contemplated by the said principle, also considering the clarifications provided by the Bank of Italy in February 2012, the length of expiry of the exposures for which the customer has failed to pay the amount within the terms expected by contract is analysed.
In addition, the amount showed in the table refers to the overall exposure, regardless of the past due instalment, which could also represent a non-significant share of the credit.
With reference to renegotiated loans, the provisions of the Bank of Italy require for the renegotiation to stop the calculation on the days of persistence in the past due “status” throughout the period of effectiveness of the suspension.

Breakdown of past due assets *(in thousands of euro)*	31/12/2011						31/12/2010					
	Not past due	Past due from 1 day to 1 month	Past due from 1 to 3 months	Past due from 3 to 6 months	Past due over 6 months	Total	Not past due	Past due from 1 day to 1 month	Past due from 1 to 3 months	Past due from 3 to 6 months	Past due over 6 months	Total
Performing loans subject to renegotiation:												
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	1,143,656	49,344	48,605	3,611	8,758	**1,253,974**	2,893,724	74,886	84,646	23,474	4,929	**3,081,659**
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	**-**	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**	-	-	-	-	-	**-**
8. Hedging derivatives	-	-	-	-	-	**-**	-	-	-	-	-	**-**
Total performing loans subject to renegotiation	**1,143,656**	**49,344**	**48,605**	**3,611**	**8,758**	**1,253,974**	**2,893,724**	**74,886**	**84,646**	**23,474**	**4,929**	**3,081,659**
Other performing loans:												
1. Financial assets held for trading	8,167,275	-	11	-	5,832	**8,173,118**	10,385,565	-	-	-	-	**10,385,565**
2. Financial assets available for sale	8,758,809	-	-	-	-	**8,758,809**	4,757,991	-	-	-	-	**4,757,991**
3. Investments held to maturity	56,403	-	-	-	-	**56,403**	130,426	-	-	-	-	**130,426**
4. Due from banks	8,684,696	1	-	-	-	**8,684,697**	7,536,821	-	11	-	-	**7,536,832**
5. Loans to customers	79,188,805	658,671	1,073,837	610,648	371,654	**81,903,615**	79,905,937	602,611	852,246	340,910	324,440	**82,026,144**
6. Financial assets designated at fair value through profit and loss	4	-	-	-	-	**4**	4	-	-	-	-	**4**
7. Financial assets held for disposal	10	-	-	-	-	**10**	155,201	-	-	-	-	**155,201**
8. Hedging derivatives	631,994	-	-	-	-	**631,994**	201,969	-	-	-	-	**201,969**
Total other performing loans	**105,487,996**	**658,672**	**1,073,848**	**610,648**	**377,486**	**108,208,650**	**103,073,914**	**602,611**	**852,257**	**340,910**	**324,440**	**105,194,132**

A.1.3 Banking Group – Cash and off-balance sheet exposures to banks: gross and net values

(in thousands of euro)	Gross exposure	Specific adjustments	Collective adjustments	Net exposure
A. Cash exposures				
a) Doubtful loans	25,712	(23,883)	X	1,829
b) Substandard loans	-	-	X	-
c) Restructured loans	-	-	X	-
d) Past due loans	-	-	X	-
e) Other assets	9,663,668	X	(220)	9,663,448
Total A	**9,689,380**	**(23,883)**	**(220)**	**9,665,277**
B. Off-balance sheet exposures				
a) Non-performing loans	-	-	X	-
b) Other	3,181,183	X	-	3,181,183
Total B	**3,181,183**	**-**	**-**	**3,181,183**
Total A + B	**12,870,563**	**(23,883)**	**(220)**	**12,846,460**

A.1.4 Banking Group – Cash exposures to banks: changes in gross non-performing loans

(in thousands of euro)	Doubtful loans	Substandard loans	Structured loans	Past due loans
A. Gross exposure: opening balance	**85,829**	**-**	**-**	**9,116**
- of which: exposures sold not derecognised	-	-	-	-
B. Increases	**519**	**-**	**-**	**-**
B.1 Inflows from performing loans	-	-	-	-
B.2 Transfers from other categories of non-performing loans	-	-	-	-
B.3 Other increases	519	-	-	-
C. Decreases	**(60,636)**	**-**	**-**	**(9,116)**
C.1 Outflows to performing loans	-	-	-	(8,002)
C.2 Write-offs	(46,237)	-	-	-
C.3 Repayments	-	-	-	-
C.4 Gains on disposals	(14,399)	-	-	-
C.5 Transfers to other categories of non-performing loans	-	-	-	-
C.6 Other decreases	-	-	-	(1,114)
D. Gross exposure: closing balance	**25,712**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-

A.1.5 Banking Group – Cash exposures to banks: changes in total adjustments

(in thousands of euro)	Doubtful loans	Substandard loans	Structured loans	Past due loans
A. Total adjustments: opening balance	**66,673**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-
B. Increases	**7,793**	**-**	**-**	**-**
B.1 Value adjustments	7,378	-	-	-
B.2 Transfers from other categories of non-performing loans	-	-	-	-
B.3 Other increases	415	-	-	-
C. Decreases	**(50,583)**	**-**	**-**	**-**
C.1 Recoveries from valuation	-	-	-	-
C.2 Recoveries from repayment	(4,346)	-	-	-
C.3 Write-offs	(46,237)	-	-	-
C.4 Transfers to other categories of non-performing loans	-	-	-	-
C.5 Other decreases	-	-	-	-
D. Total adjustments: closing balance	**23,883**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-

A.1.6 Banking Group – Cash and off-balance sheet exposures to customers: gross and net values

Portfolios / Quality ***(in thousands of euro)***	**Gross exposure**	**Specific adjustments**	**Collective adjustments**	**Net exposure**
A. Cash exposures				
a) Doubtful loans	6,059,998	(2,386,732)	X	3,673,266
b) Substandard loans	4,805,478	(938,804)	X	3,866,674
c) Restructured loans	2,713,998	(342,283)	X	2,371,715
d) Past due loans	385,862	(29,589)	X	356,273
e) Other assets	95,678,740	X	(528,846)	95,149,894
Total A	**109,644,076**	**(3,697,408)**	**(528,846)**	**105,417,822**
B. Off-balance sheet exposures				
a) Non-performing loans	328,624	(101,799)	X	226,825
b) Other	10,174,501	X	(21)	10,174,480
Total b	**10,503,125**	**(101,799)**	**(21)**	**10,401,305**
Total a + b	**120,147,201**	**(3,799,207)**	**(528,867)**	**115,819,127**

A.1.7 Banking Group – Cash exposures to customers: changes in gross non-performing loans

(in thousands of euro)	**Doubtful loans**	**Substandard loans**	**Restructured exposure**	**Past due loans**
A. Gross exposure: opening balance	**5,184,793**	**5,524,840**	**2,008,217**	**465,209**
- of which: exposures sold not derecognised	160,246	259,404	27,878	72,697
B. Increases	**2,264,545**	**3,345,393**	**1,424,724**	**743,638**
B.1 Inflows from performing loans	442,696	1,968,128	287,877	652,821
B.2 Transfers from other categories of non-performing loans	1,476,484	661,399	907,329	14,449
B.3 Other increases	345,365	715,866	229,518	76,368
C. Decreases	**(1,389,340)**	**(4,064,755)**	**(718,943)**	**(822,985)**
C.1 Outflows to performing loans	(29,758)	(859,185)	(177,024)	(129,303)
C.2 Write-offs	(867,276)	(162,957)	(7,527)	(637)
C.3 Repayments	(307,500)	(719,386)	(218,097)	(70,502)
C.4 Gains on disposals	(86,958)	(130)	-	-
C.5 Transfers to other categories of non-performing loans	(32,880)	(2,205,688)	(263,122)	(557,972)
C.6 Other decreases	(64,968)	(117,409)	(53,173)	(64,571)
D. Gross exposure: closing balance	**6,059,998**	**4,805,478**	**2,713,998**	**385,862**
- of which: exposures sold not derecognised	286,516	247,383	10,921	47,544

A.1.8 Banking Group – Cash exposures to customers: changes in total adjustments

(in thousands of euro)	**Doubtful loans**	**Substandard loans**	**Restructured exposure**	**Past due loans**
A. Total adjustments: opening balance	**2,294,916**	**1,014,222**	**299,404**	**36,282**
- of which: exposures sold not derecognised	48,725	27,326	1,735	3,802
B. Increases	**1,275,268**	**646,415**	**230,213**	**63,788**
B.1 Value adjustments	725,818	439,655	94,626	61,566
B.2 Transfers from other categories of non-performing loans	239,027	101,706	130,609	1,892
B.3 Other increases	310,423	105,054	4,978	330
C. Decreases	**(1,183,452)**	**(721,833)**	**(187,334)**	**(70,481)**
C.1 Recoveries from valuation	(191,392)	(172,964)	(109,894)	(8,594)
C.2 Recoveries from repayment	(89,151)	(20,693)	(12,048)	(484)
C.3 Write-offs	(867,276)	(162,957)	(7,527)	(637)
C.4 Transfers to other categories of non-performing loans	(15,362)	(349,588)	(51,182)	(57,103)
C.5 Other decreases	(20,271)	(15,631)	(6,683)	(3,663)
D. Total adjustments: closing balance	**2,386,732**	**938,804**	**342,283**	**29,589**
- of which: exposures sold not derecognised	68,505	28,845	200	1,582

A.2 Classification of exposures based on internal and external ratings

A.2.1 - Breakdown of cash and "off-balance sheet" exposures by external rating classes

Exposures	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower B-	Unrated	Total
A. Cash exposures	3,174,048	10,381,388	23,423,169	10,292,440	3,021,359	3,542,835	67,937,345	121,772,585
B.1 Financial derivatives	236,377	612,216	59,875	195,219	20,890	27,457	563,786	1,715,820
B.2 Credit derivatives	2,742	1,019	-	-	-	-	4,141	7,902
C. Guarantees given	1,323	2,297,665	482,779	849,268	122,471	174,729	2,718,675	6,646,909
D. Commitments to disburse funds	105,092	687,951	337,263	187,371	109,986	89,675	1,339,194	2,856,533
Overall total	**3,519,581**	**13,980,239**	**24,303,086**	**11,524,298**	**3,274,706**	**3,834,696**	**72,563,142**	**132,999,749**

The breakdown of cash and off-balance sheet exposures by external rating classes does not include the higher value assigned to the loans of some banks belonging to the former BPI Group during the purchase price allocation (PPA) between the BPVN and BPI Groups totalling euro 8.6 million.

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 and Cerved Group, the latter limited to exposure classes towards enterprises and other subjects.
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	Cerved Group
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-	from Aa1 to BAA7
BBB+/BBB-	from BBB+ to BBB-	from Baa1 to Baa3	from BBB+ to BBB-	BAA8
BB+/BB-	from BB+ to BB-	from Ba1 to Ba3	from BB+ to BB-	from BAA9 to B13
B+/B-	from B+ to B-	from B1 to B3	from B+ to B-	from B14 to B15
Lower B-	CCC+ and lower	Caa1 and lower	CCC+ and lower	B16 and lower

A.2.2 Banking Group - Breakdown of cash and "off-balance sheet" exposures by internal rating classes

Banks	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Unrated**	**Total**
A. Cash exposures	-	438,779	2,990,293	861,035	24,334	8,692	372	14,197,170	18,520,675
B.1 Financial derivatives	-	54,586	697,475	97,577	1,857	7	-	5,099	856,602
B.2 Credit derivatives	-	2,002	5,079	-	-	-	-	-	7,081
C. Guarantees given	-	830	110,818	54,160	41,646	5,026	723	120,467	333,671
D. Commitments to disburse funds	-	432	7,611	1,037	2,088	1	-	43,458	54,626
Overall total	**-**	**496,628**	**3,811,276**	**1,013,809**	**69,925**	**13,726**	**1,096**	**14,366,194**	**19,772,654**

Large Corporate Exposures	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Unrated**	**Total**
A. Cash exposures	59,854	250,987	2,162,383	2,814,348	1,336,202	1,139,323	403,132	102,507	46,434	3,257,508	11,572,679
B.1 Financial derivatives	-	3,514	33,294	63,817	18,945	7,742	5,258	502	211	3,425	136,707
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-
C. Guarantees given	7,563	232,485	618,118	588,342	607,719	653,191	79,248	35,329	2,472	68,579	2,893,047
D. Commitments to disburse funds	51,333	19,012	91,328	318,322	11,767	236,170	15,134	-	-	16,310	759,378
Overall total	**118,751**	**505,998**	**2,905,124**	**3,784,829**	**1,974,634**	**2,036,427**	**502,772**	**138,337**	**49,118**	**3,345,822**	**15,361,811**

Mid Corporate Exposures	1	2	3	4	5	6	7	8	9	Unrated	Total
A. Cash exposures	1,546,766	3,684,983	5,187,282	3,879,287	4,113,285	3,523,873	2,524,245	1,265,578	700,851	26,369	26,452,519
B.1 Financial derivatives	11,690	29,567	40,736	37,110	36,232	25,851	16,769	10,862	3,989	178	212,984
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-
C. Guarantees given	525,060	457,858	352,243	255,038	165,860	208,943	73,934	40,709	17,288	1,513	2,098,447
D. Commitments to disburse funds	95,303	111,998	160,214	92,258	108,767	41,822	12,889	12,272	2,660	18,768	656,951
Overall total	**2,178,820**	**4,284,405**	**5,740,476**	**4,263,693**	**4,424,144**	**3,800,489**	**2,627,837**	**1,329,420**	**724,789**	**46,828**	**29,420,901**

Small Business Exposures	1	2	3	4	5	6	7	8	9	Unrated	Total
A. Cash exposures	174,050	997,407	2,032,791	3,270,305	2,890,413	2,349,057	1,596,193	700,408	465,800	48,261	14,524,685
B.1 Financial derivatives	557	3,018	6,675	11,542	16,341	17,829	7,402	1,257	1,684	8	66,314
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-
C. Guarantees given	44,812	98,763	137,572	123,851	89,571	45,036	29,266	9,449	6,317	3,245	587,881
D. Commitments to disburse funds	38,494	87,834	102,064	73,333	38,221	29,366	11,941	1,776	1,597	3,606	388,231
Overall total	**257,913**	**1,187,022**	**2,279,103**	**3,479,031**	**3,034,546**	**2,441,288**	**1,644,802**	**712,889**	**475,399**	**55,120**	**15,567,112**

The A.2.2 tables represent the breakdown by rating class of “performing” loans.
94% of the company portfolio has been rated.

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)								Other parties	Total (1)+(2) 31/12/2011
					Credit derivatives					Endorsement credits				
		Properties	Securities	Other collateral guarantees	CLN	Governments and central banks	Other public entities	Banks	Other subjects	Governments and central banks	Other public entities	Banks		
1. Guaranteed cash exposures:	**1,050,427**	**1,228**	**963,988**	**903**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**49**	**84,067**	**1,050,235**
1.1. fully guaranteed	152,541	1,228	67,729	903	-	-	-	-	-	-	-	49	84,067	153,976
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially guaranteed	897,886	-	896,259	-	-	-	-	-	-	-	-	-	-	896,259
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed "off-balance sheet" exposures:	**753,786**	**-**	**-**	**770,940**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,235**	**396**	**775,571**
2.1. fully guaranteed	53,114	-	-	100,751	-	-	-	-	-	-	-	-	-	100,751
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially guaranteed	700,672	-	-	670,189	-	-	-	-	-	-	-	4,235	396	674,820
- of which non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,804,213**	**1,228**	**963,988**	**771,843**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,284**	**84,463**	**1,825,806**

A.3.2 Banking group - Guaranteed exposures to customers

(in thousands of euro)	Value of net exposure	Collateral guarantees (1)			Personal guarantees (2)								Other parties	Total (1)+(2) 31/12/2011
					Credit derivatives					Endorsement credits				
		Properties	Securities	Other collateral guarantees	CLN	Governments and central banks	Other public entities	Banks	Other subjects	Governments and central banks	Other public entities	Banks		
1. Guaranteed cash exposures:	**66,672,949**	**98,247,753**	**5,812,306**	**778,889**	**-**	**-**	**-**	**-**	**73,511**	**676**	**128,005**	**145,286**	**49,662,765**	**154,849,191**
1.1. fully guaranteed	58,302,175	96,529,401	2,511,579	682,176	-	-	-	-	73,511	676	112,547	123,560	48,805,869	148,839,319
- of which non-performing loans	6,315,272	11,172,963	192,734	29,311	-	-	-	-	-	210	1,261	10,017	7,588,031	18,994,527
1.2. partially guaranteed	8,370,774	1,718,352	3,300,727	96,713	-	-	-	-	-	-	15,458	21,726	856,896	6,009,872
- of which non-performing loans	1,791,383	1,344,720	79,378	10,628	-	-	-	-	-	-	53	8,182	205,899	1,648,860
2. Guaranteed "off-balance sheet" exposures:	**2,811,891**	**1,438,980**	**199,556**	**336,074**	**-**	**-**	**-**	**-**	**-**	**-**	**8,506**	**54,794**	**3,904,030**	**5,941,940**
2.1. fully guaranteed	2,232,844	1,432,838	152,794	128,400	-	-	-	-	-	-	8,384	44,052	3,821,416	5,587,884
- of which non-performing loans	48,257	20,547	1,219	8,592	-	-	-	-	-	-	-	-	236,400	266,758
2.2. partially guaranteed	579,047	6,142	46,762	207,674	-	-	-	-	-	-	122	10,742	82,614	354,056
- of which non-performing loans	7,200	-	552	1,611	-	-	-	-	-	-	-	-	2,867	5,030
Total	**69,484,840**	**99,686,733**	**6,011,862**	**1,114,963**	**-**	**-**	**-**	**-**	**73,511**	**676**	**136,511**	**200,080**	**53,566,795**	**160,791,131**

B. Breakdown and concentration of exposures

B.1 Banking Group - Breakdown by sector of cash and "off-balance sheet" exposures to customers (book values)

(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 Doubtful loans	-	24,923	X	2,502	1,854	X	34,795	89,943	X	35	4	X	2,883,717	1,821,619	X	752,217	448,389	X
A.2 Substandard loans	24,194	77,271	X	402	217	X	102,128	37,107	X	2	-	X	3,190,402	755,316	X	549,546	68,893	X
A.3 Restructured loans	-	-	X	-	-	X	132,300	31,788	X	-	-	X	2,188,037	309,268	X	51,378	1,227	X
A.4 Past due loans	-	-	X	83	9	X	685	58	X	-	-	X	256,454	23,717	X	99,051	5,805	X
A.5 Other loans	10,018,453	X	70	559,783	X	901	9,961,216	X	34,592	139,948	X	5,697	54,326,755	X	416,648	20,143,739	X	70,938
Total	**10,042,647**	**102,194**	**70**	**562,770**	**2,080**	**901**	**10,231,124**	**158,896**	**34,592**	**139,985**	**4**	**5,697**	**62,845,365**	**2,909,920**	**416,648**	**21,595,931**	**524,314**	**70,938**
B. "Off-balance" sheet exposures																		
B.1 Doubtful loans	-	-	X	-	-	X	7	31	X	-	-	X	81,766	76,607	X	605	5	X
B.2 Substandard loans	-	-	X	5	-	X	2,251	29	X	-	-	X	64,917	13,165	X	3,573	41	X
B.3 Other non-performing assets	-	-	X	-	-	X	309	3	X	-	-	X	73,149	11,893	X	240	25	X
B.4 Other loans	777,280	X	-	167,528	X	-	697,808	X	-	14,504	X	-	8,023,718	X	18	493,645	X	3
Total	**777,280**	**-**	**-**	**167,533**	**-**	**-**	**700,375**	**63**	**-**	**14,504**	**-**	**-**	**8,243,550**	**101,665**	**18**	**498,063**	**71**	**3**
31/12/2011	**10,819,927**	**102,194**	**70**	**730,303**	**2,080**	**901**	**10,931,499**	**158,959**	**34,592**	**154,489**	**4**	**5,697**	**71,088,915**	**3,011,585**	**416,666**	**22,093,994**	**524,385**	**70,941**
31/12/2010	**9,615,310**	**24,071**	**210**	**718,987**	**2,054**	**1,064**	**16,169,409**	**321,362**	**64,257**	**162,683**	**5**	**3,120**	**76,144,709**	**2,975,151**	**429,540**	**20,751,535**	**500,969**	**64,717**

B.2 Banking group - Geographical breakdown of cash and "off-balance sheet" exposures to customers (book values)

(in thousands of euro)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	3,623,711	2,230,886	20,112	74,192	17,335	63,949	3,176	534	8,932	17,171
A.2 Substandard loans	3,801,942	802,133	60,987	135,437	1,689	83	2,048	1,149	8	2
A.3 Restructured loans	2,287,373	328,602	53,782	12,767	-	-	-	-	30,560	914
A.4 Past due loans	346,744	23,040	7,899	6,534	22	-	1,608	15	-	-
A.5 Other loans	91,502,293	507,676	2,617,265	11,653	607,209	2,013	60,376	7,372	362,751	132
Total	**101,562,063**	**3,892,337**	**2,760,045**	**240,583**	**626,255**	**66,045**	**67,208**	**9,070**	**402,251**	**18,219**
B. "Off-balance" sheet exposures										
B.1 Doubtful loans	65,034	76,644	-	1	-	-	-	-	17,340	-
B.2 Substandard loans	65,524	13,233	2,231	-	-	-	2,995	-	-	-
B.3 Other non-performing assets	72,905	11,921	795	-	-	-	-	-	-	-
B.4 Other loans	9,623,979	308	521,534	3	13,779	-	88	-	15,103	-
Total	**9,827,442**	**102,106**	**524,560**	**4**	**13,779**	**-**	**3,083**	**-**	**32,443**	**-**
31/12/2011	**111,389,505**	**3,994,443**	**3,284,605**	**240,587**	**640,034**	**66,045**	**70,291**	**9,070**	**434,694**	**18,219**
31/12/2010	**118,611,027**	**3,961,369**	**3,997,083**	**386,517**	**789,284**	**20,338**	**67,448**	**10,484**	**97,792**	**7,813**

B.3 Banking group - Geographical breakdown of cash and "off-balance sheet" exposures to banks (book values)

(in thousands of euro)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	-	-	1,829	23,883	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-
A.4 Past due loans	-	-	-	-	-	-	-	-	-	-
A.5 Other loans	5,559,279	179	3,738,295	41	305,922	-	54,195	-	5,757	-
Total	**5,559,279**	**179**	**3,740,124**	**23,924**	**305,922**	**-**	**54,195**	**-**	**5,757**	**-**
B. "Off-balance" sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Other loans	2,073,038	(212,950)	841,677	-	79,612	-	174,088	-	12,768	-
Total	**2,073,038**	**(212,950)**	**841,677**	**-**	**79,612**	**-**	**174,088**	**-**	**12,768**	**-**
31/12/2011	**7,632,317**	**(212,771)**	**4,581,801**	**23,924**	**385,534**	**-**	**228,283**	**-**	**18,525**	**-**
31/12/2010	**7,769,322**	**300**	**5,145,093**	**66,787**	**219,489**	**1**	**280,394**	**-**	**112,415**	**-**

B.4 Large risks

With the 6th Update of Circular no. 263 “New prudential regulatory provisions for banks” of 27 December 2010, prudential regulations on risk concentration has been revised to align it with the provisions of Directive 2009/111/EC. The new legislation entered into force as from 31 December 2010 defines as “large risks” the exposures of the Group towards a customer or a group of related customers if they are greater than or equal to 10% of the consolidated regulatory capital.
Unlike that required by the law previously in force, “large risks” are determined by referring to the book value of the “exposures” without applying the required weighting factors. The legislation previously in force required to consider exposures after applying weighting factors.

Based on current regulations, as at 31 December 2011, there were 2 risk positions classified as “large risks” for a total exposure of euro 12,926 million corresponding to a risk position (weighted exposure) of euro 589.7 million.
The first exposure to risk of euro 9,509 million (euro 0 million considering the weighting factors) is represented by the Ministry of Treasury and is predominantly formed by Government securities in the Group portfolios.

	31/12/2011	31/12/2010
Number of risk positions	2	4
Book value (*)	12,926,129	20,220,316
Weighted value (*)	589,722	1,647,416

(*) in thousands of euro

C. Securitisations and sales of assets

C.1 Securitisation transactions

QUALITATIVE INFORMATION

Securitisations that in recent years were used as a strategic funding channel within the global action plan aiming at satisfying the Group’s financial requirements, are gradually replaced today by issuing Guaranteed Bank Bonds. This resulted in the closing of some existing securitisation transactions in order to use the relevant loans as underlyings of the Covered Bond issues (see Paragraph C.3 Covered Bond transactions). 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. To this end, the Group set up a dedicated structure located in the Parent Company’s Finance Department that can autonomously organise the securitisations and Covered Bond issues. The collateralised portfolios of the performed transactions are constantly monitored by way of monthly and quarterly reports detailing the performance of principal and interest collections and the loan status.

Transactions entered into after 1 January 2004 under IAS/IFRS are not considered a sale without recourse, as the Group maintains the risks and benefits of the transaction and as such do not qualify for derecognition pursuant to IAS 39. At Group level, the maintenance of the majority of the risks and benefits involves, as per SIC 12, calls for the SPEs to be fully consolidated despite the absence of an investment in the SPE’s share capital. As a result of this consolidation, assets sold and not derecognised are offset by the securities issued by the SPE to finance the transaction sold to third parties.

Securitisations that have been “fully derecognised” 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 (acquired in the second half of 2009) whose assets were recognised in the financial statements. 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 securitisation as at 31 December 2011.

Securitisations characterised by the full subscription by the Group of the debt securities issued by the SPE are called “originated securitisations” and their exclusive purpose is funding. Banco Popolare and Banca Italease step in by subscribing senior and mezzanine funds that will be used to draw liquidity from the market through ECB refinancing transactions or repurchase agreements with market counterparts. These transactions are illustrated in Part E – Section 1 - Risks of the Banking Group. 1.3 Liquidity risk.

As at 31 December 2011, there were 17 securitisation transactions outstanding via 13 special purpose entities, as shown below:

SPEs		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) Credito Bergamasco (2)	June 2007	BP Mortgages 2	Performing residential mortgage loans
2.	BP Mortgages S.r.l.	Banco Popolare (former BPV) (1) (3)	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) (4)	June 2004	Residential	Performing residential mortgage loans
	Former Italease Group				
Securitisations not derecognised and derecognised from the financial statements (5)					
4.	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease, Mercantile Leasing	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, Mercantile Leasing	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
9.	Italease Finance S.p.A	Banca Italease	June 2004	ITA 6	Performing leases

SPEs		Originator	Securities issue date	Transaction	Type of securitisation
Securitisations fully derecognised from the financial statements					
	Banco Popolare Group				
10.	Tiepolo Finance II S.r.l.	SGC BP	April 2003	Tiepolo 2	Non-performing mortgage and ordinary loans
11.	Tiepolo Finance S.r.l.	Banco Popolare (former BPL, former CR Lucca)	June 2001	Tiepolo	Non-performing mortgage and ordinary loans

SPEs		Originator	Securities issue date	Transaction	Type of securitisation
Originated securitisations not derecognised from the financial statements					
	Banco Popolare Group				
12.	BPL Mortgages S.r.l.	Banco Popolare (former BPV, former BPN , former BPL, former CR Lucca, former Cremona, former Crema), Credito Bergamasco	July 2009	BPL Mortgages 4	Performing residential and commercial mortgages
13.	BPV Mortgages S.r.l.	Banco Popolare (former BPV, former BPN, former BPL), Credito Bergamasco	June 2009	BPV Mortgages	Performing residential mortgage loans
	Former Italease Group				
14.	Italfinance RMBS S.r.l	Banca Italease	November 2008	Italfinance RMBS 1	Residential mortgages
Originated securitisations not derecognised and derecognised from the financial statements (5)					
	Former Italease Group				
15.	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease, Mercantile Leasing	January 2009	ITA 11	Performing leases
16.	Pami Finance S.r.l	Banca Italease, Mercantile Leasing	October 2008	Quicksilver	Performing leases
17.	Italfinance Securitization Vehicle 2 S.r.l	Banca Italease, Mercantile Leasing	May 2008	ITA 10	Performing leases

(1) Note that following the reorganisation of branches on 1 August 2011, Credito Bergamasco joined the transaction.

(2) Note that following the branch reorganisation on 1 December 2008 involving Banca Popolare di Lodi and Banca Popolare di Novara, Banca Popolare di Lodi joined the transaction.

(3) Note that following the branch reorganisation on 1 November 2008 involving Banca Popolare di Lodi and Banca Popolare di Verona, Banca Popolare di Lodi joined the transaction.

(4) Note that following the branch reorganisation on 1 November 2008 and 1 December 2008 conducted by Banca Popolare di Lodi to the benefit of Banca Popolare di Verona and Banca Popolare di Novara, the latter joined the transaction.

(5) Transactions of the Italease Group, with the exclusion of Italfinance RMBS 1, were partially derecognised from the financial statements, insofar as they refer to the derecognised portfolio of securitised loans whose risks and benefits have been transferred to Alba Leasing under the "Agreement on securitised loans".

Performance of securitisation transactions

In relation to the performance of BP Mortgages 1 and BP Mortgages 2 securitisations from 2010 onwards, with specific reference to the increase in default and delinquent mortgages, which led to the use of cash reserve, the rating agencies have placed the two operations on "negative watch". As a result, in March 2011, the Originator Banks granted Subordinated Loans amounting to a total of euro 39.3 million, with a view to bring the cash reserve up to target level and to cancel the Principal Deficiency Ledger" by redeeming the principal of the securities. In 2011, Moody's upgraded its rating of the mezzanine securities of the BP Mortgages 1 transaction, while S&P's downgraded the mezzanine security (class B) of both transactions; furthermore, S&P's downgraded the senior securities of BP Mortgages 1 and BP Mortgages 2 (from "AAA" to "AA-"). In February 2012, Moody's downgraded its rating of the senior security of BP Mortgages 1 and BP Mortgages 2 from "Aaa" to "Aa2" while S&P's downgraded the senior security and the mezzanine security (class B) of BP Mortgages 2, bringing them to "A+".

As regards the securitisation carried out via the Special Purpose Entity Bipitalia Residential, in February 2011, the rating agency Fitch upgraded the Class B security from AA+ to AAA; while in February 2012, the senior class A2 security was downgraded by Moody's from "Aa1" to "Aa2". Note that the cumulated defaults and the unpaid mortgage loan instalments classified as Delinquent regard insignificant amounts with respect to the portfolio as a whole; however, in the last quarter of 2011, Defaults showed an upward trend with respect to previous years due to the deterioration of the economic scenario.

On 21 February 2011, the mortgage loans underlying the securitisation transaction carried out via the Special Purpose Entity BPL Mortgages in March 2009 ("Residential 2009") were repurchased by the Originator Banks; a share of the repurchased mortgage loans, which fulfilled the requirements, was transferred at the same time by the same Banks, (except for Banca Caripe, sold in 2010 to a company external to the Group) to the SPE BP Covered Bond for residual debt of approximately euro 1.8 billion; BPL Mortgages carried out the early redemption of the securities issued on the Interest Payment Date of 31 March 2011.

With reference to the requirements of the ECB, in order to be able to use the securities as collateral in refinancing operations on the interbank market, a second rating was assigned to the Senior security issued by the Special Purpose Entity BPL Mortgages ("Residential and Commercial 2009"). To enable the second rating to be obtained, several changes had to be made to the structural elements of the transaction, one of which was the increase of the target level of the Cash Reserve; in this regard, in February 2011, the Originator Banks issued Subordinated Loans to the SPE amounting to a total of euro 222.7 million. Note that in January 2012, S&P's downgraded the senior security from "AAA" to "AA+", while in February 2012, the security was downgraded by Moody's from "Aaa" to "Aa2".

With reference to the BPV Mortgages transaction, note that the underlying portfolio has not been performing well right from the start of the transaction; the rise of Default and Delinquent loans has entailed the use of the entire Cash Reserve as well as a cash shortfall (which as at 23 January 2012 was around euro 80 million and should be paid on the next Interest Payment Dates) and the overunning of the notes trigger event, which means that the structure will no longer pay an additional return until the senior class has been fully repaid. Lastly, note that following the application of new criteria regarding the rating of counterparty swaps, in June 2011, S&P's downgraded the senior security from AAA to AA, currently used by Banco Popolare as the underlying security of a structured Repo transaction with a third party.

With reference to the Sintonia Finance securitisation, a transaction derecognised from the financial statements by the Originator Banca Popolare di Cremona, in February 2011, as the Step Up date had expired, namely the option to dismantle the transaction in advance, the Originators proceeded to close the transaction in November 2011.

Securitisations not derecognised from the financial statements

BP Mortgages 2 (June 2007)

On 22 June 2007, Banca Popolare di Novara ("BPN"), now Banco Popolare by virtue of the merger that took place on 27 December 2011, and Credito Bergamasco ("Creberg"), acting as Originators, sold to the SPE BP Mortgage S.r.l. a loan portfolio of home and residential mortgage loans backed by a voluntary mortgage on the property; the portfolio sold amounted to euro 1,610 million. To raise the necessary funds to purchase the loans, on 29 June 2007 the SPE issued four classes of securities that were sold to institutional investors and listed on the "Irish Stock Exchange" and two junior securities fully subscribed by the Originators.

Loan breakdown by originator

Bank	Value 31/12/2011 (1)	Portfolio % 31/12/2011	Value 31/12/2010 (1)	Portfolio % 31/12/2010	Value at 22/06/07	Portfolio % at the selling date
Banco Popolare (*)	**476,560**	**56.83%**	**555,080**	**56.69%**	**826,811**	**53.60%**
Banco Popolare (former BPN)	*446,467*	*53.24%*	*521,049*	*53.21%*	*862,811*	*53.60%*
Banco Popolare (former BPL)(2)	*30,093*	*3.59%*	*34,031*	*3.48%*	*-*	*-*
Credito Bergamasco (3)	**362,055**	**43.17%**	**424,000**	**43.31%**	**747,008**	**46.40%**
Total	**838,615**	**100.00%**	**979,080**	**100.00%**	**1,609,819**	**100.00%**

(*) For comparative purposes, the figures have been aggregated to take into account the merger by incorporation of the Network Banks into Banco Popolare on 27 December 2011.
(1) The amounts indicated represent performing, substandard, past due, restructured and doubtful loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(2) After the branch reallocation on 1 December 2008 between Banca Popolare di Lodi and Banca Popolare di Novara, Banca Popolare di Lodi joined the operation.
(3) Following the reorganisation of branches on 1 August 2011, the percentages of the portfolio have changed in Credito Bergamasco's favour.

Issue characteristics

Classes	Type	Issue value	Value at 31/12/11	Interest rate	Maturity	Moody's/S&P/ Fitch rating
A1	Senior	147,300	-	Euribor 3 months + 0.07%		
A2	Senior (1)	1,382,000	724,236	Euribor 3 months + 0.13%	July 2044	Aaa/AA-/AAA
B	Mezzanine	28,200	28,200	Euribor 3 months + 0.25%	July 2044	Aa3/AA-/AA+
C	Mezzanine (1)	36,200	36,200	Euribor 3 months + 0.66%	July 2044	Baa1/CCC/BBB
M1	Junior (2)	8,639	8,639	Euribor 3 months + 2% plus Additional return (+)	July 2044	unrated
M2	Junior (3)	7,479	7,479	Euribor 3 months + 2% plus Additional return (+)	July 2044	unrated
	Total	**1,609,818**	**804,754**			

(1) Following their placement on the market, Banco Popolare purchased Senior securities amounting to a nominal value of euro 265.3 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 was subscribed by Creberg.
(3) The class M2 junior security was subscribed by Creberg.

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, the rating agencies have placed the transaction on "negative watch"; as a result, in March 2011, the Originator Banks granted Subordinated Loans for a total of euro 21.8 million (Creberg euro 6.6 million and Banco Popolare euro 15.2 million).

BP Mortgages 1 (March 2007)

On 16 March 2007, Banca Popolare di Verona ("BPV"), now Banco Popolare by virtue of the merger on 27 December 2011, acting as Originator Bank, sold a loan portfolio of home and residential mortgage loans to the SPE BP Mortgages S.r.l. for euro 1,476 million; to raise the necessary funds to purchase the loans, on 11 April 2007, BP Mortgages S.r.l. issued four classes of securities that were sold to institutional investors and listed on the Luxembourg Stock Exchange and a class of junior securities fully subscribed by the Originator.

Loan breakdown by originator

Bank	Value 31/12/2011 (1)	Portfolio % 31/12/2011	Value 31/12/2010 (1)	Portfolio % 31/12/2010	Value 16/03/07	Portfolio % at the selling date
Banco Popolare (*)	**621,545**	**98.96%**	**746,760**	**100.00%**	**1,476,589**	**100.00%**
Banco Popolare (former BPV)	*548,576*	*87.34%*	*662,593*	*88.73%*	*1,476,589*	*100.00%*
Banco Popolare (former BPL)(2)	*72,969*	*11.62%*	*84,167*	*11.27%*	*-*	*-*
Credito Bergamasco (3)	**6,511**	**1.04%**	**-**	**-**	**-**	**-**
Total	**628,056**	**100.00%**	**746,760**	**100.00%**	**1,476,589**	**100.00%**

(*) For comparative purposes, the figures have been aggregated to take into account the merger by incorporation of the Network Banks into Banco Popolare on 27 December 2011.
(1) The amounts indicated represent performing, substandard, past due, restructured and doubtful loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(2) Following the branch reorganisation on 1 November 2008 involving Banca Popolare di Lodi and Banca Popolare di Verona, Banca Popolare di Lodi joined the transaction.
(3) Note that following the branch reorganisation on 1 August 2011, involving Banca Popolare di Verona and Credito Bergamasco, Credito Bergamasco joined the transaction.

Issue characteristics

Classes	Type	Issue value	Value at 31/12/2011	Interest rate	Maturity	Moody's/S&P/ Fitch rating
A1	Senior	202,700	-	Euribor 3 months + 0.06%		
A2	Senior (1)	1,172,650	540,479	Euribor 3 months + 0.13%	April 2043	Aaa/AA-/AAA
B	Mezzanine	25,300	25,300	Euribor 3 months + 0.19%	April 2043	Aa2/AA-/AA+
C	Mezzanine	32,600	32,600	Euribor 3 months + 0.48%	April 2043	A3/BBB/BBB+
M	Junior (2)	14,500	14,500	Euribor 3 months + 2.5% plus Additional return	April 2043	unrated
	Total	**1,447,750**	**612,879**			

(1) Following their placement on the market, Banco Popolare purchased Senior securities amounting to a nominal value of euro 150.8 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, which 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 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, the rating agencies have placed the transaction on "negative watch"; as a result, in March 2011, Banco Popolare (formerly BPV) granted a Subordinated Loan for a total of euro 17.5 million.

Bipitalia Residential

In first half of 2004, Banca Popolare di Lodi ("BPL"), Cassa di Risparmio Lucca Pisa Livorno ("CR Lucca"), Banca Popolare di Crema ("Crema"), now Banco Popolare Soc. Coop. by virtue of the merger on 27 December 2011, finalised a securitisation transaction, by selling residential mortgage loans classified as performing loans, for a value of about 1 billion, to the SPE Bipitalia Residential, which financed the purchase by issuing bonds. Within the securitisation transaction, Banca Popolare di Lodi, now Banco Popolare, acts also as Servicer of the portfolio, with the other Banks of the Group stepping in as Sub Servicers and Società di Gestione Crediti BP S.c.p.A. as Special Servicer for delinquent loans.

Loan breakdown by originator

Bank	Value 31/12/11 (1)	Portfolio % at 31/12/11	Value 31/12/10 (1)	Portfolio % at 31/12/10	Residual debt at 17/05/04	Portfolio % at 17/05/04
Banco Popolare (*)	**220,889**	**99.14%**	**276,260**	**100.00%**	**1,002,490**	**100.00%**
Banco Popolare (former BPL)	127,330	57.15%	156,104	56.51%	576,176	57.47%
Banco Popolare (former CR Lucca)	81,057	36.38%	102,859	37.23%	375,327	37.44%
Banco Popolare (former Crema)	6,061	2.72%	9,296	3.37%	50,986	5.09%
Banco Popolare (former BPN) (2)	5,042	2.26%	6,277	2.27%	-	-
Banco Popolare (former BPV)(2)	1,399	0.63%	1,724	0.62%	-	-
Credito Bergamasco (3)	**1,916**	**0.86%**	**-**	**-**	**-**	**-**
Total	**222,805**	**100.00%**	**276,260**	**100.00%**	**1,002,490**	**100.00%**

(*) For comparative purposes, the figures have been aggregated to take into account the merger by incorporation of the Network Banks into Banco Popolare on 27 December 2011.
(1) The amounts indicated represent performing, substandard, past due, restructured and doubtful loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(2) Note that following the branch reorganisations on 1 November 2008 and 1 December 2008, Banca Popolare di Verona and Banca Popolare di Novara, now Banco Popolare joined the transaction.
(3) Note that following the branch reorganisation on 1 August 2011, involving Banca Popolare di Lodi and Credito Bergamasco, Credito Bergamasco joined the transaction.

Issue characteristics

Classes	Type	Nominal issue value	Value at 31/12/2011	Interest rate	Maturity	Fitch / Moody's rating
A1	Senior	230,000	-			
A2	Senior (1)	733,000	183,857	Euribor 3 months + 0.175%	December 2040	AAA/Aaa
B	Mezzanine	16,000	16,000	Euribor 3 months + 0.30%	December 2040	AA/Aa2
C	Mezzanine	19,000	19,000	Euribor 3 months + 0.80%	December 2040	BBB/Baa1
D	Junior	4,500	4,500	2.0 % plus Additional return	December 2040	unrated
	Total	**1,002,500**	**233,357**			

(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 on a pro-rata basis with respect to the portfolio sold.

Accessory financial transactions

Within the finalisation of the transaction, Banca Popolare di Lodi, now Banco Popolare, granted a limited recourse mortgage loan of euro 12 million as a liquidity 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.

Italease Group securitisations not derecognised and derecognised from the financial statements

As an alternative to direct indebtedness, Banca Italease and Mercantile Leasing carry out securitisation transactions with the aim of obtaining financial means necessary for their business.
A further peculiarity is represented by the Servicer's role that allows companies in charge of collecting and recovering loans to retain the full management of customer relationship.

The risks of the companies as assigning banks, due to the securitisations, are represented by securities held as long-term financial assets, subscribed by the companies themselves within such securitisation transactions, (i) "junior" tranches, i.e. with the highest subordination and (ii) "mezzanine" and "senior" tranches.

All of the positions related to the securitisations refer to its own securitisations carried out through the following special purpose entities:

- the subsidiary Italease Finance S.p.A. (assignee/issuer) for the transactions called "ITA 6" and "ITA 7";
- Italfinance Securitisation Vehicle S.r.l. (assignee/issuer) for the transaction called "ITA 8";
- Erice Finance S.r.l. (assignee/issuer) for the transaction called "ITA BEI";
- Italfinance Securitisation Vehicle 2 S.r.l. (assignee/issuer) for the transaction called "ITA 9";
- Leasimpresa Finance S.r.l. (assignee/issuer) for the transaction called "Leasimpresa 2".

In addition, Banca Italease has several originated securitisations, for which part of the loans, as a result of the transaction, were derecognised insofar as the risks and the benefits of the same were transferred to Alba Leasing under the "Agreement on securitised loans".
These transactions were carried out through the following special purpose entities:

- Italfinance Securitisation Vehicle 2 S.r.l. (assignee/issuer) for the transactions called "ITA 10" and "ITA 11";
- Pami Finance S.r.l. for the transaction called "Quicksilver".

Securitised assets refer to the entire loans portfolio sold for each single transaction and they represent a segregated asset to be used exclusively for the holders of securities issued under these this transaction and of the other lenders participating in the single transactions.

Securitised assets refer to loans deriving from performing leases entered by the companies with their customers.

On a monthly and quarterly basis, the companies monitor the performance of the underlying assets, i.e., the loans associated with leases, to verify that collections and recoveries of past due loans are efficiently managed.

The operating results of the (on and off-balance sheet) positions associated with the securitisations represent the borrowing costs incurred to cover the operating costs of the related issuer, the fees to service providers, the rights of holders of securities subscribed by third party investors.

The rating of the loans underlying the single transactions was assigned by primary rating firms, such as *Standard & Poor's, Moody's, Fitch and DBRS*.

Other information

On 27 September 2011, Banco Popolare renewed the interest guarantee for the securitisation transaction "ITA BEI". The amount of the guarantee granted is euro 7 million and expires on 21 December 2012.
In January and February 2012, the Senior Bonds of ITA 6 were downgraded respectively by Standard&Poor's and by Moody's to AA+ and Aa2, while the Mezzanine Bonds were upgraded by Standard&Poor's in July 2011 to AA.
In January and February 2012, the Senior Bonds of ITA 7 were downgraded respectively by Standard&Poor's and by Moody's to AA+ and Aa2, while the second mezzanine tranche was downgraded by Standard&Poor's in July 2011 to A+.
In July 2011 and February 2012, the Senior Bonds of ITA 8 were downgraded respectively by Standard&Poor's and by Moody's to AA and Aa2, while the second mezzanine tranche was downgraded by Standard&Poor's in July 2011 to level B.
In October 2011 and January 2012, the Senior Bonds of Leasimpresa 2 were downgraded respectively by Standard&Poor's and by Moody's to Aa2 and AA+, while the second mezzanine tranche was downgraded by Standard&Poor's in July 2011.

Trigger events

In the securitisation transactions, so-called "trigger events" can take place, which, in accordance to what is provided in the documents of the transactions, give rise to changes, structural or otherwise, to the transaction. Illustrated below is an overview of the most significant trigger events.

Events linked to the failure to fulfil certain contract obligations

Firstly, events linked to the failure to fulfil certain contract obligations are envisaged. Although they differ from transaction to transaction, the main events can be categorised as follows:

- payment default by the Issuer: the Issuer defaults on interest and principal payment on outstanding Securities for five or more working days;
- failure to fulfil other Obligations by the Issuer: failure to fulfil or non-compliance by the Issuer of commitments and obligations under the Sales Agreement or other Transaction Documents;
- breach of Declarations and Guarantees by the Issuer: any declaration and guarantee given by the Issuer in the Transaction Documents turns out to be incorrect or misleading;
- issuer insolvency;
- issuer liquidation;
- illicitness;
- unlawful: if the performance or fulfilment of obligations taken on by the Issuer with respect to the securities or any other transaction document is or becomes unlawful.

Under the above circumstances, the immediate consequence is that the payment priority is changed. Interest and principal payment of mezzanine securities[1] (if they have been issued) can take place only after senior securities have been fully repaid. Interest and principal payment of junior securities continues to be subordinated to the other classes of securities.

Moreover, should some of the above events occur, the Representative of the security holders can, either on his/her own initiative or under a resolution of the Extraordinary meeting of security holders, require the early termination of the revolving phase[2] (although still ongoing in the single securitisation transaction) and, also with the approval of the extraordinary meeting of the security holders, he/she may also sell all or part of the loans on behalf of the issuer.

Pro Rata Amortisation Condition

Also the Pro Rata Amortisation Conditions (events linked to the violation of given thresholds with respect to indicators calculated by correlating the values of securities and their underlying loans), if provided for by the single securitisation transactions, can modify the payment priority of the securities.

Causes for loan purchase suspension and Acceleration Events

In transactions in which the revolving phase is not over yet, *loan purchase suspension* causes that in practice cause the early triggering of the amortisation phase are provided for.

While in transactions in which the amortisation phase has started, it is possible to contemplate Acceleration Events that can change the securities repayment priority.

Events linked to performance measures

Finally, there are events linked to performance measures (Delinquency Ratio[3] and Default Ratio[4]), that represent the threshold levels of the measures.

These events and the relative consequences can be summarised as follows:

- *Overcollateralisation Trigger Ratio:* exceeding this implies the allocation of a cash reserve for an amount corresponding to a specific percentage with respect to the initial amount of the Senior Notes;
- *Cash Trapping Trigger*: exceeding this implies the need to withhold funds within the structure;
- *Mezzanine Trigger Ratio*: exceeding this blocks the payment of Mezzanine class coupons until Senior Series have been fully redeemed;
- *Cumulative Default Trigger Ratio*: exceeding this implies the need to withhold funds within the structure;
- *Series Trigger Ratio*: exceeding this blocks the payment of coupons of the lowest classes of coupons until the higher classes have all been fully redeemed.

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[1] *In an issue consisting of multiple tranches of securities, securities are subdivided into Senior, Mezzanine and Junior. Senior securities have priority with respect to interest and principal over other classes of debt, therefore they have a lower return. Mezzanine securities are subordinated to Senior securities but above Junior Securities, which are the most risky.*

[2] *Period in which loans falling due are replaced by others through subsequent sales.*

[3] *Delinquency Ratio: is the ratio of (a) the residual debt and the principal overdue of delinquent loans (characterised by having a periodic instalment overdue for more than 30 days but less than 180), present in the collateralised portfolio and (b) the total amount of the residual debt of the loans present in the collateralised portfolio.*

[4] *The Definition of Default Ratio can vary from one operation to another but may be briefly summarised as: 1) Net Default Ratio: the ratio of (a) the residual debt and the principal overdue of default loans (characterised by having a periodic instalment overdue for more than 180 days) during the period, net of the recoveries made and (b) the arithmetic average of the residual debt of the loans in the collateralised portfolio at the beginning and at the end of the period of reference 2) Net Cumulative Default Ratio: ratio of (a) the residual debt and the principal overdue of default loans during the transaction, net of the recoveries made and (b) the residual debt of the loans of the initial portfolio and of all the subsequent portfolios sold due to the revolving loans (in ITA 5 the denominator takes into account only the initial portfolio) 3) Gross Cumulative Default Ratio: ratio of (a) the residual debt and the principal overdue of all the default loans during the transaction (b) the residual debt of the loans of the initial portfolio and of all the subsequent portfolios sold due to the revolving loans.*

The columns of the table below list, by transaction, the performance indicators to which the threshold refers while the rows list the related trigger events described above.

	ITA 6	ITA 7	ITA 8	ITA 9 BEI	ITA 9	Leasim-presa 2	ITA 10	QUICK SILVER	ITA 11
Overcollateralisation Trigger Ratio	Net Cumulative Default Ratio	Net Cumulative Default Ratio	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash Trapping Trigger	N/A	N/A	Net Cumulative Default Ratio	N/A	Net Cumulative Default Ratio	Net Cumulative Default Ratio	Net Cumulative Default Ratio	N/A	Net Cumulative Default Ratio
Mezzanine Trigger Ratio	Net Cumulative Default Ratio	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cumulative Default Trigger Ratio	Net Cumulative Default Ratio	Net Cumulative Default Ratio	Net Cumulative Default Ratio	N/A	Net Cumulative Default Ratio	Net Cumulative Default Ratio	Net Cumulative Default Ratio	N/A	Net Cumulative Default Ratio
Series Trigger Ratio	N/A	Gross Cumulative Default Ratio	Net Cumulative Default Ratio	N/A	Net Cumulative Default Ratio	N/A	N/A	N/A	N/A

Downgrading of the rating of Banca Italease

In the securitisation transactions carried out, the downgrading of the rating of Banca Italease below given thresholds is a trigger event that can lead also to structural consequences for each securitisation transaction. Although they differ from transaction to transaction, the main aspects to be taken into consideration in case of downgrading of Banca Italease are the following:

- End of the revolving phase (if still ongoing);
- Revocation of the Servicer and replacement by the Back-Up Servicer;
- Direct payment by users on the collection accounts of the related sellers/issuers and related notification to debtors.

Securitisations fully derecognised from the financial statements

Described below are the main securitisation transactions that have been fully derecognised.

Tiepolo Finance 2

On 30 December 2002, SGC BP S c.p.A. performed a securitisation of non-performing 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 39.5 million as at 31 December 2011 (euro 49.3 million as at 31 December 2010). Within the entire transaction, Società di Gestione Crediti BP S.c.p.A acted as Servicer.
On 30 April 2003, the SPE funded the purchase of the loans through the issue of four classes of bonds: senior securities (class A) amounting to euro 170 million, fully redeemed; senior securities (class B) amounting to 15 million, fully redeemed, mezzanine securities (class C) amounting to 151 million and junior securities (class D) amounting to 150 million. The Junior securities had been initially subscribed by the Banks that had originally owned the loans under securitisation; in 2007 they were sold to a third party. Class C (mezzanine) securities were fully subscribed by Banca Popolare di Lodi, now Banco Popolare (they are unrated and have an annual return rate of 7%). On 31 December 2011, the Class C securities were completely written down; as regards the performance of the transaction, during the year, the coupons due and not paid were written down of euro 9.9 million (the coupons due and not paid amounted to a net figure of euro 36 million, the total write-down was euro 16.5 million).

Tiepolo Finance

In the second half of 2000, Banca Popolare di Lodi S.p.A. ("BPL") and Cassa di Risparmio di Lucca Pisa Livorno S.p.A. ("CR Lucca"), now Banco Popolare by virtue of the merger on 27 December 2011 carried out a securitisation of non-performing mortgage and ordinary loans. More specifically, on 30 December 2000, the doubtful 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. Within the entire transaction, Banca Popolare di Lodi, now 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 as Sub-Servicer for defaulted loans. The loans that at the selling date amounted to euro 153.5 million, as at 31 December 2011 amounted to 9.8 million (euro 11.9 million as at 31 December 2010). The bonds were split into three classes: - senior securities (class A) amounting to euro 75 million and mezzanine securities (class B) amounting to euro 30 million, fully redeemed; junior securities (class C) of euro 50.5 million, subscribed by the Originators (Six-month Euribor plus a spread of 0.40% p.a.). As at 31 December 2011, the junior securities have been fully written down; Banca Popolare di Lodi, now Banco Popolare, is due the sum of euro 9 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.1.1 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	**133,114**	**133,114**	**300,447**	**139,578**	**732,673**	**657,718**
a) non-performing	-	-	207,647	46,778	52,610	1,485
b) other	133,114	133,114	92,800	92,800	680,063	656,233
B. With third-party underlying assets	**58,331**	**58,331**	**-**	**-**	**-**	**-**
a) non-performing	-	-	-	-	-	-
b) other	58,331	58,331	-	-	-	-

Guarantees given and credit lines are omitted as not present.

C.1.2 Banking group - Exposures resulting from main "proprietary" securitisations broken down by type of securitised asset and by type of exposure

Type of securitised assets / Exposures *(in thousands of euro)*		CASH EXPOSURES					
		Senior		Mezzanine		Junior	
		Book value	Adjustments/ recoveries	Book value	Adjustments/ recoveries	Book value	Adjustments/ recoveries
A.	**Fully derecognised**	**105,405**	**-**	**99,525**	**(9,870)**	**422,164**	**(798)**
A.1	Tiepolo 1 - doubtful loans	-	-	9,063	-	1,485	(798)
A.2	Tiepolo 2 - doubtful loans	-	-	37,715	(9,870)	-	-
A.3	ITA 6 - performing lease loans	-	-	-	-	13,714	-
A.4	ITA 7 - performing lease loans	-	-	-	-	34,921	-
A.5	ITA 8 - performing lease loans	-	-	-	-	7,823	-
A.6	ITA 9Bei - performing lease loans	36,491	-	52,747	-	22,365	-
A.7	Leasimpresa2 - performing lease loans	-	-	-	-	21,411	-
A.8	ITA 9 - performing lease loans	-	-	-	-	22,519	-
A.9	ITA 10 - performing lease loans	17	-	-	-	79,417	-
A.10	Quick Silver - performing lease loans	-	-	-	-	103,871	-
A.11	ITA 11 - performing lease loans	68,897	-	-	-	114,638	-
B.	**Partially derecognised**						
C.	**Not derecognised**	**27,709**	**-**	**40,053**	**-**	**235,554**	**-**
C.1	Residential 2004 - residential mortgages	-	-	-	-	14,314	-
C.2	BP Mortgages March 2007 - mortgage loans	-	-	-	-	58,156	-
C.3	BP Mortgages June 2007 - mortgage loans	-	-	-	-	46,551	-
C.4	ITA 6 - performing lease loans	-	-	-	-	3,065	-
C.5	ITA 7 - performing lease loans	-	-	-	-	12,719	-
C.6	ITA 8 - performing lease loans	-	-	-	-	30,432	-
C.7	ITA 9Bei - performing lease loans	27,709	-	40,053	-	64,013	-
C.8	Leasimpresa2 - performing lease loans	-	-	-	-	3,072	-
C.9	ITA 9 - performing lease loans	-	-	-	-	3,232	-

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.1.3 Banking group - Exposures resulting from main "third-party" securitisations broken down by type of securitised asset and by type of exposure

Underlying asset type / Exposures **ISIN Code** ***(in thousands of euro)***		**CASH EXPOSURES**					
		Senior		**Mezzanine**		**Junior**	
		Book value	**Adjustments/ recoveries**	**Book value**	**Adjustments/ recoveries**	**Book value**	**Adjustments/ recoveries**
ES0312298005	AYT CED EUR TV 12	19,878	-	-	-	-	-
	Other						
ES0312885017	BANCAJA 6 A2 EUR /36	7,837	-	-	-	-	-
	Mortgage loans						
ES0314019003	BANKINTER/36 3A CL A	5,602	-	-	-	-	-
	Mortgage loans						
XS0208439694	CAMBER A3 04-53 TV	192	-	-	-	-	-
	Other						
ES0371622004	CEDULAS TDA EUR TV16	11,715	-	-	-	-	-
	Other						
IT0003675763	F-E GREEN TV 04-18	167	-	-	-	-	-
	Leases						
XS0206715137	G SQUARE FIN04-50 TV	39	-	-	-	-	
	Other						
ES0345782009	HIPOCAT 6A 03/34 TV	1,205	-	-	-	-	-
	Other						
IT0003428619	INTESABCI 03-23 A2	673	-	-	-	-	-
	Mortgage loans						
LU0447905216	PILLAR SECURITIS/TV	25	-	-	-	-	-
	Other						
ES0338449004	TDA CAM 2A/32 EUR TV	5,969	-	-	-	-	-
	Mortgage loans						
ES0338450002	TDA IBERCAJA 35 TV	5,029	-	-	-	-	-
	Mortgage loans						
		58,331	**-**	**-**	**-**	**-**	**-**

Guarantees given and credit lines are omitted as not present.

C.1.4 Banking group - Exposures resulting from securitisations classified by portfolio and by type

Exposure/portfolio ***(in thousands of euro)***	**Trading**	**Designated at fair value**	**Available for sale**	**Held to maturity**	**Loans**	**31/12/2011**	**31/12/2010**
1. Cash exposures	**25**	**-**	**1,716**	**-**	**683,684**	**685,425**	**825,164**
- Senior	25	xxx	231	xxx	163,480	163,736	365,782
- Mezzanine	-	xxx	-	xxx	99,525	99,525	115,833
- Junior	-	xxx	1,485	xxx	420,679	422,164	343,549
2. Off-balance sheet exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Senior						-	
- Mezzanine						-	
- Junior						-	

C.1.5 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:	**1,612,671**	**-**
A.1 Fully derecognised	429,258	X
1. Doubtful loans	8,579	X
2. Substandard loans	-	X
3. Restructured loans	-	X
4. Past due loans	-	X
5. Other assets	420,679	X
A.2 Partially derecognised	**-**	X
1. Doubtful loans	-	X
2. Substandard loans	-	X
3. Restructured loans	-	X
4. Past due loans	-	X
5. Other assets	-	X
A.3 Not derecognised	1,183,413	-
1. Doubtful loans	42,369	-
2. Substandard loans	19,347	-
3. Restructured loans	1,715	-
4. Past due loans	4,083	-
5. Other assets	1,115,899	-
B. Third-party underlying assets:	**-**	**-**
1. Doubtful loans	-	-
2. Substandard loans	-	-
3. Restructured loans	-	-
4. Past due loans	-	-
5. Other assets	-	-

C.1.6 Banking group - Shareholdings in special purpose entities

Company name	**Registered office**	**Shareholding %**
Tiepolo Finance S.r.l.	Lodi	60.00
Tiepolo Finance II S.r.l. (*)	Lodi	60.00
Bipitalia Residential S.r.l.	Milan	4.00
Italease Finance S.p.A. (**)	Milan	70.00
Italfinance Securitisation VH 1 S.r.l. (**)	Conegliano V.	9.90
BP Covered Bond S.r.l.	Milan	60.00

(*) Interest held by way of the subsidiary Società Gestione Crediti BP S.c.p.A.
(**) Interest held by way of the subsidiary Banca Italease S.p.A.

With regard to the shareholding in the SPE Italfinance Securitisation Vehicle 1, the significant influence is due to the fact that the SPE provide services exclusively to consolidated companies.

With regard to Erice, Italfinance Securitisation Vehicle 2, Leasimpresa Finance, Pami Finance and Italfinance RMBS, the significant influence is due to the fact that the same provide services exclusively to consolidated companies.

C.1.7 Banking group - Servicer activities – collection of securitised loans and redemption of securities issued by the special purpose entity

SPEs	Securitised assets (end-of-period)		Loan collections in the year		Percentage of redeemed securities (end-of-period)					
					Senior		Mezzanine		Junior	
	Non-Performing	Performing	Non-Performing	Performing	Non-performing assets	Performing assets	Non-performing assets	Performing assets	Non-performing assets	Performing assets
Tiepolo Finance	8,579		3,673		100.00%		100.00%			
Tiepolo II	35,060		12,287		100.00%					
Residential	10,361	212,444	1,429	52,294		80.91%				
BP Mortgages (March 07)	40,746	587,310	3,937	113,263		60.70%				
BP Mortgages (June 07)	62,510	776,105	5,828	121,448		52.64%				
Italease Finance - ITA 6	8,439	42,277	1,565	50,974		96.03%		91.78%		
Italease Finance - ITA 7	27,314	116,795	7,814	63,125		88.02%		74.56%		
Italease Finance Securitisation VH - ITA 8	23,304	168,809	8,086	68,910		87.13%		72.84%		
Erice Finance - ITA 9BEI	47,585	250,824	5,589	67,634		64.73%		-		
Italease Finance Securitisation VH 2 - ITA 9	34,178	452,253	24,778	194,180		73.23%		44.62%		
Leasimpresa Finance - Leasimpresa 2	27,477	231,096	8,239	135,052		79.52%		56.67%		
Italease Finance Securitisation VH 2 - ITA 10	2,076	70,437	5,269	46,755		100.00%		0.00%		0.00%
Italease Finance Securitisation VH 2 - ITA 11	9,009	162,376	2,866	73,882		79.22%		0.00%		0.00%
Pami Finance - Quicksilver	13,576	92,445	4,100	53,468		100.00%		0.00%		27.27%

C.1.8 Banking group - Special purposes entities owned by the Banking Group

Company name	Registered office
Tiepolo Finance S.r.l.	Lodi – Via Polenghi Lombardo 13
Tiepolo Finance II S.r.l.	Lodi – Via Polenghi Lombardo 13
Italease Finance S.p.A.	Milan – Via Sile 18

Shown below is a summary by SPE and by single securitisation of the main transactions described in the notes to the financial statements (and in the relevant attachment) of the financial statements of the acquiring companies and the issuing companies of the securities under Law 130/99.

Attachment to table C.1.8

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)	31/12/2011	31/12/2010
A. Securitised assets	**9,780**	**11,928**
1) Loans	9,780	11,928
- doubtful loans	9,780	11,928
- other loans	-	-
2) Securities	-	-
3) Other assets	-	-
B. Use of available funds from loan management	**2,766**	**2,590**
1) Available funds on current account	2,603	2,427
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	**26,970**	**28,658**
1) Accrued liabilities	751	625
2) Other liabilities	26,219	28,033
F. Interest expense on issued securities	**974**	**735**
G. Fees and commissions borne by the transaction	**345**	**520**
1) Servicing fees	191	366
2) Other services	154	154
H. Other expenses	**1,663**	**1,322**
1) Other interest expense	474	705
2) Other expenses	97	12
3) Adjustments on loans	1,092	605
I. Interest generated by securitised assets		
L. Other revenues	**2,698**	**3,401**
1) Interest income	81	24
2) Other revenues	2,617	3,377

Tiepolo Finance 2 S.r.l.

(in thousands of euro)	31/12/2011	31/12/2010
A. Securitised assets	**39,501**	**49,276**
1) Loans	39,501	49,276
- doubtful loans	39,501	49,276
- other loans	-	-
2) Securities	-	-
3) Other assets	-	-
B. Use of available funds from loan management	**3,916**	**4,890**
1) Available funds on current account	3,892	4,866
2) Other loans	-	-
3) Repurchase agreements	-	-
4) Other assets	24	24
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	**81,897**	**78,354**
1) Accrued liabilities	2,299	2,224
2) Other liabilities	79,598	76,130
F. Interest expense on issued securities	**13,759**	**13,759**
G. Fees and commissions borne by the transaction	**706**	**733**
1) Servicing fees	594	626
2) Other services	112	107
H. Other expenses	**7,439**	**6,335**
1) Other interest expense	-	-
2) Other expenses	2,397	1,884
3) Adjustments on loans	5,042	4,451
I. Interest generated by securitised assets	-	-
L. Other revenues	**7,613**	**9,173**
1) Interest income	53	133
2) Other revenues	7,560	9,040

Italease Finance S.p.A
ITA 6

(in thousands of euro)	31/12/2011	31/12/2010
A. Securitised assets	**52,757**	**102,991**
A1) loans	51,702	101,858
A2) securities	-	-
A3) other	1,055	1,132
B. Use of available funds from loan management	**7,204**	**13,499**
B1) debt securities	-	-
B2) equity instruments	-	-
B3) other (time deposits)	7,204	13,499
C. Issued securities	**48,379**	**102,643**
C1) Senior securities - AA+/Aa2 rating (*)	33,533	81,536
C2) Mezzanine securities - AA/A2 rating (*)	4,373	10,634
C3) Junior Securities - unrated	10,473	10,473
D. Loans received	**-**	**-**
E. Other liabilities	**11,582**	**13,847**
F. Interest expense on issued securities	**3,001**	**3,533**
G. Fees and commissions borne by the transaction	**61**	**65**
G1) servicing fees	25	43
G2) other services	36	22
- for corporate service	10	10
- for the representative of the security holders	7	7
- for payment services	6	6
- for quotation and rating services	14	-
- for computation agent service	-	-
H. Other expenses	**752**	**1,891**
- on swap basis	-	-
- for administrative procedures	712	1,617
- for losses on loans	-	224
I. Interest generated by securitised assets	**-**	**-**
L. Other revenues	**-**	**-**
- generated from use of funds	-	-

(*) Rating on the date of approval of the financial statements.

Italease Finance S.p.A
ITA 7

(in thousands of euro)	31/12/2011	31/12/2010
A. Securitised assets	**147,739**	**209,311**
A1) loans	147,607	209,156
A2) securities	-	-
A3) other	132	155
B. Use of available funds from loan management	**3,245**	**3,244**
B1) debt securities	-	-
B2) equity instruments	-	-
B3) other (time deposits)	3,245	3,244
C. Issued securities	**106,571**	**168,492**
C1) Senior securities - AA+/Aa2 rating (*)	89,436	141,807
C2) Mezzanine securities - A+/A3 rating (*)	16,310	25,860
C3) Junior Securities - unrated	825	825
D. Loans received	**-**	**-**
E. Other liabilities (accrued liabilities and deferred income)	**44,413**	**44,064**
F. Interest expense on issued securities	**8,873**	**8,378**
G. Fees and commissions borne by the transaction	**114**	**97**
G1) servicing fees	35	42
G2) other services	79	56
- for corporate service	10	10
- for the representative of the security holders	9	9
- for payment services	6	6
- for quotation and rating services	23	-
- for computation agent service	32	31
H. Other expenses	**528**	**1,926**
- on swap basis	293	281
- for administrative procedures	93	95
- for losses on loans	143	1,551
I. Interest generated by securitised assets	**9,407**	**10,346**
L. Other revenues	**108**	**55**
- interest generated from use of funds	108	55

(*) Rating on the date of approval of the financial statements.

C.2 Sale transactions

C.2.1 Banking group - Financial assets sold and not derecognised

(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 31/12/2011	TOTAL 31/12/2010
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. Cash assets																				
1. Debt securities	185,422	-	-	-	-	-	1,643,239	-	-	-	-	-	-	-	-	164,106	-	-	1,992,767	6,594,125
2. Equity instruments	29,174	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	29,174	7,058
3. UCIT	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	6,776	-	-	6,077,304	-	-	6,084,080	2,809,745
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
31/12/2011	**214,596**	**-**	**-**	**-**	**-**	**-**	**1,643,239**	**-**	**-**	**-**	**-**	**-**	**6,776**	**-**	**-**	**6,241,410**	**-**	**-**	**8,106,021**	
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	493,232	-	-	493,232	
31/12/2010	**2,707,802**	**-**	**-**	**-**	**-**	**-**	**3,780,416**	**-**	**-**	**66,008**	**-**	**-**	**56,018**	**-**	**-**	**2,800,684**	**-**	**-**		**9,410,928**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	438,637	-	-		438,637

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)

C.2.2 Banking group - Financial liabilities associated with financial assets sold and not derecognised

(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	**64,305**	**-**	**143,211**	**-**	**-**	**1,752,735**	**1,960,251**
a) relating to fully recognised assets	64,305	-	143,211	-	-	1,752,735	1,960,251
b) relating to partially recognised assets	-	-	-	-	-	-	-
B. Due to banks	**150,702**	**-**	**1,455,779**	**-**	**61,604**	**54,248**	**1,722,333**
a) relating to fully recognised assets	150,702	-	1,455,779	-	61,604	54,248	1,722,333
b) relating to partially recognised assets	-	-	-	-	-	-	-
C. Debt securities issued	**-**	**-**	**-**	**-**	**67,049**	**387,529**	**454,578**
a) relating to fully recognised assets	-	-	-	-	67,049	387,529	454,578
b) relating to partially recognised assets	-	-	-	-	-	-	-
31/12/2011	**215,007**	**-**	**1,598,990**	**-**	**128,653**	**2,194,512**	**4,137,162**
31/12/2010	**3,002,376**	**-**	**3,483,122**	**43,435**	**54,418**	**2,537,518**	**9,120,869**

C.3 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. Last year, at Group level, a long-term Programme was launched that envisages the issue of Covered Bonds ("CB"), addressed to institutional investors. The Programme was renewed and extended from the initial euro 5 billion to 10 billion in February 2011. Under the Programme, Banco Popolare acts as the single Issuing Bank of the CB and, following the merger of several network banks on 27 December 2011, acts jointly with Credito Bergamasco also as the Bank Assigning the assets pursuant to art. 7-bis of Italian Law no. 130 of 30 April 1999 and as Lending Bank. Therefore Banco Popolare plays the original role of sole Issuer of the CB as well as that of Assigning Bank and Lending Bank, having incorporated the liabilities of the SPE and the subordinated loan granted to the SPE by each of the merged banks.

Programme structure

The programme is to be carried out through the non-recourse assignment 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 and Cassa di Risparmio Lucca Pisa Livorno S.p.A, now Banco Popolare Soc. Coop. and by Credito Bergamasco S.p.A. ("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.

Subordinated loan

In connection with the sale of the assets, the Assigning Banks 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; the SPE must repay the subordinated loan on the last date of final repayment or the extended redemption date of the CB, in compliance with the applicable priority and within the limits of the funds available, without prejudice to the fact that, at each interest payment date, the 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 each time and that the tests contemplated by the regulations and by contract are observed. Interest is paid on the subordinated loan 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 (or the difference between revenues generated by the sold assets, the expenses of the transaction and losses on loans).

Bond Issues

The Programme is structured so that Banco Popolare transfers the benefits and the costs associated with the issue of the CB to the individual Assigning Banks on the basis of their percentage share in the Programme. Following the merger of the Assigning Banks into Banco Popolare, the benefits and costs related to the issue of the Covered Bonds are transferred from Banco Popolare to Credito Bergamasco according to its share in the Programme, 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.

Derivative Contracts

In relation to each transfer of loans, the SPE signs derivative contracts on interest rates called "Mortgages Pool Swap" and "Covered Bond Swap" to mitigate the interest rate risk related to the collections deriving from the assets forming the cover pool and the coupon payments that must be carried out on the Covered Bonds, which must be paid to the SPE in case of default of the Issuer. At consolidated level, the "Covered Bond Swaps", on the basis of which the SPE receives from the swap counterparts a fixed rate equal to the coupons of the Covered Bonds and pays them a variable interest rate, are aimed at neutralising the exposure to interest-rate risk of the fixed-rate Covered Bond issue.

Guarantees

The SPE, in order to guarantee the repayment of the Covered Bonds should Banco Popolare not fulfil its obligations to pay pursuant to the Covered Bonds, 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 on Covered Bonds require that the integrity of the guarantee should be ensured during the life of the Covered Bonds; to this end, the structure of the Programme contemplates a series of tests on the portfolio to make sure that the Company, if necessary, is able to pay interest and principal on the issued Covered Bonds. The tests are carried out quarterly by the Group Finance Service, the correctness of the same is verified at least every six months by the Risk Management Service; 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 the Assigning banks, by Banco Popolare, by the RON 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 remaining loans in the portfolio sold is higher than the nominal value of the Covered Bonds that have not been redeemed at that date;
- the NPV Test, which verifies that the present value of the remaining loans in the portfolio sold is higher than the present value of the Covered Bonds 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 Covered Bonds.

If the requirements of all of the tests are simultaneously met, all parties involved in the process can be paid, in accordance with the "order of payment"; in addition to the tests envisaged by Legislation, in accordance with contractual documentation, a further test on the portfolio must be conducted, required by the rating agency, with a view to maintaining a certain level of over-collateralisation: the so-called asset coverage test; in addition to the issued guarantee, the observance of the oversecuritisation ratio is the first method for the protection of subscribers, which must be maintained in time (which is the maximum ratio between Covered bonds issued and assets sold) as set by Regulation or contract. Moreover, when cash assets in the separate equity assets reach the threshold of 15% of the assets, they must be used to purchase more assets. The infringement of the regulatory and contractual tests leads to an obligation for the Assigning Banks to add to the portfolio to be created by selling the appropriate assets or suitable additional assets.

Collection and administrative management services

The collection and management of the loans sold is carried out by each Assigning Bank, which acts as servicer with regard only to the loans sold; the amounts collected on behalf of the Special Purpose Entity are paid on accounts opened with Banca Popolare di Lodi, now Banco Popolare, which acts as Interim Account Bank, and in turn will credit such amounts on a daily basis on accounts opened with BNP Paribas (Account Bank), according to the terms of a Cash Management and Agency Agreement. Banco Popolare has been requested to give a guarantee relating to the Servicing Contract to cover the obligations undertaken by the Assigning Banks acting as Servicers of the loans sold (the amount of the guarantee given on behalf of Credito Bergamasco is euro 1.7 million). Banco Popolare acts as administrative servicer, namely it provides administrative services and fulfils tax-related requirements on behalf of the SPE.

QUANTITATIVE INFORMATION

Last year, the Assigning Banks sold an overall mortgage loans portfolio to the SPE, through three assignment transactions, with a residual debt of euro 4,890.4 million and a book value as at 31 December 2010 of euro 4,565.5 million. To pay the purchase price of the loans, the SPE utilised a Subordinated revolving loan granted by the Assigning Banks for an amount equal to the purchase price of said portfolios.
In 2011, the Assigning Banks sold a further three mortgage loans portfolios; more specifically, on 21 February 2011, the sale of a 4th mortgage loans portfolio took place (resulting from assets repurchased following the unwinding of the securitisation transaction "BPL Mortgages Marzo 2009" which met the requirements) with a residual debt of euro 1,770.3 million; on 9 May 2011 a 5th mortgage loans portfolio was sold with a residual debt of euro 2,972.2 million, and on 14 November 2011, the Assigning Banks sold a 6th mortgage loans portfolio with a residual debt of euro 798.9 million.

The table below shows the overall value (in thousands of euro) of the loans sold to the SPE as at 31 December 2011:

Bank	Value at 31/12/2011 (1)	Portfolio % at 31/12/2011	Value at 31/12/2010 (1)	Portfolio % at 31/12/2010
Banco Popolare (*)	**7,843,276**	**84.23%**	**3,866,733**	**84.69%**
Banco Popolare (formerly BPV)	2,484,727	26.69%	1,255,138	27.49%
Banco Popolare (formerly BPL)	2,225,569	23.90%	1,044,228	22.87%
Banco Popolare (formerly BPN)	1,869,327	20.07%	896,691	19.64%
Banco Popolare (formerly CR Lucca)	1,263,657	13.57%	670,676	14.69%
Credito Bergamasco	**1,468,663**	**15.77%**	**698,774**	**15.31%**
Total	**9,311,939**	**100.00%**	**4,565,507**	**100.00%**

(1) The amounts indicated represent performing, substandard, past due, restructured and doubtful loans as at 31 December 2011, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) For comparative purposes, the figures have been aggregated to take into account the merger by incorporation of the Network Banks into Banco Popolare on 27 December 2011.

The table below shows non-performing loans (in thousands of euro):

Bank	Value at 31/12/2011 (1)	Portfolio % at 31/12/2011	Value at 31/12/2010 (1)	Portfolio % at 31/12/2010
Banco Popolare (*)	**69,762**	**79.49%**	**15,753**	**75.06%**
Banco Popolare (formerly BPV)	19,516	22.24%	4,115	19.61%
Banco Popolare (formerly BPL)	13,213	15.06%	2,271	10.82%
Banco Popolare (formerly BPN)	29,064	33.12%	7,724	36.80%
Banco Popolare (formerly CR Lucca)	7,969	9.08%	1,643	7.83%
Credito Bergamasco	**17,996**	**20.51%**	**5,236**	**24.94%**
Total	**87,758**	**100.00%**	**20,989**	**100.00%**

(1) The amounts indicated represent substandard, past due, restructured and doubtful loans as at 31 December 2011, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

In 2011, the mortgage loans portfolio generated collections totalling euro 1,034 million, of which euro 782 million represented principal and euro 252 million represented interest.

Bonds issued by Banco Popolare

Banco Popolare issued five Series of CB in 2010 and 2011, listed on the Luxembourg Stock Exchange, and one unlisted Registered Covered Bond; these bonds were subscribed by institutional investors or by Banco, in particular (in thousands of euro):

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	AA/A1
05/08/2010	1st Series 2nd Tranche (2)	400,000	3.625%	31/03/2017	100.432	AA/A1
16/09/2010	2nd Series 1st Tranche	800,000	3.250%	30/09/2015	99.897	AA/A1
21/10/2010	2nd Series 2nd Tranche	150,000	3.250%	30/09/2015	100.138	AA/A1
24/01/2011	Registered CB (3)	100,000	5.250%	03/04/2029	96.590	AA/A1
26/01/2011	3rd Series 1st Tranche	700,000	3.875%	31/03/2014	99.882	AA/A1
17/02/2011	3rd Series 2nd Tranche	250,000	3.875%	31/03/2014	99.126	AA/A1
14/03/2011	4th Series 1st Tranche (4)	1,250,000	4.750%	31/03/2016	99.526	AA/A1
12/05/2011	3rd Series 3rd Tranche (2)	300,000	3.875%	31/03/2014	100.129	AA/A1
30/06/2011	2nd Series 3rd Tranche (2)	300,000	3.250%	30/09/2015	96.00	AA/A1
20/10/2011	4th Series 2nd Tranche (2)	300,000	4.750%	31/03/2016	100.133	AA/A1
25/11/2011	5th Series 1st Tranche (5)	1,750,000	Eur 3M +100 bp	31/12/2013	100.000	AA/A1
	Total	**7,300,000**				

(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.
(2) The bonds were entirely subscribed by Banco Popolare, which used them for a REPOS transaction.
(3) The bonds were placed in the form of a private placement with market investors.
(4) On 16 November 2011, Banco Popolare purchased a nominal of euro 9 million and on 2 December 2011 a nominal of euro 8 million.
(5) The bonds were entirely subscribed by Banco Popolare and used as collateral in refinancing operations.
(*) Fitch rating from AAA to AA from 8 February 2012 e Moody's rating from Aa2 to A1 from 16 February 2012.

Commercial CB Programme

On 13 December 2011, Banco Popolare's Board of Directors approved the implementation of a Commercial CB Programme, the total nominal value of which will be euro 5 billion. Banco Popolare and Credito Bergamasco will jointly take part in the Commercial CB Programme as "Assigning Banks". On 7 January 2012, Banco Popolare and Credito Bergamasco sold an initial portfolio to the SPE with a residual debt of euro 1,066 million, comprised of suitable assets originating from mortgage loans on commercial and residential property. On 20 January 2012, Banco Popolare issued the first series of CB under the Commercial CB Programme for the figure of euro 900 million. It is a floating rate "soft bullet" CB (3m Euribor + 120 bps), due date of interest 20 January 2012, maturity 31 March 2014, issue price of euro 100.00. The Commercial CB programme has been structured as unrated; in this case, the rating assigned to the CB issued is equal to the corporate rating of Banco Popolare on the relative issue date. The bond was entirely subscribed by Banco Popolare and can be used as collateral in refinancing operations.

Accounting representation

In the consolidated financial statements, all the companies taking part in the issue programme (assigning banks, issuing Parent Company and SPE) are part of the Group and 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 Balance Sheet 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 2011, the book value of the mortgage loans was euro 9,311.9 million; 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 Balance sheet of these notes to the financial statements.
- The Covered Bonds issued are recorded under Debt securities issued (item 30 of Liabilities), net of the relative amounts repurchased, and are managed according to the accounting rules for fair value hedges with the hedging derivative of the interest-rate risk set by the SPE (Covered Bond Swap). Note that the bonds issued also comprise loan transactions through repurchase agreements on the series of repurchased Covered Bonds, in line with the clarifications provided in this regard by the Supervisory Body;
- the consolidated financial statements show liquid assets (item 60 Due from banks) of approximately 428 million deposited in the current accounts of the Agent bank.

D. 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.

1.2 BANKING GROUP - MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE INFORMATION

A. General aspects

The organisational model adopted by the Banco Popolare Group for the trading portfolios exposed to the interest rate risk and the price risk requires the centralisation:

- of the management of Treasury and of *Proprietary Portfolio* positions in Group Finance. The latter coordinates:
  - o the management of short term liquidity and interest rate risk and exchange risk positions within the Group;
  - o 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.
Credito Bergamasco continues to hold positions that are insignificant compared to the above portfolios, which were not centralised in the Parent Company, because they are held for specific needs and purposes of the individual bank, or are directly linked to commercial activities. Said portfolios are monitored by Banca Aletti, if deriving from trades with the commercial networks, and are represented by security tranches that are not negotiable or not immediately marketable.
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 represents the major source of interest-rate risk associated with the Parent Company's trading portfolio and is mainly comprised of bonds. The investment portfolio is characterised by a limited exposure to the interest-rate risk, ensured also by hedging with listed derivatives or over the counter plain vanillas. At the end of 2011, the bond portfolio of Banco Popolare had a nominal value of euro 850 million, made up by 26% of Italian Government bonds and the remainder by Financial and Industrial securities. Part of the portfolio consists of asset swap structures hedged against interest rate risk through derivatives (mainly plain vanilla I.R.S.). Also instruments listed as futures have been used for interest rate risk hedging. The total interest rate risk sensitivity (delta) at year-end, net of long and short exposures on the different currencies and yield curve nodes, is about euro -54,000 million, assuming a parallel 1 basis point yield curve movement. This measurement considers the associated interest rate derivatives used in the investment strategy (interest rate swap and futures) and the asset swap portfolio.
  This portfolio also presents an overall exposure to credit spread risk of about euro -1.2 million considering a 1 basis point shock. Said exposure mainly originates from Government bonds issued by the Italian State.
- The *Treasury Portfolio* of Banco Popolare reports an exposure of euro 41,800 million, concentrated on the short term nodes of the Euro curve. These exposures include positions in short term Government securities with an average duration of around 1 year, which are largely financed through repurchase agreements.

The above classification excludes a portfolio worth euro 1.2 billion of Italian Government bonds, which although classified in the trading portfolio for accounting purposes, are reclassified in the banking portfolio for supervisory purposes.

As to the price risk component, the equity portfolio includes equity securities and UCIT units, and has also maintained a low risk profile, as it is invested in bond and money market funds for about euro 109 million.

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, as well as on the markets of derivatives and OTC structured product and listed derivatives, covered by the Structured Products 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 400 million, allocated in financial securities (91%) and the remainder in corporate securities. The generated total exposure to the interest rate risk is about euro -3,000, 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 213 million. The overall exposure to credit spread risk is around euro -33,000 considering a 1 basis point shock, resulting mainly from financial securities.
- 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 allows to achieve a 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 -20,000, 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 586 million, including those deriving from trades on the Group Securities Market of euro 410 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. As to proprietary trading, worth mentioning with regard to basket trading is trading on the Spanish stock Ibex 35. This activity involves sales of index futures against cash positions on single names;
- the Equity Structured Products Function is in charge of operations in structured instruments and listed and unlisted derivatives. The destructuring of complex operations based on the underlying allows to achieve a 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 long position of about euro 7.2 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 and of Credito Bergamasco, monitored and managed by Banca Aletti or by the Parent Company's Finance Department

Please refer to the summarised account given in the consolidated report on operations.

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, 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.
During 2011, the Group continued to constantly improve the market risk management, from a technological and methodological point of view, as well as with regard to organisational processes.

In terms of methods, we draw attention, in particular to the implementation of the new risk measurements envisaged by Basel III, such as the Stressed VaR and the IRC (Incremental Risk Charge - a risk in addition to the VaR, which also takes into account the effect of the upgrade/downgrade of an issuer).

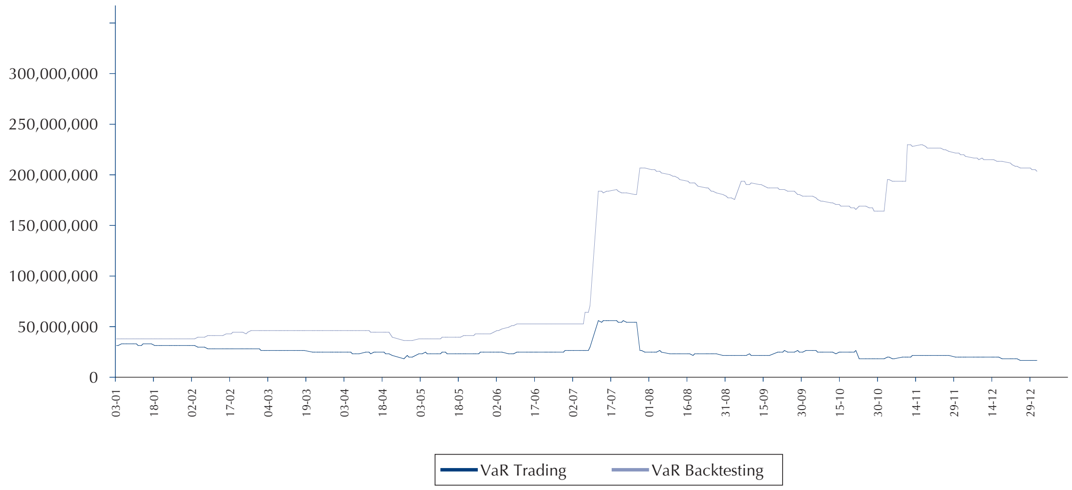
The current model covers generic risk, with the interest-rate risk, exchange-rate risk, equity risk and specific risk both of debt securities (separately measured as specific VaR) and of equity instruments (included, with the generic component, in the estimate of the equity VaR).
VaR reports are prepared, 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 and to Internal Audit.
During the year, historic and theoretical stress test exercises were carried out, which are repeated each month.
Moreover, in-depth and impact analyses have been conducted regarding the new rules of calculation of capital requirements that became effective as of 31 December 2011.
In 2011, the procedure to validate the internal market risk model was launched, which led to the formal submission of a validation request to the supervisory authority in February 2012.

QUANTITATIVE INFORMATION

Regulatory trading portfolio: internal models and other sensitivity analysis methods

The table below shows the VaR for 2011 referring to the regulatory trading portfolio (and the banking portfolio limited to the performance graph) of the Banco Popolare Group. The figures do not include the portfolios of former Italease Group.
Note that as of 1 May 2011, the risk estimation method was improved by calculating the overall VaR no longer as the sum of interest rate, equity and exchange rate risks and the VaR of the credit spread component, but as a single measurement of risk that considers the benefit of the correlation between the two types of risk.
Furthermore, as of 1 October 2011, VaR also includes correlation and dividend risks.

Daily VaR of the Banco Popolare Group
Regulatory trading portfolio and banking portfolio

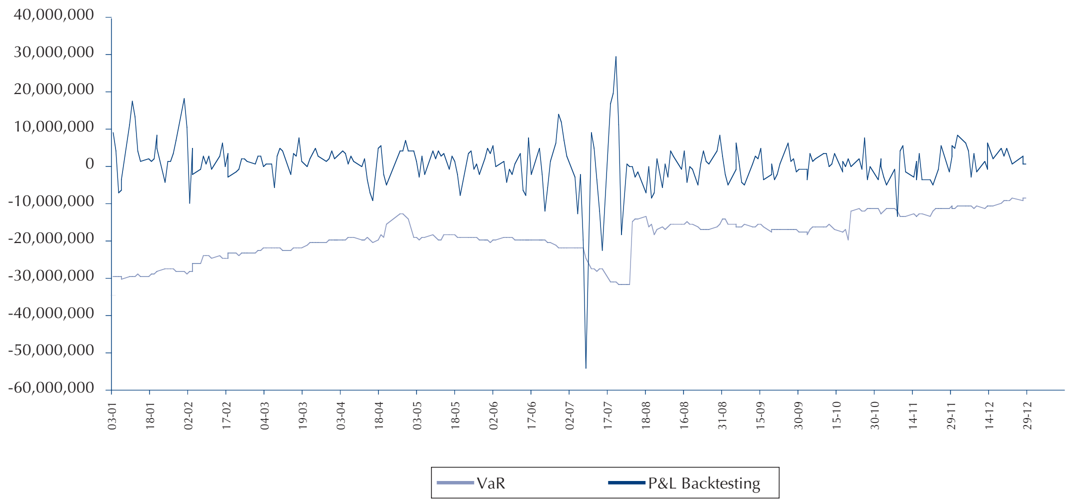


Regulatory trading portfolio *(in millions of euro)*	**31-Dec**		**2011**		
	2010	**2011**	**AVERAGE**	**MAXIMUM**	**MINIMUM**
Interest rate risk	1.452	1.419	1.466	3.938	0.696
Exchange rate risk	0.327	0.158	0.288	0.870	0.081
Equity risk	1.722	1.203	3.235	5.164	1.339
Dividends and Correlations		1.244			
Total uncorrelated	3.500	4.023			
Diversification effect	-2.002	-1.244			
Total Generic Risk	**1.498**	**2.779**			
Specific Risk Debt Securities	**27.732**	**9.097**	**18.892**	**54.068**	**8.266**
Combined Risk	**29.230**	**10.996**	**21.315**	**56.532**	**10.996**

On 11 July 2011, a substantial rise in VaR was recorded due to the sharp increase of the volatility of credit spreads. The subsequent change in the size of the portfolio on 27 July is due to the exclusion from the regulatory trading portfolio of positions in Government bonds present at the time (Italian Government bonds, which although classified in the trading portfolio for accounting purposes, are reclassified in the banking portfolio for supervisory purposes). The breakaway portfolio has been monitored from that date as regards all risk components as part of the market risk assessments of the banking book (see the following section). Over the year, this portfolio continued to be reduced.

The paragraphs below illustrate the backtesting related to the VaR method, including equity, exchange rate, interest rate and credit spread risks.
For backtesting purposes, we decided to use the equally-weighted VaR measurement instead of using a decay factor, as envisaged by supervisory regulations.

Backtesting of the Banco Popolare Group - 2011



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 mortgages 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 monitoring 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 equity changes are complied with, with possible intramonth updates in case of material transactions or significant events.
The structure in charge of managing the interest rate risk is the Parent Company's ALM & Asset Backed Funding function, which carries out this task also on behalf of the banks and subsidiary financial companies, and pursues the maximisation of the economic return from the bank's commercial activity in compliance with the set interest rate risk exposure limits.

The structure measures the interest-rate risk by way of spreadsheets prepared based on the Operating Asset & Liability Management (ALMO) procedure, in particular the simulation module analyses the mismatches between deposits and loans by aggregating positions.

Also in 2011, the Group reported a net "asset-sensitive" structural mismatch; the introduction into the monitored area of the companies of the former Banca Italease group in 2010 slightly mitigated the risk exposure of the Group, since the newly entered companies have a slightly "liability sensitive" risk profile.
As regards the methods used to estimate the risk of the banking portfolio, reference is made to what is indicated in a subsequent paragraph of this section dedicated to internal models and other analyses methods of sensitivity.

Alternative assets (funds of hedge funds) that are held for the strategic purpose of making the overall portfolio market neutral, are exposed to the price risk. For a more in-depth analysis please refer to the report on operations. 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, aiming at stabilising the net interest income, implied the specific hedging of bond issues, both fixed rate and structured.
In particular, the interest rate risk was transferred to the market by our Group Investment Bank - Banca Aletti – through specific hedges set up with OTC contracts (mainly IRS, interest rate options).
As to the accounting treatment of this hedging relation, in addition to the fair value option already in use, the Group introduced the accounting rule of micro fair value hedge adopted for new bond issues sold to institutional investors; both procedures aim at ensuring 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 – Notes to the Consolidated Balance sheet" of these explanatory notes.

In 2011, the trend of market interest rates at the beginning of the year led to the hedging of part of fixed-rate mortgage loans and the hedging of fixed-rate plain vanilla bonds issued in 2011 and in 2010, that were not initially hedged.

With regard to demand deposits, for a better and more sophisticated measurement of interest rate risk exposure, estimate models of the behavioural parameters previously implemented were used.
In 2011, the residual hedges of demand items expired and were not renewed.

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.

D. Foreign investment hedges

For a detailed analysis, reference is made to the Exchange rate risk section.

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	**64,248,176**	**19,794,227**	**4,666,298**	**2,383,246**	**11,608,628**	**2,569,888**	**4,123,209**	**440,480**
1.1 Debt securities	959	1,241,695	1,667,393	931,154	5,321,005	208,538	846,302	400,130
- with early redemption option	1	220,361	778,482	98,450	134,638	-	-	-
- others	958	1,021,334	888,911	832,704	5,186,367	208,538	846,302	400,130
1.2 Loans to banks	1,208,043	5,670,105	343,081	26,957	70,762	2,510	4	18,277
1.3 Loans to customers	63,039,174	12,882,427	2,655,824	1,425,135	6,216,861	2,358,840	3,276,903	22,073
- c/a	14,976,702	109,475	103,514	142,489	377,271	23,169	2,634	-
- other loans	48,062,472	12,772,952	2,552,310	1,282,646	5,839,590	2,335,671	3,274,269	22,073
- with early redemption option	38,312,083	3,521,916	715,587	279,964	1,752,561	1,541,217	2,825,581	-
- others	9,750,389	9,251,036	1,836,723	1,002,682	4,087,029	794,454	448,688	22,073
2. Cash liabilities	**41,248,735**	**25,889,396**	**5,006,430**	**3,557,439**	**25,374,385**	**3,797,335**	**114,416**	**10,828,740**
2.1 Due to customers	38,623,589	6,610,603	1,298,150	141,068	542,844	34,559	3,855	374
- c/a	35,715,751	553,513	40,969	924	685	9	-	-
- other payables	2,907,838	6,057,090	1,257,181	140,144	542,159	34,550	3,855	374
- with early redemption option	-	-	-	-	-	-	-	-
- others	2,907,838	6,057,090	1,257,181	140,144	542,159	34,550	3,855	374
2.2 Due to banks	2,569,753	10,673,450	1,946	402,653	598,749	9,158	186	-
- c/a	689,251	-	-	-	-	-	-	-
- other payables	1,880,502	10,673,450	1,946	402,653	598,749	9,158	186	-
2.3 Debt securities	49,507	6,417,891	3,706,334	3,013,718	24,232,792	3,753,618	110,375	10,828,366
- with early redemption option	-	1,303,957	92,770	5,407	1,080,662	-	-	10,828,366
- others	49,507	5,113,934	3,613,564	3,008,311	23,152,130	3,753,618	110,375	-
2.4 Other liabilities	5,886	2,187,452	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	5,886	2,187,452	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	550,000	8,405,276	1,234,280	2,981,813	8,910,057	3,708,934	-	-
+ short positions	91,754	7,624,126	2,073,983	859,475	4,010,300	1,439,680	1,000,000	-
3.2 Without underlying security								
- Options								
+ long positions	8,546	52,963	60,000	17	145,043	30,000	-	-
+ short positions	-	5,492	60,000	521	200,551	30,000	-	-
- Other derivatives								
+ long positions	65,266	5,617,693	1,299,274	895,868	24,616,973	2,420,546	-	-
+ short positions	1,245,533	23,200,115	8,665,921	149,661	996,975	647,304	-	-

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**	**461,006**	**703,459**	**191,938**	**48,854**	**148,831**	**229,573**	**94,792**	**-**
1.1	Debt securities	7,498	30,218	-	27,943	25,870	121	-	-
	- with early redemption option	-	3,534	-	-	-	-	-	-
	- others	7,498	26,684	-	27,943	25,870	121	-	-
1.2	Loans to banks	148,821	71,279	86,808	7,654	2,619	664	60	-
1.3	Loans to customers	304,687	601,962	105,130	13,257	120,342	228,788	94,732	-
	- c/a	112,853	-	438	-	-	-	-	-
	- other loans	191,834	601,962	104,692	13,257	120,342	228,788	94,732	-
	- with early redemption option	313	1,312	72	-	-	-	-	-
	- others	191,521	600,650	104,620	13,257	120,342	228,788	94,732	-
2.	**Cash liabilities**	**858,046**	**358,308**	**23,275**	**10,697**	**4,221**	**599**	**3**	**-**
2.1	Due to customers	802,758	160,297	12,723	8,307	3,502	-	3	-
	- c/a	802,711	72,809	7,392	1,608	4	-	-	-
	- other payables	47	87,488	5,331	6,699	3,498	-	3	-
	- with early redemption option	-	-	-	-	-	-	-	-
	- others	47	87,488	5,331	6,699	3,498	-	3	-
2.2	Due to banks	55,264	98,919	4,008	1,421	719	599	-	-
	- c/a	732	-	-	-	-	-	-	-
	- other payables	54,532	98,919	4,008	1,421	719	599	-	-
2.3	Debt securities	24	99,092	6,544	969	-	-	-	-
	- with early redemption option	-	-	-	-	-	-	-	-
	- others	24	99,092	6,544	969	-	-	-	-
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	-	-	-	-	6,208	-	-	-
3.2	Without underlying security								
	- Options								
	+ long positions	-	-	-	13	34	-	-	-
	+ short positions	-	-	-	14	38	-	-	-
	- Other derivatives								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	6,615	-	340	299	-	-	-

Banking portfolio: internal models and other sensitivity analysis methods

The Group makes use of a Strategic Asset & Liability Management procedure (ALMS) 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 and trading portfolios.
As already explained, in the banking portfolio the ALM model takes into account also deposits opened to finance the trading portfolio and measures the relevant sensitivity; for a correct matching and a consequent correct measurement of sensitivity, it is therefore necessary to extend the analysis to include the correlated trading 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 99.96%. 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 2011 compared with 2010, with regard to the banking book and trading portfolio.

Risk ratios (%)	FY 2011				FY 2010	
	31 December	Average	Maximum	Minimum	31 December	Average
For shift of + 100 bp						
Financial margin at risk / Financial margin	4.7%	5.6%	7.4%	3.4%	4.2%	7.4%
Economic value at risk / Economic value of capital	-2.5%	-1.8%	-1.2%	-2.5%	-1.8%	-1.4%
For shift of - 100 bp						
Financial margin at risk / Financial margin	-5.9%	-8.7%	-5.9%	-11.5%	-8.4%	-14.1%
Economic value at risk / Economic value of capital	3.2%	2.4%	3.2%	1.8%	2.5%	2.2%

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 table below shows VaR data for 2011, referring to the banking portfolio of the Banco Popolare Group, restricted to positions related to transactions classified as AFS, CFV, L&R and HTM. As regards the graph entitled 'Daily VaR Trend', refer to the previous section.

NO Trading Portfolio *(in millions of euro)*	31-Dec		2011		
	2011	2010	Average	Maximum	Minimum
Interest rate risk	1.885	6.702	4.243	7.813	2.701
Exchange rate risk	0.001	0.095	0.065	0.122	0,000
Equity risk	3.766	4.464	3.640	4.557	2.509
Total uncorrelated	5.652	11.261			
Diversification effect	-1.938	-1.508			
Total Generic Risk	3.714	9.753			
Specific Risk Debt Securities	33.166	217.981	124.502	248.702	34.592
Combined Risk	36.880	226.586	126.268	255.960	33.593

The most important factor that impacted risk in 2011 was the increased volatility of the credit spread, which had repercussions on the specific debt securities risk component.

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 are extremely narrow for Banco Popolare's Treasury, while with respect to Banca Aletti's forex derivative trading, positions on the major currencies brush euro 10 million.
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.

With respect to Exchange rate risk, hedges equivalent to the book value (net equity) of the Hungarian subsidiary have been set up.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets and liabilities and of derivatives

(in thousands of euro)	Currencies					
	Swiss francs	**Japanese yen**	**GB pound**	**US Dollar**	**Croatian Kuna**	**Other currencies**
A. Financial assets	**325,944**	**76,130**	**200,545**	**1,287,945**	**73,067**	**125,208**
A.1 Debt securities	26,859	116	97	37,013	8,269	22,651
A.2 Equity instruments	5,857	10,957	40	18,196	-	3,728
A.3 Loans to banks	124,057	6,784	17,128	116,174	22,253	36,555
A.4 Loans to customers	169,171	58,273	183,280	1,116,562	42,545	62,274
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**8,619**	**1,256**	**6,081**	**55,278**	**23,914**	**5,777**
C. Financial liabilities	**64,519**	**24,550**	**88,078**	**849,191**	**64,925**	**129,087**
C.1 Due to banks	18,249	547	17,185	163,696	4,541	2,409
C.2 Due to customers	45,304	24,003	62,855	680,002	60,384	119,477
C.3 Debt securities	525	-	283	4,573	-	7,200
C.4 Other financial liabilities	441	-	7,755	920	-	1
D. Other liabilities	**2**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ long positions	24,115	41,015	56,773	184,877	-	10,759
+ short positions	19,109	47,299	37,551	204,471	-	2,378
- Other						
+ long positions	208,714	64,893	66,975	811,768	-	139,774
+ short positions	414,538	55,063	164,268	1,324,483	-	151,483
Total assets	**567,392**	**183,294**	**330,374**	**2,339,868**	**96,981**	**281,518**
Total liabilities	**498,168**	**126,912**	**289,897**	**2,378,145**	**64,925**	**282,948**
Mismatch (assets - liabilities)	**69,224**	**56,382**	**40,477**	**(38,277)**	**32,056**	**(1,430)**

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, and in the section “Interest rate risk and price risk – Banking portfolio.

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 Model 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 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 a Financial Product Innovation Committee, with the collaboration of key corporate managers.

Note that, based on the current 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. In any case, the percentage incidence of these instruments is bound to dwindle down over time, as the current policy followed by the Group requires that financial instruments with innovative characteristics can be entered only after a careful analysis of the reliability and accuracy of the related pricing models.

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.

Fair value of derivative positions (Fair Value in thousands of euro):

Aggregate	Lots	Fair Value	Positive fair value	Negative fair value
Total	**182,700**	**(316,774)**	**4,853,089**	**(5,169,863)**
of which: Listed derivatives	169,604	(602,804)	73,703	(676,507)
of which: OTC derivatives measured with proprietary models of the Front Office system	12,340	302,066	4,613,279	(4,311,213)
of which: OTC derivatives measured with internal models developed by Banca Aletti's finance engineering	746	(16,036)	148,225	(164,261)
of which: OTC derivatives measured by external contributors	10	-	17,882	(17,882)

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading portfolio: year-end notional and average values

Underlying assets / Types *(in thousands of euro)*	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	213,628,569	3,379,059	176,518,468	7,531,321
a) Options	51,499,907	-	49,298,509	1,200,000
b) Swap	162,128,662	-	126,845,152	-
c) Forward	-	-	374,807	59
d) Futures	-	3,379,059	-	6,331,262
e) Other	-	-	-	-
2. Equity instruments and share indices	14,480,330	2,887,339	16,847,675	2,756,871
a) Options	14,464,330	2,653,405	16,847,325	2,468,356
b) Swap	16,000	-	-	-
c) Forward	-	-	350	15,150
d) Futures	-	233,934	-	273,365
e) Other	-	-	-	-
3. Currencies and gold	3,111,455	-	4,685,387	-
a) Options	1,066,671	-	1,352,934	-
b) Swap	19,600	-	39,200	-
c) Forward	2,025,184	-	3,293,253	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	9,719	113,356	1,908	146,957
5. Other underlyings	-	-	-	-
Total	**231,230,073**	**6,379,754**	**198,053,438**	**10,435,149**
Average values	**302,540,781**	**8,420,592**	**180,306,621**	**1,865,546**

A.2 Banking portfolio: year-end notional and average values

A.2.1 Hedging

Underlying assets / Types *(in thousands of euro)*	31/12/2011		31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	24,073,024	-	14,937,894	-
a) Options	240,000	-	423,235	-
b) Swap	23,833,024	-	14,514,659	-
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 underlyings	-	-	-	-
Total	**24,073,024**	**-**	**14,937,894**	**-**
Average values	**17,329,146**	**-**	**14,287,753**	**-**

A.2.2 Other derivatives

Underlying assets / Types *(in thousands of euro)*	**31/12/2011**		**31/12/2010**	
	Over the counter	**Central Counterparties**	**Over the counter**	**Central Counterparties**
1. Debt securities and interest rates	32,870,562	-	8,446,198	-
a) Options	448,758	-	431,082	-
b) Swap	32,421,804	-	8,015,116	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	4,133,995	-	3,454,047	-
a) Options	4,133,995	-	3,454,047	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	6,406	-	458,697	-
a) Options	198	-	452,686	-
b) Swap	6,208	-	6,011	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlyings	702,578	-	929,806	-
Total	**37,713,541**	**-**	**13,288,748**	**-**
Average values	***37,621,497***	**-**	***39,331,866***	**-**

A.3 Financial derivatives: gross positive fair value – breakdown by products

Portfolios / Types of derivatives *(in thousands of euro)*	**Positive fair value**			
	31/12/2011		**31/12/2010**	
	Over the counter	**Central Counterparties**	**Over the counter**	**Central Counterparties**
A. Regulatory trading portfolio:	**3,902,327**	**67,414**	**3,233,556**	**58,261**
a) Options	549,218	67,275	785,033	58,261
b) Interest rate swap	3,316,100	-	2,413,450	-
c) Cross currency swap	1,665	-	1,700	-
d) Equity swap	28	-	-	-
e) Forward	35,316	-	33,249	-
f) Futures	-	139	124	-
g) Other	-	-	-	-
B. Banking portfolio - hedging derivatives	**595,007**	**-**	**178,845**	**-**
a) Options	14,645	-	17,903	-
b) Interest rate swap	580,362	-	160,942	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**860,085**	**-**	**69,894**	**-**
a) Options	44,306	-	27,078	-
b) Interest rate swap	815,741	-	42,707	-
c) Cross currency swap	38	-	109	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**5,357,419**	**67,414**	**3,482,295**	**58,261**

A.4 Financial derivatives: negative gross fair value - breakdown by products

Portfolios / Types of derivatives (in thousands of euro)	Negative fair value			
	31/12/2011		31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Regulatory trading portfolio:	**3,615,057**	**676,843**	**2,838,970**	**809,833**
a) Options	946,880	676,704	921,405	809,833
b) Interest rate swap	2,630,528	-	1,887,833	-
c) Cross currency swap	-	-	177	-
d) Equity swap	19	-	-	-
e) Forward	37,630	-	29,431	-
f) Futures	-	139	124	-
g) Other	-	-	-	-
B. Banking portfolio - hedging derivatives	**451,480**	**-**	**234,112**	**-**
a) Options	137	-	2,954	-
b) Interest rate swap	451,343	-	231,158	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio - other derivatives	**299,809**	**-**	**52,223**	**-**
a) Options	6,296	-	28,088	-
b) Interest rate swap	293,123	-	23,934	-
c) Cross currency swap	390	-	201	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**4,366,346**	**676,843**	**3,125,305**	**809,833**

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 subjects
1) Debt securities and interest rates							
- notional value	-	7,029	30,652,282	2,212,056	1,945,764	10,692,133	3,917,600
- positive fair value	-	280	345,460	44,353	-	385,896	3,267
- negative fair value	-	11	814,712	4,581	190,521	7,562	26,272
- future exposure	-	41	178,226	8,213	8,361	54,217	35,106
2) Equity instruments and share indices							
- notional value	-	-	1,811,871	255,699	5,144,629	84,351	445,891
- positive fair value	-	-	240	101,845	-	47	-
- negative fair value	-	-	36,787	403	64,214	3,000	75,531
- future exposure	-	-	160,374	11,172	394,490	4,280	18,017
3) Currencies and gold							
- notional value	-	-	79,569	15,055	-	996,485	216,709
- positive fair value	-	-	88	588	-	17,416	1,306
- negative fair value	-	-	961	366	-	26,135	3,097
- future exposure	-	-	4,704	162	-	8,894	2,180
4) Other values							
- notional value	-	-	-	-	-	-	8,328
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	7,860
- future exposure	-	-	-	-	-	-	999

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 subjects
1) Debt securities and interest rates							
- notional value	-	-	141,898,393	22,303,312	-	-	-
- positive fair value	-	-	2,352,879	475,453	-	-	-
- negative fair value	-	-	1,858,050	323,812	-	-	-
2) Equity instruments and share indices							
- notional value	-	-	6,408,090	329,799	-	-	-
- positive fair value	-	-	131,821	3,122	-	-	-
- negative fair value	-	-	137,593	4,400	-	-	-
3) Currencies and gold							
- notional value	-	-	1,717,249	86,388	-	-	-
- positive fair value	-	-	37,085	1,149	-	-	-
- negative fair value	-	-	28,170	1,019	-	-	-
4) Other values							
- notional value	-	-	1,391	-	-	-	-
- positive fair value	-	-	22	-	-	-	11
- 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 subjects
1) Debt securities and interest rates							
- notional value	**-**	**-**	**34,883,856**	**18,331**	**-**	**-**	**191,089**
- positive fair value	-	-	938,150	-	-	-	-
- negative fair value	-	-	293,840	14,173	-	-	-
- future exposure	-	-	168,165	955	-	-	-
2) Equity instruments and share indices							
- notional value	-	-	2,221,316	156,363	-	-	1,756,316
- positive fair value	-	-	42,892	150	-	-	-
- negative fair value	-	-	6,109	150	-	-	-
- future exposure	-	-	211,067	9,682	-	-	-
3) Currencies and gold							
- notional value	-	-	87	-	-	-	111
- positive fair value	-	-	12	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	2	-	-	-	-
4) Other values							
- notional value	-	-	697,578	5,000	-	-	-
- 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 subjects
1) Debt securities and interest rates							
- notional value	**-**	**-**	**18,762,532**	**3,087,778**	**-**	**-**	**-**
- positive fair value	-	-	386,130	87,720	-	-	-
- negative fair value	-	-	340,294	96,276	-	-	57
2) Equity instruments and share indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Currencies and gold							
- notional value	-	-	6,208	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	390	-	-	-	-
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	38
- 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**	**34,760,537**	**152,129,886**	**44,339,650**	**231,230,073**
A.1	Financial derivatives on debt securities and interest rates	28,856,972	140,431,947	44,339,650	213,628,569
A.2	Financial derivatives on equity instruments and share indices	2,866,630	11,613,700	-	14,480,330
A.3	Financial derivatives on exchange rates and gold	3,035,544	75,911	-	3,111,455
A.4	Financial derivatives on other values	1,391	8,328	-	9,719
B.	**Banking portfolio**	**7,441,383**	**44,658,246**	**9,686,936**	**61,786,565**
B.1	Financial derivatives on debt securities and interest rates	6,138,041	41,118,609	9,686,936	56,943,586
B.2	Financial derivatives on equity instruments and share indices	606,649	3,527,346	-	4,133,995
B.3	Financial derivatives on exchange rates and gold	115	6,291	-	6,406
B.4	Financial derivatives on other values	696,578	6,000	-	702,578
	31/12/2011	**42,201,920**	**196,788,132**	**54,026,586**	**293,016,638**
	31/12/2010	**51,471,947**	**133,694,697**	**41,113,436**	**226,280,080**

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 a model to estimate the risk related to 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 to the resulting future exposures.
As regards repurchase agreements (SFT), an internal model is not currently used, instead the method of the present value for regulatory capital requirements is used, with the appropriate adjustments.
In the second half of 2011, a maximum risk level at overall Group level was introduced, 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. Protections bought				
a) Credit default products	262,500	-	65,341	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31/12/2011	**262,500**	**-**	**65,341**	**-**
Average values	**214,000**	**-**	**68,523**	**-**
Total 31/12/2010	**165,500**	**-**	**111,219**	**-**
2. Protection sales				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total Rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31/12/2011	**-**	**-**	**-**	**-**
Average values	**-**	**-**	**-**	**-**
Total 31/12/2010	**-**	**-**	**-**	**-**

B.2 OTC credit derivatives: positive gross fair value - breakdown by products

Portfolios / Types of derivatives *(in thousands of euro)*	Positive fair value	
	31/12/2011	31/12/2010
A. Regulatory trading portfolio	**7,546**	**1,131**
a) Credit default products	7,546	1,131
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking portfolio	**355**	**413**
a) Credit default products	355	413
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total	**7,901**	**1,544**

B.3 OTC credit derivatives: negative gross fair value - breakdown by products

Portfolios / Types of derivatives *(in thousands of euro)*	Negative fair value	
	31/12/2011	31/12/2010
A. Regulatory trading portfolio	**-**	**536**
a) Credit default products	-	536
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking portfolio	**41**	**15**
a) Credit default products	41	15
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total	**41**	**551**

B.4 OTC credit derivatives: 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 subjects
Regulatory trading							
1) Protection bought	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Protection sale	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
Banking portfolio							
1) Protection bought	**-**	**-**	**-**	**65,737**	**-**	**-**	**-**
- notional value	-	-	-	65,341	-	-	-
- positive fair value	-	-	-	355	-	-	-
- negative fair value	-	-	-	41	-	-	-
2) Protection sale							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

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 subjects
Regulatory trading							
1) Protection bought	**-**	**-**	**239,580**	**30,466**	**-**	**-**	**-**
- notional value	**-**	**-**	**232,500**	**30,000**	**-**	**-**	**-**
- positive fair value	-	-	7,080	466	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Protection sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
Banking portfolio							
1) Protection bought	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Protection sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- 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**	**120,000**	**142,500**	**-**	**262,500**
A.1	Credit derivatives with "qualified reference obligation"	-	-	-	-
A.2	Credit derivatives with "unqualified reference obligation"	120,000	142,500	-	262,500
B.	**Banking portfolio**	**56,519**	**8,822**	**-**	**65,341**
B.1	Credit derivatives with "qualified reference obligation"	33,333	8,822	-	42,155
B.4	Credit derivatives with "unqualified reference obligation"	23,186	-	-	23,186
	31/12/2011	**176,519**	**151,322**	**-**	**327,841**
	31/12/2010	**76,426**	**194,706**	**5,587**	**276,719**

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 not applied to credit derivatives.

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 subjects
1) Financial derivatives – bilateral agreements							
- positive fair value	-	-	555,989	33,669	-	-	49
- negative fair value	-	-	219,144	83,513	-	-	57
- future exposure	-	-	241,664	38,857	-	-	-
- net counterparty risk	-	-	281,608	36,106	-	-	-
2) Credit derivatives – bilateral agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) "Cross product" agreements							
- positive fair value	-	-	243,324	192,186	-	-	-
- negative fair value	-	-	29,588	-	-	-	-
- future exposure	-	-	274,363	43,131	-	-	-
- net counterparty risk	-	-	276,108	47,617	-	-	-

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 2011, the Banco Popolare Group focused on implementing the changes introduced by supervisory legislation issued in December 2010, which entailed setting the risk tolerance threshold on which the risk control and measurement systems are based as well as the limits mechanism. The Group was also required to make two measurements (QIS) relating to new indicators envisaged by Basel III.
The update of the liquidity risk limits system made during the year to comply with new prudential regulations, envisages a first-level control represented by the system that monitors and controls the cumulative liquidity mismatch on the basis of the limits set by the Bank of Italy, 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 ALM and Asset Backed Funding 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 securities eligible for refinancing with the European Central Bank, after the required haircuts have been applied.
In 2011, the Group continued to issue Covered Bonds, which were also used as collateral for access to instruments made available by the ECB in order to provide liquidity to the European banking system.

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 and 3 months**	**Between 3 months and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Undefined term**	**Total**
Cash assets	**28,470,652**	**1,592,643**	**777,730**	**3,951,069**	**5,043,618**	**4,496,401**	**7,597,136**	**31,746,172**	**31,449,212**	**69,606**	**115,194,239**
A.1 Government securities	140	-	-	109,960	283,089	739,276	1,410,514	5,699,931	1,516,347	-	9,759,257
A.2 Other debt securities	1,523	190	16,730	72,084	45,053	92,423	551,417	2,151,766	1,263,499	28,281	4,222,966
A.3 UCIT units	22,144	-	-	-	-	-	-	-	-	812	22,956
A.4 Loans:	28,446,845	1,592,453	761,000	3,769,025	4,715,476	3,664,702	5,635,205	23,894,475	28,669,366	40,513	101,189,060
- Banks	1,167,351	1,403,958	51,932	2,290,244	1,921,084	341,353	28,195	114,462	3,509	17,786	7,339,874
- Customers	27,279,494	188,495	709,068	1,478,781	2,794,392	3,323,349	5,607,010	23,780,013	28,665,857	22,727	93,849,186
Cash liabilities	**40,789,575**	**929,329**	**1,136,749**	**2,759,662**	**3,171,513**	**2,671,095**	**5,193,053**	**49,326,322**	**7,573,371**	**144,262**	**113,694,931**
B.1 Deposits	38,861,289	151,189	265,416	599,267	304,464	169,559	494,798	10,067,660	35,953	-	50,949,595
- Banks	1,551,722	2,796	230	315,290	12,424	260	400,057	10,006,880	3,640	-	12,293,299
- Customers	37,309,567	148,393	265,186	283,977	292,040	169,299	94,741	60,780	32,313	-	38,656,296
B.2 Debt securities	39,787	47,695	16,317	697,709	1,347,499	1,615,558	4,441,528	37,032,411	6,734,497	144,262	52,117,263
B.3 Other liabilities	1,888,499	730,445	855,016	1,462,686	1,519,550	885,978	256,727	2,226,251	802,921	-	10,628,073
"Off-balance sheet" transactions											
C.1 Financial derivatives with exchange of capital											
- Long positions	-	666,301	271,588	211,916	554,531	566,123	153,999	223,139	42,025	2,397	2,692,019
- Short positions	3,025	829,921	69,221	151,587	249,148	280,873	196,695	199,404	37,381	-	2,017,255
C.2 Financial derivatives without exchange of capital											
- Long positions	3,977,712	10	133	53	24,396	142	11,104	131,483	81,624	-	4,226,657
- Short positions	3,507,462	10	6,314	282	4,911	11,196	19,168	157	-	-	3,549,500
C.3 Deposits and loans to be received											
- Long positions	-	97,350	-	-	-	-	-	-	-	-	97,350
- Short positions	-	97,350	-	-	-	-	-	-	-	-	97,350
C.4 Irrevocable commitments to disburse funds											
- Long positions	421,606	454,052	3,908	19,776	58,768	100,264	295,890	875,602	518,212	55,142	2,803,220
- Short positions	2,231,890	-	-	44,330	1,312	1,413	16,357	334	408	55,142	2,351,186
C.5 Financial guarantees given	42,787	-	392	279	2,294	5,647	6,089	18,626	7,385	-	83,499

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 and 3 months**	**Between 3 months and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Undefined term**	**Total**
Cash assets	**55,126**	**13,776**	**5,853**	**8,012**	**21,695**	**13,496**	**95,446**	**15,246**	**20,032**	**-**	**248,682**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	24,001	2,858	-	-	26,859
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	55,126	13,776	5,853	8,012	21,695	13,496	71,445	12,388	20,032	-	221,823
- Banks	23,400	10,056	-	-	8,226	8,226	65,811	-	-	-	115,719
- Customers	31,726	3,720	5,853	8,012	13,469	5,270	5,634	12,388	20,032	-	106,104
Cash liabilities	**42,512**	**295**	**791**	**78**	**361**	**1,428**	**596**	**194**	**-**	**-**	**46,255**
B.1 Deposits	42,510	295	791	78	340	924	596	194	-	-	45,728
- Banks	831	-	329	-	-	-	-	-	-	-	1,160
- Customers	41,679	295	462	78	340	924	596	194	-	-	44,568
B.2 Debt securities	-	-	-	-	21	504	-	-	-	-	525
B.3 Other liabilities	2	-	-	-	-	-	-	-	-	-	2
"Off-balance sheet" transactions											
C.1 Financial derivatives with exchange of capital											
- Long positions	-	171,176	9,582	-	17,109	7,742	25,400	-	117	-	231,126
- Short positions	-	173,442	149,046	123	75,756	12,249	20,223	-	-	2,395	433,234
C.2 Financial derivatives without exchange of capital											
- Long positions	3,198	-	-	-	-	-	-	-	-	-	3,198
- Short positions	4,567	-	-	-	-	-	-	-	-	-	4,567
C.3 Deposits and loans to be received											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- Long positions	467	-	-	2,806	-	-	-	1	15	51	3,340
- Short positions	483	2,806	-	-	-	-	-	-	-	51	3,340
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-	-

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 and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Undefined term	Total
Cash assets	**37,107**	**823**	**730**	**5,861**	**6,739**	**10,339**	**1,490**	**701**	**1,446**	**-**	**65,236**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	116	-	116
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	37,107	823	730	5,861	6,739	10,339	1,490	701	1,330	-	65,120
- Banks	6,784	-	-	-	-	-	-	-	-	-	6,784
- Customers	30,323	823	730	5,861	6,739	10,339	1,490	701	1,330	-	58,336
Cash liabilities	**31,157**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31,157**
B.1 Deposits	31,157	-	-	-	-	-	-	-	-	-	31,157
- Banks	547	-	-	-	-	-	-	-	-	-	547
- Customers	30,610	-	-	-	-	-	-	-	-	-	30,610
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
"Off-balance sheet" transactions											
C.1 Financial derivatives with exchange of capital											
- Long positions	-	55,392	20,270	1,681	6,599	19,806	2,283	837	49	-	106,917
- Short positions	-	31,274	21,191	-	36,948	1,465	29	107	63	-	91,077
C.2 Financial derivatives without exchange of capital											
- Long positions	2,444	-	-	-	-	-	-	-	-	-	2,444
- Short positions	2,075	-	-	-	-	-	-	-	-	-	2,075
C.3 Deposits and loans to be received											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- Long positions	-	-	-	-	1,996	27	-	-	250	-	2,273
- Short positions	-	2,273	-	-	-	-	-	-	-	-	2,273
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-	-

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 and 3 months**	**Between 3 months and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Undefined term**	**Total**
Cash assets	**19,207**	**2,639**	**2,344**	**3,181**	**3,984**	**787**	**1,004**	**50,960**	**92,275**	**-**	**176,381**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	71	-	30	-	-	101
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	19,207	2,639	2,344	3,181	3,984	716	1,004	50,930	92,275	-	176,280
- Banks	15,270	1,795	-	-	-	-	-	-	-	-	17,065
- Customers	3,937	844	2,344	3,181	3,984	716	1,004	50,930	92,275	-	159,215
Cash liabilities	**54,776**	**13,308**	**2,998**	**5,690**	**687**	**311**	**321**	**41**	**-**	**-**	**78,132**
B.1 Deposits	54,775	13,308	2,998	5,690	625	275	137	-	-	-	77,808
- Banks	162	13,109	-	3,915	-	-	-	-	-	-	17,186
- Customers	54,613	199	2,998	1,775	625	275	137	-	-	-	60,622
B.2 Debt securities	1	-	-	-	62	36	184	-	-	-	283
B.3 Other liabilities	-	-	-	-	-	-	-	41	-	-	41
"Off-balance sheet" transactions											
C.1 Financial derivatives with exchange of capital											
- Long positions	-	23,311	1,799	35,028	30,413	22,312	8,848	180	-	-	121,891
- Short positions	-	72,039	33,592	14,027	66,083	15,408	735	29	-	-	201,913
C.2 Financial derivatives without exchange of capital											
- Long positions	2,447	-	-	-	-	-	-	40	-	-	2,487
- Short positions	4,604	-	-	-	-	-	-	40	-	-	4,644
C.3 Deposits and loans to be received											
- Long positions	-	1,042	-	-	-	-	-	-	-	-	1,042
- Short positions	-	1,042	-	-	-	-	-	-	-	-	1,042
C.4 Irrevocable commitments to disburse funds											
- Long positions	-	-	-	7	-	-	115	5,351	1,778	4	7,255
- Short positions	7,244	7	-	-	-	-	-	-	-	4	7,255
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-	-

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 and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Undefined term	Total
Cash assets	**294,024**	**26,414**	**45,684**	**132,405**	**188,727**	**58,535**	**30,403**	**204,582**	**238,136**	**1**	**1,218,911**
A.1 Government securities	-	-	-	-	-	35	-	23,018	7,498	-	30,551
A.2 Other debt securities	-	-	-	-	181	489	165	1,423	4,193	1	6,452
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	294,024	26,414	45,684	132,405	188,546	58,011	30,238	180,141	226,445	-	1,181,908
- Banks	72,657	10,896	8,612	3,278	6,976	11,789	5,797	-	-	-	120,005
- Customers	221,367	15,518	37,072	129,127	181,570	46,222	24,441	180,141	226,445	-	1,061,903
Cash liabilities	**639,628**	**34,723**	**10,026**	**45,930**	**63,567**	**11,444**	**4,275**	**839**	**89**	**-**	**810,521**
B.1 Deposits	589,580	34,723	9,471	43,739	59,223	9,476	3,518	839	89	-	750,658
- Banks	3,592	27,377	958	1	46,837	-	1,005	-	-	-	79,770
- Customers	585,988	7,346	8,513	43,738	12,386	9,476	2,513	839	89	-	670,888
B.2 Debt securities	4	-	-	1,078	769	1,968	757	-	-	-	4,576
B.3 Other liabilities	50,044	-	555	1,113	3,575	-	-	-	-	-	55,287
"Off-balance sheet" transactions											
C.1 Financial derivatives with exchange of capital											
- Long positions	3,026	317,747	37,690	98,294	161,419	227,468	122,551	24,896	115	-	993,206
- Short positions	57	432,725	81,266	210,970	347,399	248,719	89,927	22,461	404	5	1,433,933
C.2 Financial derivatives without exchange of capital											
- Long positions	13,429	-	-	-	-	-	-	-	-	-	13,429
- Short positions	14,372	-	-	-	-	-	-	-	-	-	14,372
C.3 Deposits and loans to be received											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- Long positions	-	-	90	5,654	1,745	3,230	391	1,222	9,994	32	22,358
- Short positions	11,928	10,302	-	-	-	127	-	-	-	-	22,357
C.5 Financial guarantees given	24	-	-	-	-	-	-	-	-	-	24

Currency of denomination: Croatian Kuna *(in thousands of euro)*	**On demand**	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 months and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Undefined term**	**Total**
Cash assets	**5,737**	**2,381**	**708**	**2,890**	**14,183**	**9,262**	**13,613**	**19,259**	**5,034**	**-**	**73,067**
A.1 Government securities	-	-	-	-	4,206	-	3,942	-	121	-	8,269
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	5,737	2,381	708	2,890	9,977	9,262	9,671	19,259	4,913	-	64,798
- Banks	67	2,381	399	1,250	3,350	3,231	5,913	4,691	971	-	22,253
- Customers	5,670	-	309	1,640	6,627	6,031	3,758	14,568	3,942	-	42,545
Cash liabilities	**157**	**12,599**	**1,317**	**6,038**	**14,486**	**15,234**	**6,121**	**7,288**	**1,671**	**-**	**64,911**
B.1 Deposits	157	12,599	1,317	6,036	14,486	11,227	5,756	7,222	1,631	-	60,431
- Banks	-	-	-	-	-	-	50	-	-	-	50
- Customers	157	12,599	1,317	6,036	14,486	11,227	5,706	7,222	1,631	-	60,381
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	2	-	4,007	365	66	40	-	4,480
"Off-balance sheet" transactions											
C.1 Financial derivatives with exchange of capital											
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
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	237	1	11	7	213	106	194	76	61	-	906
- Short positions	237	1	11	7	213	106	194	76	61	-	906
C.5 Financial guarantees given	-	-	-	-	13	11	53	17	-	-	94

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 and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Undefined term	Total
Cash assets	**47,673**	**30,637**	**1,333**	**180**	**21,976**	**3,919**	**2,472**	**10,389**	**2,451**	**-**	**121,030**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	22,247	-	19	-	-	-	392	-	-	22,658
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	47,673	8,390	1,333	161	21,976	3,919	2,472	9,997	2,451	-	98,372
- Banks	30,627	5,310	-	-	1	-	-	-	123	-	36,061
- Customers	17,046	3,080	1,333	161	21,975	3,919	2,472	9,997	2,328	-	62,311
Cash liabilities	**89,656**	**11,295**	**5,202**	**9,422**	**5,829**	**6,785**	**533**	**809**	**90,211**	**-**	**219,742**
B.1 Deposits	89,651	11,295	5,202	8,405	3,729	2,749	505	809	559	-	122,904
- Banks	53	78	-	1,071	-	1	1	653	559	-	2,416
- Customers	89,598	11,217	5,202	7,334	3,729	2,748	504	156	-	-	120,488
B.2 Debt securities	5	-	-	1,017	2,100	4,036	28	-	89,652	-	96,838
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
"Off-balance sheet" transactions											
C.1 Financial derivatives with exchange of capital											
- Long positions	-	21,398	14,348	24,147	33,283	32,526	20,102	5,539	95	-	151,438
- Short positions	-	54,118	4,374	1,624	46,980	36,705	13,464	1,978	28	-	159,271
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	806	-	-	-	108	711	1,213	262	115	-	3,215
- Short positions	806	-	-	-	108	711	1,213	262	115	-	3,215
C.5 Financial guarantees given	9	-	-	-	-	30	315	695	1,711	-	2,760

As described in Part E – Section 1 – Risks of the Banking Group – 1.1 Credit Risk - C. Securitisations and asset sales, 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 2011 are shown below.

Originated securitisations

BPL Mortgages 4 (July 2009)

The securitisation transaction in question was originated by the following Group Banks ("Originator Banks"): Banca Popolare di Verona SGSP S.p.A. ("BPV"), Banca Popolare di Novara S.p.A.("BPN"), Banca Popolare di Lodi S.p.A. ("BPL"), Cassa di Risparmio di Lucca Pisa e Livorno S.p.A. ("CR Lucca"), Banca Popolare di Cremona S.p.A. ("Cremona") and Banca Popolare di Crema S.p.A. ("Crema"), now Banco Popolare Soc. Coop. following the merger on 27 December 2011, and Credito Bergamasco S.p.A. ("Creberg"). The transaction was carried out in two stages: - on 16 June 2009, the Originator Banks sold a portfolio of performing residential and commercial mortgage loans and loans backed by voluntary mortgages on residential and commercial property for a total nominal amount of euro 3,990.4 million to the SPE BPL Mortgages S.r.l.; - on 30 July 2009, two classes of bonds were issued (Class A Senior and Class B Junior). The Originator Banks acted as Servicers and managed the loan collection.

Loan breakdown by Originator

Bank	Value at 31/12/2011 (1)	Portfolio % at 31/12/2011	Value at 31/12/2010 (1)	Portfolio % at 31/12/2010	Residual debt at 13/06/2009	Portfolio % at 13/06/2009
Banco Popolare (*)	**2,229,037**	**81.29%**	**2,661,192**	**83.68%**	**3,334,413**	**83.56%**
Banco Popolare (former BPV)	891,486	32.51%	1,046,624	32.90%	1,318,820	33.05%
Banco Popolare (former BPN)	490,048	17.87%	561,163	17.65%	677,499	16.98%
Banco Popolare (former BPL)	442,456	16.14%	529,390	16.65%	668,100	16.74%
Banco Popolare (former CR Lucca)	243,792	8.89%	280,041	8.81%	356,859	8.94%
Banco Popolare (former Cremona)	80,323	2.93%	137,981	4.34%	180,250	4.52%
Banco Popolare (former Crema)	80,932	2.95%	105,993	3.33%	132,885	3.33%
Credito Bergamasco (2)	**513,141**	**18.71%**	**518,930**	**16.32%**	**656,061**	**16.44%**
Total	**2,742,178**	**100.00%**	**3,180,122**	**100.00%**	**3,990,474**	**100.00%**

(*) For comparative purposes, the figures have been aggregated to take into account the merger by incorporation of the Network Banks into Banco Popolare on 27 December 2011.
(1) The amounts indicated represent performing, substandard, past due, restructured and doubtful loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(2) Following the reorganisation of branches on 1 August 2011, the percentages of the portfolio have changed in Credito Bergamasco's favour.

Issue characteristics

On 30 July 2009, two classes of ABS securities were issued: senior securities listed on the Irish Stock Exchange and entirely subscribed by Banco Popolare, and unrated junior securities, subscribed on a pro-rata basis by the Originator Banks. The securities have the following features:

- Class A Securities (senior): bonds with yield index-linked to the 6-month Euribor plus 80 basis points spread per annum, issued at par for a nominal amount of euro 3,411.8 million (rating "AAA" S&P's and "Aaa" Moody's, six-month coupon, due May 2055); during the year securities worth euro 1,350 million were redeemed, and the residual value at 31 December 2011 was euro 2,062 million;
- Class B Securities (junior): bonds with yield equal to Additional Return, issued at par for a nominal amount of euro 578.6 million (unrated, due May 2055), subscribed on a pro-rata basis by the Originator Banks.

Accessory financial transactions

Upon issuing the notes, the SPE signed an "Interest Rate Swap" agreement with a third party, to hedge the risk of mismatching between the rates of the securitised mortgages and the yield of the issued bonds; said risk has been transferred to the Originator Banks (now just Creberg) through the subscription of back to back IRS agreements. Furthermore, Banco Popolare entered into a "Total Return Swap" agreement with the Originator Banks (now just Creberg) in order to transfer the credit risk of the senior bond subscribed by Banco Popolare to the same. As part of the process to obtain a second rating from Moody's (assigned on 28 February 2011, corresponding to "Aaa"), several changes had to be made to the structural elements of the transaction, one of which was the increase of the target level of the Cash Reserve (said level, which was initially euro 119.7 million, was increased to euro 218.2 million); in this regard, on 25 February 2011, the Originator Banks issued Subordinated Loans to the SPE amounting to a total of euro 222.7 million (Creberg euro 42.6 million, Banco Popolare euro 180.1 million); the Cash Reserve at 31 December 2011 amounted to euro 109 million.

BPV Mortgages S.r.l. (June 2009)

Since the end of 2007, several Group Banks (Originator Banks), Banca Popolare di Novara S.p.A. ("BPN"), Banca Popolare di Verona SGSP S.p.A. ("BPV"), Banca Popolare di Lodi S.p.A. ("BPL") now Banco Popolare Soc. Coop. following the merger on 27 December 2011, and Credito Bergamasco S.p.A. ("Creberg") 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 date of completion, the portfolios sold totalled 1,044.9 million. The Originator Banks acted as Servicers and handled credit collection.

Loan breakdown by Originator

Bank	Value at 31/12/2011 (1)	Portfolio % at 31/12/2011	Value at 31/12/2010 (1)	Portfolio % at 31/12/2010	Residual debt at 16/06/2009	Portfolio % at 16/06/2009
Banco Popolare (*)	**782,639**	**92.09%**	**834,347**	**92.84%**	**972,589**	**93.08%**
Banco Popolare (former BPN)	456,248	53.69%	481,422	53.57%	566,754	54.20%
Banco Popolare (former BPV)	233,306	27.45%	248,651	27.67%	284,203	27.20%
Banco Popolare (former BPL)	93,085	10.95%	104,274	11.60%	121,632	11.64%
Credito Bergamasco (2)	**67,265**	**7.91%**	**64,336**	**7.16%**	**72,302**	**6.92%**
Total	**849,904**	**100.00%**	**898,683**	**100.00%**	**1,044,891**	**100.00%**

(*) For comparative purposes, the figures have been aggregated to take into account the merger by incorporation of the Network Banks into Banco Popolare on 27 December 2011.
(1) The amounts indicated represent performing, substandard, past due, restructured and non-performing loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(2) Following the reorganisation of branches on 1 August 2011, the percentages of the portfolio have changed in Credito Bergamasco's favour.

Issue characteristics

On 16 June 2009, two classes of ABS securities were issued: senior securities listed on the Irish Stock Exchange and entirely subscribed by Banco Popolare, and unrated junior securities, subscribed on a pro-rata basis by the Originator Banks. The securities have the following features:

- Class A Securities (senior): bonds with yield index-linked to the 6-month Euribor plus 60 basis points spread per annum, issued at par for a nominal amount of euro 1,027.9 million (rating AA S&P's, six-month coupon, due July 2054); during the year securities worth euro 310 million were redeemed, and the residual value at 31 December 2011 was euro 718 million;
- Class B Securities (junior): bonds with yield equal to Additional Return, issued at par for a nominal amount of euro 128.4 million (unrated, due December 2054, subscribed on a pro-rata basis by the Originator Banks with respect to the portfolios sold.

Accessory financial transactions

Upon issuing the notes, the SPE signed an "Interest Rate Swap" agreement with a third party, to hedge the risk of mismatching between the rates of the securitised mortgages and the yield of the issued bonds; said risk has been transferred to the Originator Banks (now just Creberg) through the subscription of back to back IRS agreements. Furthermore, Banco Popolare entered into a "Total Return Swap" agreement with the Originator Banks (now just Creberg) in order to transfer the credit risk of the senior bond subscribed by Banco Popolare to the same. 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 in Default and a Liquidity Reserve that at 31 December 2011 amounted to around euro 8 million and which was invested in a Monetary Fund.

Italease Group originated securitisations not derecognised and derecognised from the financial statements

Banca Italease and Mercantile Leasing have a number of outstanding originated securitisations in which, upon issuance, the overall liabilities issued by the SPE were subscribed by the originator companies. Banca Italease uses these transactions as an alternative form of funding, utilising the securities in the portfolio for repurchase agreements.

These transactions refer to its own securitisations carried out through the following special purpose entities:

- Italfinance Securitisation Vehicle 2 S.r.l. (assignee/issuer) for the transactions called "ITA 10" and "ITA 11";
- Pami Finance S.r.l. for the transaction called "Quicksilver";
- Italfinance RMBS S.r.l. for the transaction called "ITA RMBS".

Other information

On 24 February 2011, Moody's awarded an "Aaa" rating to the Senior bonds of the ITA 11 transaction. Obtaining a second rating (the Senior Bonds had obtained a rating of "AAA" from Standard&Poor's at the time of issuance) was required to be able to continue to use the bonds in question in refinancing operations in repurchase agreements with the European Central Bank (ECB) or on the New Collateralised Interbank Market ("NewMIC"): in fact, in a press release dated 20 November 2009, the ECB advised that as of 1 March 2011, all ABS had to obtain ratings from at least two agencies to be able to be used as collateral in refinancing operations such as those described above.
Subsequently, in December 2011 and February 2012, Standard&Poor's and Moody's downgraded the Senior Bonds to AA+ and Aa2 respectively.

On 10 August 2011, DBRS awarded an "Aaa" rating to the Senior bonds of the ITA RMBS transaction. Obtaining a second rating (the Senior Bonds had obtained a rating of "AAA" from Moody's at the time of issuance) was required to be able to continue to use the bonds in question in refinancing operations in repurchase agreements with the European Central Bank (ECB) or on the New Collateralised Interbank Market ("NewMIC"): in fact, in a press release dated 20 November 2009, the ECB advised that as of 1 March 2011, all ABS had to obtain ratings from at least two agencies to be able to be used as collateral in refinancing operations such as those described above.
In February 2012, Moody's downgraded the Senior Bonds to Aa2.

The Senior Bonds of ITA 10 were downgraded in December 2011 by Standard&Poor's and in February 2012 by Moody's to AA+ and Aa2 respectively.

Trigger events

In addition to what was already indicated in the same section of part E, Section 1, Part C. Securitisations, the columns of the following table list, by transaction, the performance indicator to which the threshold refers while the rows list the related trigger events as already defined.

	ITA 10	QUICKSILVER	ITALFINANCE RMBS 1	ITA 11
Overcollateralisation Trigger Ratio	N/A	N/A	N/A	N/A
Cash Trapping Trigger	Net Cumulative Default Ratio	N/A	N/A	Net Cumulative Default Ratio
Mezzanine Trigger Ratio	N/A	N/A	N/A	N/A
Cumulative Default Trigger Ratio	Net Cumulative Default Ratio	N/A	N/A	Net Cumulative Default Ratio
Series Trigger Ratio	N/A	N/A	N/A	N/A

1.4 BANKING GROUP - OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of the operational risk

Type of risk

Operational 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 operational 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

The Banco Popolare Group has adopted a risk management model that establishes the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting processes. The model is disciplined by a specific Group Regulation approved by the Governance Bodies.
In order to set up adequate risk management policies, and in compliance with the relevant regulations, specific functions were identified in charge of governing, managing and controlling the operational risk model.
For the operational 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 first of all on internal loss data, registered and filed in a dedicated software application, in compliance with rules codified in specific regulations that prescribe processes linked to the operational procedure followed for the accounting recording of the losses under examination: to this end, a system was developed that makes it possible to automate the loss collection process and to take account of commercial refunds and operational losses for the commercial networks. The loss collection process also includes a verification and certification system for the operational risk database that ensures the completeness, quality and correctness of the single loss identifications.
Secondly, also external loss data available to the Group are used for the quantitative assessment, in particular the inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within ABI, which the Group joined since its formation.
The qualitative risk assessment is carried out 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 the corporate business is being revised in such a way as to change its risk exposure, and in general a prospective outlook is assigned to the global assessments. Qualitative data is collected periodically through a structured process involving the heads of the various organisational structures (self risk assessment).
The Banco Popolare Group has implemented a capital requirement calculation model compliant with the standardised approach prescribed by the new prudential supervisory regulations.
In 2011, the internal VaR calculation model for operational risk underwent the usual methodological analyses, with a view to continuously fine-tuning and gauging this tool. The model's Group results are used at management level.
The Banco Popolare Group implemented a reporting model, featuring:

a) a directional information system with analysis and assessments of all the important issues concerning operational risk (in particular material losses – and the associated recoveries, the overall assessment of the risk profile, capital absorption and the implemented and/or planned risk management policies);
b) an operational reporting system, that is, a tool for the operating structures that take part in loss collection processes, for an adequate risk management in the various areas.

Thanks to the operational risk actions planned and implemented by the Group, the standardised method was adopted in concomitance with the Supervisory instructions of 30 June 2008, along the combined method, which is adopted only by Group companies that combined together do not exceed the size thresholds provided by the Supervisory regulations (in particular the companies of the former Italease Group).
In order to implement the standardised model, the Group organisational model provides for specific Parent Company structures to be in charge of the centralised risk management. Said structures act directly on behalf of the subsidiaries, and in case of companies adopting the standardised method, they shall resort to decentralised functions in charge of local risk management.

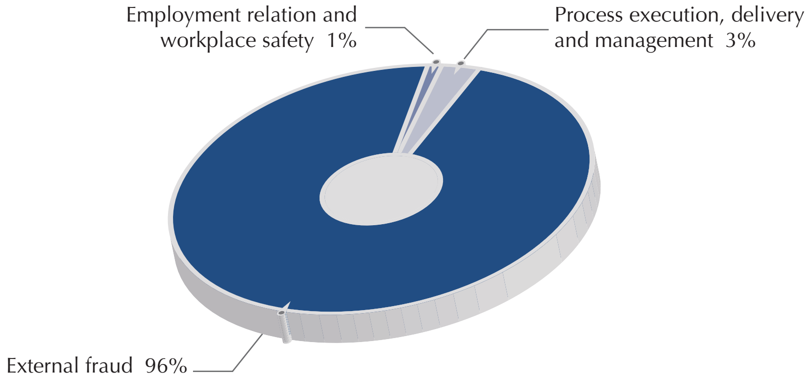
Pending legal actions

The description of the main pending legal actions and the possible related losses are illustrated in "Part B - Information on Liabilities - Section 12 Provisions for risks and charges".

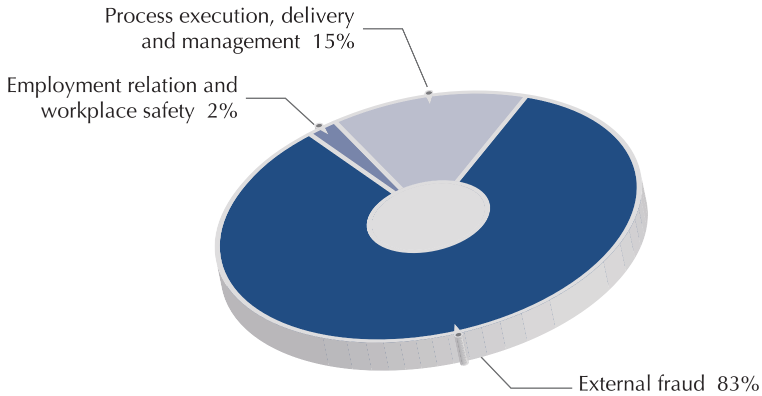
QUANTITATIVE INFORMATION

With regard to sources of operational risk, an analysis was conducted covering pure operational risk events, with gross losses through profit or loss greater than or equal to euro 5,000, which started after 1 January 2011, recorded in the Group Loss collection file. Loss data have been broken down by type of event, with views on impact and frequency, in line with the event classification scheme prescribed by the New Supervisory Regulations.

Breakdown of gross loss



Breakdown of frequency



Looking at the graphs, we can see that the dominant category of events is external fraud, particularly as regards the economic impact of robberies and thefts of safe deposit boxes and ATM.

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 during the year with the Aviva Group and the Fondiaria SAI Group.
Said investments fall within the consolidations scope of companies valued at net equity and are shown in the consolidated assets under Investments in associates and companies subject to joint control.
Banco Popolare has the joint control with the Aviva Group also of the insurance companies Eurovita and Aviva Previdenza, by way of the holding company Finoa, owned 50% and classified under assets held for sale.

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 methods to establish the adequacy of the regulatory capital requirement vis-à-vis real estate risk.

PART F - INFORMATION ON CONSOLIDATED EQUITY

Section 1 - Consolidated equity

A. QUALITATIVE INFORMATION

Company shareholders' equity is made up of the sum of the balances of the following balance sheet liabilities:

- Capital net of repurchased treasury shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments, including financial instruments set forth in Article 12 of Italian Law Decree no. 185/2008 (so-called "Tremonti Bonds")
- Net income for the year.

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 2011 totalled 9,423.3 million (of which 9,037.4 million pertaining to the Group and 385.9 million pertaining to minority shareholders) reporting a net decrease of 2,517.1 million compared to the consolidated shareholders' equity as at 31 December 2010 amounting to 11,940.4 million (of which 11,527.5 pertaining to the Group and 412.9 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	31/12/2011
1. Share capital	4,336,553	-	1,069	-	4,337,622
2. Equity instruments	33,089	-	-	-	33,089
3. Share premium reserve	4,850,136	-	87	-	4,850,223
4. Reserves	3,050,794	-	(84,200)	81,461	3,048,055
5. (Treasury shares)	(4,570)	-	-	-	(4,570)
6. Valuation reserves	(600,517)	-	378	-	(600,139)
Financial assets available for sale	(500,970)	-	-	-	(500,970)
Property and equipment	-	-	378	-	378
Intangible assets	-	-	-	-	-
Foreign investment hedges	-	-	-	-	-
Cash flow hedges	7,609	-	-	-	7,609
Exchange rate differences	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	-
Actuarial gains (losses) on defined benefit pension plans	-	-	-	-	-
Share of valuation reserves related to investments in associates carried at equity	(109,470)	-	-	-	(109,470)
Special revaluation laws	2,314	-	-	-	2,314
7. Income (loss) for the year attributable to the Group and to minority interests	(2,272,551)	-	80,155	(48,576)	(2,240,972)
Shareholders' equity	**9,392,934**	**-**	**(2,511)**	**32,885**	**9,423,308**

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-Dec-2011	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	19,567	(575,314)	-	-	-	-	-	-	19,567	(575,314)
2. Equity instruments	80,975	(23,285)	-	-	-	-	-	-	80,975	(23,285)
3. UCIT units	5,203	(8,116)	-	-	-	-	-	-	5,203	(8,116)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total	**105,745**	**(606,715)**	**-**	**-**	**-**	**-**	**-**	**-**	**105,745**	**(606,715)**
Total t-1	**106,376**	**(107,418)**								

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	**(84,292)**	**82,395**	**855**	**-**
2. Positive changes	**350,685**	**18,430**	**6,791**	**-**
2.1 Fair value increases	9,978	14,633	3,875	-
2.2 Transfer of negative reserves to the income statement:	10,557	1,189	-	-
- due to impairment	10,315	1,170	-	-
- on disposal	242	19	-	-
2.3 Other changes	330,150	2,608	2,916	-
(of which for business combinations)	-	-	-	-
3. Negative changes	**(822,140)**	**(43,135)**	**(10,559)**	**-**
3.1 Fair value decreases	(810,742)	(9,106)	(8,032)	-
3.2 Losses on impairment	-	-	-	-
3.3 Transfer of positive reserves to the income statement: on disposal	-	(29,808)	(809)	-
3.4 Other changes	(11,398)	(4,221)	(1,718)	-
(of which for business combinations)	-	-	-	-
4. Closing balance	**(555,747)**	**57,690**	**(2,913)**	**-**

Section 2 - Regulatory capital and capital adequacy ratios

2.1 Scope of application of regulations

The consolidated regulatory capital and ratios are calculated in compliance with the instructions issued by the Bank of Italy with Circular no. 263 of 27 December 2006 (“New prudential regulatory provisions for banks”) and with Circular no. 155 of 18 December 1991 (“Instructions for preparing reports on regulatory capital and prudential ratios”), integrated with subsequent amendments.
In 2010, Community institutions approved Directive 2010/76/EC, known as “CRD III”, the purpose of which is to continue to strengthen the prudential regulations set in place following the financial crisis. With the updates of Circular no. 263 published between November and December 2011, the innovations of CRD III were adopted in Italy, particularly in terms of aspects regarding the prudential treatment of the regulatory trading portfolio, re-securitisation transactions and covered bonds.

As prescribed by Circular no. 155, section 2, sub-section 1.2, since the consolidation scope considered for financial reporting purposes is wider than that considered for the consolidated regulatory capital, only data referring to banking, financial and operating companies belonging to the Banking Group were taken into account to calculate the consolidated regulatory capital.

2.2 Bank regulatory capital

A. QUALITATIVE INFORMATION

According to Circular no. 263, the regulatory capital is the sum of the Tier 1 capital – included in the calculation with no limits – and the Tier 2 capital, included within the maximum core capital limit. Investments in associates and companies subject to joint control, 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.

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 an exception to general provisions (50% deducted from Tier 1 capital and 50% from Tier 2 capital), until 31 December 2012 the above elements issued by insurance companies, purchased by the banks before 20 July 2006, are deducted from the total amount of Tier 1 capital and of Tier 2 capital.

Specific prudential filters are applied to both Tier 1 and Tier 2 capital to safeguard the quality of the regulatory capital and to reduce its potential volatility as a result of the adoption of international accounting standards IFRS/IAS.

Each Tier 1 and Tier 2 capital item includes both the share belonging to the Banking Group and the minority interest.

Communication regarding the prudential filters of the "Assets available for sale" portfolio

With effect from 30 June 2010, the Group has 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 (50%) of net gains in Tier 2 capital) already envisaged by Italian legislation, the above-mentioned Provision has acknowledged the possibility of fully neutralising the gains and losses recorded in revaluation reserves ("symmetrical" approach). This option must be extended to all the securities of the type held in the aforementioned portfolio, it must be applied consistently by the Group and maintained constant over time.
As at 31 December 2011, the change in the reserves of the securities issued by central government authorities of countries belonging to the European Union is negative by 495.7 million; in the absence of such an approach, the said change would result in a corresponding reduction of the Tier 1 capital, in the presence of overall negative reserves on debt securities.

1. Tier 1 capital

As at 31 December 2011, the Tier 1 capital was primarily made up of paid-up capital, reserves (including share premiums), innovative and non-innovative capital instruments, net of treasury shares held in the portfolio, goodwill, intangible assets, recognised under item 130 of the balance sheet assets, and losses for the year.
In Tier 1 capital, the "other positive filters" no longer include the financial instruments set forth in Article 12 of Italian Law Decree no. 185/2008 (so-called "Tremonti Bonds") fully redeemed in the first half of 2011.
The positive elements of Tier 1 capital also include the allowed portion 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.

The 5th update of 22 December 2010 to Circular no. 263 introduced more restrictive methods for calculating the share capital and innovative and non-innovative instruments. However, transitional regulations have been provided for calculating in the Tier 1 capital, until 31 December 2020, the securities representing the capital share (shares) and innovative and non-innovative equity instruments - issued before 31 December 2010 - which do not meet the new criteria envisaged under paragraphs 3 and 4 of Heading I, Chapter 2, section II, respectively.

All the innovative and non-innovative instruments of the Banco Popolare Group, existing as at 31 December 2011, are subject to transitional regulations.

In the first quarter of 2012, some of the innovative and non-innovative capital instruments were repurchased by Banco Popolare. For further details, please refer to the section entitled "Events occurring after the date of the financial statements" in the Notes to the financial statements.

2. Tier 2 capital

The Tier 2 capital mainly comprises valuation reserves and subordinated liabilities issued (Lower Tier 2) and the hybrid capitalisation instruments (Upper Tier 2), (the allowed portion under the above mentioned regulation), as well as the "preference shares" that cannot be included in Tier 1.

In the first quarter of 2012, some of the innovative and non-innovative instruments calculated under Tier 2 capital were repurchased by Banco Popolare. For further details, please refer to the section entitled "Events occurring after the date of the financial statements" in the Notes to the financial statements.

3. Tier 3 capital

No Tier 3 elements were reported

For all the above mentioned loans, 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.
Repayments upon maturity of "hybrid instruments" and early repayment for all subordinated liabilities are subject to the prior authorisation of the Bank of Italy.
The main contract characteristics of the above mentioned instruments are described in the following tables.

Illustrated below is a detailed listing of equity instruments included in the Tier 1 capital calculation:

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. shs.	21-Jun-2007	21-Jun-2100	euro	6.756% fixed yearly until June 2017 then 3m Euribor + 188 bp	279.85	278.55	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. shs	21-Jun-2007	21-Jun-2100	euro	6.156% fixed yearly until June 2017 then 3m Euribor + 228 bp	271.25	269.95	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. shs	29-Mar-2010	29-Mar-2049	euro	9% fixed yearly until March 2020 then 3m Euribor + 100 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 3	pref. shs	30-Jun-2005	30-Jun-2049	euro	6.742% fixed yearly until June 2015 then 3m Euribor + 525 bp	500.00	487.06	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. shs	6-Jun-2006	6-Jun-2049	euro	Floating 3m Euribor + 130 bp until June 2016 then 3m Euribor + 230 bp	150.00	145.00	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 *(in mln €)*	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	257.80	235.04	Early redemption option from 15/6/2011 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	184.40	168.35	Early redemption option from 22/11/2011 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	198.7	180.26	Early redemption option from 8/2/2012 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	300.00	297.31	Bullet repayment upon maturity	Yearly
IT0004328230	Banco Popolare Soc.Coop.	Sub	31-Mar-2008	31-Mar-2018	euro	3m Euribor + 25 bp until March 2013 then 3m Euribor + 85 bp	415.00	401.55	Early redemption option from 31/3/2013 after prior approval of the Bank of Italy	Quarterly
XS0451531346	Banco Popolare Soc.Coop.	Sub	9-Sep-2009	9-Sep-2016	euro	5.7% fixed on a yearly basis	50.00	50.00	Bullet repayment upon maturity	Yearly
XS0456106912	Banco Popolare Soc.Coop.	Sub	7-Oct-2009	7-Oct-2014	euro	4.5% fixed on a yearly basis	50.00	30.00	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	340.00	318.34	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	42.40	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	97.26	Bullet repayment upon maturity	Yearly
XS0555834984	Banco Popolare Soc.Coop.	Sub	5-Nov-2010	5-Nov-2020	euro	6% fixed on a yearly basis	1000.00	944.45	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	660.69	595.84	Bullet repayment upon maturity	Yearly
IT0004230378	CR Lucca Pisa Livorno	Sub	7-May-2007	7-May-2012	euro	Refi rate 6m Euribor +37 bp cap 5.25% floor 2.75%	40.00	8.00	Four-year straight-line redemption plan	Six-monthly
IT0003411821	Banca Popolare di Lodi	Hybrid	27-Dec-2002	27-Dec-2012	euro	5.3% fixed on a yearly basis	95.00	89.44	Bullet repayment upon maturity	Six-monthly
IT0003411847	Banca Popolare di Lodi	Hybrid	27-Dec-2002	27-Dec-2012	euro	6m Euribor + 75 bp	173.42	136.87	Bullet repayment upon maturity	Six-monthly
XS0203156798	Banca Italease	Sub	15-Oct-2004	15-Oct-2014	euro	3m Euribor + 50 bp until October 2009 then 3m Euribor + 110 bp	150.00	62.31	Early redemption option from 15/10/2009 after prior approval of the Bank of Italy	Quarterly
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	76.19	Early redemption option from 28/06/2011 after prior approval of the Bank of Italy	Quarterly

Following the merger of Cassa di Risparmio di Lucca Pisa e Livorno and Banca Popolare di Lodi into Banco Popolare, the securities originally issued by the former are now considered to have been issued by Banco Popolare Soc. Coop.

B. Quantitative information

The Group complies with the minimum capital requirement of 8% of risk-weighted assets.

In accordance with Chapter 2, paragraph 7, part F, of Circular 262 ("Bank financial statements: layout and compilation rules"), in case of standardised methods, the "unweighted amounts" correspond to the value of the exposure including prudential filters, risk mitigation techniques and credit conversion factors (E* in supervisory reports times the credit conversion factors in case of guarantees and commitments).

REGULATORY CAPITAL		Total	
		31/12/2011	31/12/2010
A.	**Tier 1 capital before the application of prudential filters**	8,912,753	6,467,170
B.	Tier 1 capital prudential filters:		
B.1	Positive IAS/IFRS prudential filters (+)	-	1,450,000
B.2	Negative IAS/IFRS prudential filters (-)	711,441	486,495
C.	**Tier 1 capital before items to be deducted (A + B)**	8,201,312	7,430,675
D.	Items to be deducted from Tier 1 capital	692,014	637,481
E.	**Total TIER 1 capital (C – D)**	7,509,298	6,793,194
F.	**Tier 2 capital before the application of prudential filters**	3,790,900	4,109,751
G.	Tier 2 capital prudential filters:		
G.1	Positive IAS/IFRS prudential filters (+)	-	-
G.2	Negative IAS/IFRS prudential filters (-)	34,116	50,892
H.	**Tier 2 capital before items to be deducted (F + G)**	3,756,784	4,058,859
I.	Items to be deducted from Tier 2 capital	692,014	637,481
L.	**Total Tier 2 capital (H - I)**	3,064,770	3,421,378
M.	Items to be deducted from total Tier 1 and 2 capital	49,900	60,000
N.	**Regulatory capital (E + L - M)**	10,524,168	10,154,572
O.	Tier 3 capital	-	-
P.	**Regulatory capital including Tier 3 (N+O)**	10,524,168	10,154,572

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 operational 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 on credit and counterparty risks.

For credit and counterparty risks and market risks, the Group adopted the "standard approaches".
With regard to operational risk, the Group adopted the "combined approach", as most Group companies used the "standard approach", but some minor Companies used the "base approach".

Under the "standard approach" to credit risks, the Group used the issued by External Credit Assessment Institutions (ECAI) recognised by the Bank of Italy.
Last autumn, several of these ECAI downgraded Italy's ratings.
Based on the classification tables of the Bank of Italy, the rating has been downgraded from "Creditworthiness class" 1 to "Class" 2. For this reason, with equal weighted amounts, there could be an increase of risk-weighted assets relating to "Central administrations and central banks" and to "Supervised intermediaries" of Countries that have been downgraded, including Italy.

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

The unweighted exposure to securitisations 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.
The decrease recorded is due to the gradual replacement, over 2011, of originated securitisations with covered bond transactions.
Furthermore, following legislative changes, the tranches acquired by the Parent Company through originated securitisations, which in previous years were directly deducted from the capital requirement, are now recorded as a separate item.

As regards credit and counterparty risks, the 14th update dated 21 December 2011 of Circular 155 changed the calculation criteria for non-weighted exposures and for the corresponding risk-weighted assets (category A.1 in the table below) which, from 31 December 2011 are recorded net of transactions conducted between companies that are in the same scope of consolidation. Previously, risk assets were recognised before intergroup transactions, which were subsequently cancelled in capital requirements on credit and counterparty risks (category B.1 in the table below).
For this reason, the amounts of category A.1 relating to 31/12/2011 are significantly lower than the corresponding figures of the previous year.

CATEGORIES/AMOUNTS		Unweighted amounts		Weighted amounts/requirements	
		31/12/2011	31/12/2010	31/12/2011	31/12/2010
A.	**RISK ASSETS**				
A.1	**Credit and counterparty risk**				
	1. Standardized method	121,243,425	203,641,831	79,954,213	96,305,082
	2. Method based on internal ratings				
	2.1 Basic	-	-	-	-
	2.2 Advanced	-	-	-	-
	3. Securitisations	176,380	7,385,494	199,380	3,213,561
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	**Credit and counterparty risk**			6,412,287	6,744,213
B.2	**Market risk**				
	1. Standardized method			290,832	335,658
	2. Internal models			-	-
	3. Concentration risk			-	-
B.3	**OPERATING RISK**				
	1. Basic method			28,023	46,305
	2. Standardized method			471,597	464,056
	3. Advanced method			-	-
B.4	**Other prudential requirements**			-	-
B.5	**Other calculation elements**			-	-
B.6	**Total prudential requirements**			7,202,739	7,590,232
C.	**RISK ASSETS AND CAPITAL RATIOS**				
C.1	Risk-weighted assets			90,034,238	94,877,901
C.2	Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			8.34%	7.16%
C.3	Regulatory capital including Tier 3/ Risk-weighted assets (Total capital ratio)			11.69%	10.70%

PART G – BUSINESS COMBINATIONS

Section 1 - Transactions achieved during the year

1.1 Business combinations

As part of the credit collection activities regarding a customer subject to arrangement with creditors, on 21 December 2011, the subsidiary Cassa di Risparmio di Lucca Pisa Livorno, in compliance with the resolutions passed by the Board of Directors on 18 June 2010, 5 August 2011 and 13 December 2011 and in accordance with the arrangement with creditors, acquired the entire investment in the newly-established company called "TR Toscana Resort S.r.l." as *datio in solutum*, for a value of euro 4.1 million, corresponding to the value of shareholders' equity.
This company is therefore consolidated on a line-by-line basis from 31 December 2011.

Other business combinations

As illustrated in the section in the Report on Operations regarding significant events occurring during the year, at the end of 2011, number of mergers were completed as part of the Group's reorganisation plan, which led to the establishment of a large cooperative bank (Grande Banco Popolare).
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 financial statements.
For further details, see the corresponding section of the Notes to the financial statements of the Parent Company.

Section 2 - Business combinations after the reporting period

2.1 Business combinations

No business combinations were carried out after the reporting period.

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, 448 tasks were entrusted to 323 people (including 52 executives).

(in thousands of euro)			
Total gross compensation FY 2011			**36,857**
of which:		**(FY 2010)**	
Non-executive directors and Statutory auditors	12,740	(13,666)	
Non-employee executive directors	5,118	(5,193)	
Employees	18,999	(22,024)	
		(40,883)	
Short term benefits (e.g., car, lodging, accident insurance policy, medical assistance)			188
Post-employment benefits (e.g., pension fund, supplementary pension scheme)			262
Long-term benefits (if any)			-
Employee termination benefits (e.g., employee termination indemnities, other benefits)			737
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" – approved by the Management Board and the Supervisory Board at the time – valid for said Bank and for all Group companies.
Note that, following changes to the management and control model and to the articles of association in 2011, references to the Supervisory Board in terms of its role of strategic supervision are to be considered as references to the Management Board, those referring to the Supervisory Board in terms of its control function are to be considered as references to the Board of Statutory Auditors, those to the Management Board are to be considered references to the Board of Directors.
Given the above clarification, the afore-mentioned "Applicable regulations" establish that within the sphere of the Banco Popolare Group the definition of "related party" envisaged by IAS 24 be used and define – above all else – the following operational criteria to identify related parties:

a) Companies subject to significant influence and joint control: entities in which at least 20% of the voting rights that can be exercised during ordinary shareholders' meetings are held, directly or indirectly, or 10%, if the shares are listed on regulated markets and any other company or body that can be qualified as a related party as per IAS 24 as indicated above;
b) Executives with strategic responsibilities: both the members of the Board of Directors and of the Board of Statutory Auditors of the Parent Company are qualified as such, along with the members of the Boards of Directors and the acting members of the Boards of Statutory Auditors of Group companies, the General Manager or the General Managers, the heads of the Parent Company Divisions (currently Corporate – Retail – Loans – Finance Corporate Centre and Investments – Legal Affairs and Compliance – Operations – Human Resources - Administration - Organisation divisions) and 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 Head of the Compliance division); any additional structure heads may be identified by the Management Board/Board of Directors;
c) Close family members: the following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter's own responsibility and containing adequate and analytical justification of the reasons that exclude any influence: spouses, common law spouses (including cohabitants whose status is not revealed in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual which the party believes may influence them (or be influenced by them) in their dealings with the bank or the other Group companies is also a related party;
d) Participative relations or strategic roles attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives: have control pursuant to Article 2359, paragraph 1 of the Italian Civil Code, or at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets, or they cover the office of Chairman of the Board of

Statutory Auditors, Chairman of the Board of Directors, Managing Director or representative endowed with powers of authority.

e) Pension funds for employees of Banco Popolare: i.e. the pension funds for Group employees and any other related body;

f) Holders of a significant investment: Mutual Investment Funds, or any other expressly authorised party, who act as a shareholder and who possess an interest greater than 2% in the share capital of Banco Popolare. Parties not belonging to the Group who hold an interest greater than 2% in other Group companies are also considered to be related parties. The company's Board of Directors can change this percentage both upwards and downwards, providing justification in relation to the significance of the investment/investment in an associate;

g) Parties in a position, per se, to appoint members of the Boards of Directors: i.e. the parties who, by virtue of Articles of Association or shareholders' agreements, are able to appoint, alone, one or more board directors of other companies.

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 balance sheet and income statement transactions as at 31 December 2011 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 responsibilit ies	Other related parties	TOTAL	% of consolidated total
Financial assets held for trading	-	28,013	-	-	7,685	35,698	0.41%
Financial assets available for sale	-	-	-	-	13,990	13,990	0.14%
Due from banks	-	-	-	-	11,035	11,035	0.13%
Loans to customers	-	1,193,615	-	14,093	515,399	1,723,107	1.84%
Other assets	-	16,877	-	-	622	17,499	0.15%
Due to banks	-	-	-	-	1,003,348	1,003,348	6.95%
Due to customers	-	468,043	-	23,953	564,043	1,056,039	2.27%
Debt securities issued	-	17,266	-	30,316	96,899	144,481	0.52%
Financial liabilities held for trading	-	248,228	-	329	5,509	254,066	5.48%
Financial liabilities designated at fair value through profit and loss	-	8,923	-	11,832	152,341	173,096	0.68%
Other liabilities	-	1,404	-	881	4,484	6,769	0.14%
Guarantees given and commitments	-	122	-	985	30,957	32,064	0.30%

(1) Funds or other authorised subjects holding the capacity of 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 responsibilit ies	Other related parties	TOTAL	% of consolidated total
Interest margin	-	10,085	-	(109)	(15,575)	(5,599)	0.31%
Net fee and commission income	-	180,368	-	2	(1,572)	178,798	14.04%
Administrative expenses	-	1,074	-	24,321	249	25,644	1.05%
Other costs / revenues	-	(1,354)	-	(1)	40	(1,315)	0.04%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 2% of the share capital

Other transactions with other related parties

The table below discloses other transactions – supplies of goods and services and transactions on real estate – entered into with related parties, shown in the above table under "executives with strategic responsibilities" and "other related parties".

(in thousands of euro)	Purchases and sales of goods and services	Rent receivable	Rent payable
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	11	-
c) Close relatives 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)	377	-	1

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 2011:

Transaction relating to the dismantling of the securitisation transaction BPL Mortgages Series 3, to the assignment of the appropriate mortgage loans to the SPE BP Covered Bond S.r.l. and to further issues of Covered Bonds

The transaction approved in the Management and Supervisory Board meetings on 31 January 2011 regards the dismantling of the securitisation transaction BPL Mortgages Series 3 performed by the Banco Popolare Group in March 2009 and entails the repurchase by the Originator Banks of the mortgage loans originated and assigned to the SPE BPL Mortgages S.r.l.. The mortgages re-purchased by the Assignee banks from the above-mentioned company were simultaneously assigned to the SPE BP Covered Bond S.r.l., to enable the issue of further series of securities under Banco Popolare's Covered Bond issue programme.
The objective of the transaction is to transform short-term funding, also collected through the subscription of senior class securities issued as part of Banco Popolare's originated securitisation transactions, into medium-long term funding through the issue of Bonds placed with institutional investors.

Review of Loans to the subsidiary company Banca Italease

The transaction resolved by the Management Board on 27 April 2011 entails the disbursement of loans to the subsidiary company Banca Italease by means of interbank deposits which expire within 18 months, with a request to increase the corresponding lines of credit from euro 1 billion to euro 2.2 billion.
The aim of the transaction is to guarantee the funding needed by the parent company to redeem its bonds expiring before the end of 2011.

Transaction related to the issue of Covered Bonds guaranteed by the Banco Popolare Group

The transaction, which was approved by the Management Board meeting held on 3 May 2011, regards:

- the assignment to the SPE BP Covered Bond S.r.l. of a new portfolio of residential mortgage loans by: Banca Popolare di Lodi, Banca Popolare di Cremona, Banca Popolare di Novara, Banca Popolare di Verona SGSP, Cassa di Risparmio di Lucca Pisa Livorno;
- the issue by Banco Popolare of subsequent series of Covered Bonds to be made during 2011 for a maximum amount of around euro 2.8 billion;
- the increase of credit lines opened in the name of the SPE under the Covered Bond Issue Programme dated February 2010, the maximum amount of which was raised to euro 10 billion for the entire banking Group.

The objective of the transactions described above is to increase medium-long term funding.

Transfer of Efibanca shares from Credito Bergamasco to Banco Popolare and subsequent merger by incorporation of Efibanca into Banco Popolare

The transaction, approved by the management Board meeting held on 14 June 2011 is preliminary to the merger by incorporation (simplified procedure, pursuant to art. 2505 of the Italian Civil Code) of Efibanca into Banco Popolare, resolved by the Management and Supervisory Boards at the meetings held on 25 March 2011.
The transaction regarded the transfer of 6,688,000 Efibanca shares, corresponding to 6.097% of share capital, and was completed on 20 June 2011. The price paid by Banco Popolare to Credito Bergamasco was euro 26.6 million; the price was calculated on the basis of a valuation carried out by the advisor Equita Sim.
At a meeting held on 13 September 2011, the Management Board, pursuant to Article 2505, paragraph 2 of the Italian Civil Code and to Article 33.2, paragraph 2, of the Bank's Articles of Association, resolved upon the merger by incorporation of

Efibanca S.p.A. into Banco Popolare through the approval of the relative proposal drawn up pursuant to Articles 2501-ter and 2505 of the Italian Civil Code.

Renewal of the "Total Return Swap" contracts related to securitisation transactions "BPV Mortgages S.r.l." and "BPL Mortgages S.r.l. – series 4"

The transaction, approved at the Management Board meeting held on 14 June 2011 entails the renewal of two Total Return Swap (TRS) contracts, which were underwritten as part of two originated securitisation transactions conducted by Banco Popolare in 2009: BPV Mortgages S.r.l. and BPL Mortgages S.r.l. – Series 4.
The amendment to the Total Return Swap contract regarding the BPV Mortgages transaction follows the decision to use the senior securities issued as part of the originated securitisation transaction for a repurchase agreement with a market counterparty in order to extend the funding's maturity.
The renewal to 31 May 2016 of the Total return Swap contract regarding the BPL Mortgages transaction is justified by the decision to continue to use the junior securities issued as part of the originated securitisation transaction in refinancing transactions with NewMIC or with the ECB.

Transfer of bank branches to Credito Bergamasco

The transaction, approved by the Management Board and the Supervisory Board at meetings held on 13 May 2011, entailed the transfer of business segments comprised of bank branches of the following Network Banks: (i) Banca Popolare di Lodi, (ii) Banca Popolare di Crema, (iii) Banca Popolare di Cremona, (iv) Banca Popolare di Novara and (v) Banca Popolare di Verona - SGSP to Credito Bergamasco.
52 bank branches were transferred. The transaction was finalised with the signature of the transfer deeds on 20 July 2011, and became legally effective as of 1 August 2011.

Banco Popolare's Covered Bonds Issue Programme relating to portfolios of mortgage loans on commercial and residential property

The operation, approved by the Board of Directors of Banco Popolare at a meeting held on 13 December 2011, regards as a whole, the structuring of a new Covered Bonds Issue Programme relating to portfolios of mortgage loans on commercial and residential property in which Banco Popolare will act as issuing bank and the bank transferring the assets, while Credito Bergamasco S.p.A., jointly with Banco Popolare, will act as the bank transferring the assets.
The operation entails the transfer to the SPE BP Covered Bond S.r.l. of the loans portfolio resulting from mortgage loan agreements on commercial property and from mortgage loan agreements on residential property originated by Banco Popolare and the issue by Banco Popolare of the Bonds in question will take place during 2012 for a maximum amount of around euro 5 billion.
The main purpose of the operation is to increase the Group's portfolio of assignable and available securities to be used in refinancing operations with the Eurosystem.

Approval of the proposed merger by incorporation of "Banca Popolare di Verona - S. Geminiano e S. Prospero S.p.A.", "Banca Popolare di Lodi S.p.A.", "Banca Popolare di Novara S.p.A", "Cassa di Risparmio di Lucca Pisa Livorno S.p.A." and "Banca Popolare di Cremona S.p.A." into "Banco Popolare - Società Cooperativa" and the proposed merger by incorporation of "Banca Popolare di Crema S.p.A." into "Banco Popolare - Società Cooperativa" on the basis of the balance sheets as at 30 June 2011

The Board of Directors of Banco and the Shareholders' Meetings of the Network Banks, with the exception of Credito Bergamasco, have approved the proposed mergers by incorporation of the same into Banco Popolare. These operations have enabled the planned simplification of the Group's corporate structure to be achieved, through the integration of the various banks into Banco Popolare, with a view to creating a large cooperative bank ("Grande Banca Popolare").
The mergers will have statutory and fiscal effect as of 1 January 2011.

PART I – SHARE-BASED PAYMENT AGREEMENTS

1. Description of share-based payments

Stock grant plan

QUALITATIVE INFORMATION

Within the context of the finalisation of the merger between Banco Popolare di Verona e Novara and Banca Popolare Italiana via the establishment of Banco Popolare Società cooperativa and as an integral part of the same, it was envisaged that Banco Popolare be authorised, as per Articles 2357 and 2357-ter of the Italian Civil Code, to go ahead with the purchase, in observance of the limit set by Article 2357, paragraph 1 of the Italian Civil Code, of a maximum of 660,000 ordinary shares, which represented around 0.10% of the initial share capital of the same, with authority to the legal representatives appointed, acting separately, to proceed with the purchase as per the law. The authorisation to purchase the treasury shares had a duration of eighteen months as from 1 July 2007, date of efficacy of the merger.
The treasury shares could then be used within the sphere of an retention plan (Stock Grant Plan) addressed to the executive directors, executives and employees of Banco Popolare and its subsidiaries pursuant to Article 2359 of the Italian Civil Code, by means of bonus allocations to the same.

The Stock Grant Plan envisages the bonus allocation of ordinary Banco Popolare outstanding shares to those Beneficiaries who, at the unquestionable discretion of the Management Board, are deemed to be in the position to have a material impact on the success and results of the Bank and/or the Group.

The Stock Grant Plan is governed by specific Regulations that define the implementation criteria, approved by the respective shareholders' meetings held on 10 March 2007 of Banco Popolare di Verona e Novara and Banca Popolare Italiana.

The reasons and criteria based on which the Bank decided to set up a correlation between the assignment of stock grants and other fixed compensation components aim to build up loyalty, as mentioned above, and also to give the beneficiaries a global benefit in line with the market practices of the Bank's business sector.

The aims pursued by the stock grant plan can be summarised as follows:

- to encourage a "team building" approach among the management team, focusing the attention on Group strategic objectives, while closely correlating the total economic return that may be obtained by top managers with the value created for the shareholder, hence with rise of the share price on the market;
- to increase the retention capacity (keeping key resources) reducing the likelihood of valuable managers resigning from the Group;
- to improve the Group's competitiveness on the labour market, making it more appealing to the best talents on the market.

The duration of the Plan and, therefore, the period within which the Management Board has the power to identify the Beneficiaries and resolve the assignments, has been set as 5 years from the date of establishment of the Bank, although further extensions authorised by the Bank's ordinary shareholders' meeting are not excluded. This duration will make it possible to achieve the Plan's objectives.
Therefore, the Management Board – in compliance with the relevant authorisation conferred by the above mentioned Shareholders' Meetings pursuant to articles 2357 and 2357-ter of the Italian Civil Code – on 29 August 2008, subject to the favourable opinion of the Appointments and Emoluments Committee, launched the stock grant plan for the executive directors, executives and employees of Banco Popolare and its subsidiaries:

- authorising the purchase of all the 660,000 ordinary shares of Banco Popolare (purchases were carried out until 19 November, at an average price of euro 8.43);
- assigning a total of 327,550 shares to 73 identified beneficiaries in December 2008.

The number of shares assigned to the individual beneficiaries was determined on the basis of various factors:

- actual ability and importance of the individual beneficiary in terms of actual contribution to the achievement of results, and to the growth and future prospects of the Bank and the Group companies;
- experience, competence and potential;
- strategic importance of the role covered within the company;
- age and seniority, as one of the Plan's objectives is retention;

and, in certain cases, on the basis of commitments undertaken with the parties concerned at the time of recruitment.

In financial years 2009, 2010 and 2011 no further stock grant assignments were made. In the second half of 2010 2,500 shares were cancelled after the termination of the employment of an assignee and additional 2,500 shares were discharged from the constraint in compliance with the Regulations. In the second half of 2011 additional 7,500 shares were cancelled after the termination of the employment of an assignee.

QUANTITATIVE INFORMATION

1. Annual changes

	31 December 2011			31 December 2010		
	number of shares	average prices	average maturity	number of shares	average prices	average maturity
A. Opening balance	**322,550**	**6.208**	**Dec. 2013**	**327,550**	**6.208**	**Dec. 2013**
B. Increases	-	-	-	-	-	-
B.1 new issues	-	-	-	-	-	-
B.2 other changes	-	-	-	-	-	-
C. Decreases	**7,500**	**6.208**	**Dec. 2013**	**5,000**	**6.208**	**Dec. 2013**
C.1 cancelled	7,500	6.208	Dec. 2013	5,000	6.208	Dec. 2013
C.2 exercised	-	-	-	-	-	-
C.3 expired	-	-	-	-	-	-
C.4 other changes	-	-	-	-	-	-
D. Closing balance	**315,050**	**6.208**	**Dec. 2013**	**322,550**	**6.208**	**Dec. 2013**
E. options exercisable at the end of period	**315,050**	**6.208**	**Dec. 2013**	**322,550**	**6.208**	**Dec. 2013**

Supplementary Pension Scheme (S.I.PRE.) 2005-2007

In 2005, the Board of Directors of the former Banco Popolare di Verona e Novara resolved the adoption of a Supplementary Pension Scheme (S.I.Pre.), for the purpose of building up loyalty.
Under the plan, the company made payments into a collective insurance policy, held in the name of Banco Popolare, with an insurance company, which invested the assets exclusively in BP shares. The Managers who, besides complying with the Plan, remain with the Group until retirement, will therefore enjoy supplementary pension benefits whose amount will be commensurate to the growth in value over time of the Banco Popolare shares.
The Managers who were already beneficiaries of the Stock Option plan at the time the Sipre was adopted, and who have also been identified as beneficiaries of the Sipre, in order to join the latter, have "locked up" the fact that they shall go on working with the Group with a number of Banco shares they own, corresponding to 80% of the net profit generated by exercising their stock options. This restriction has a duration of 5 years, scaled down 1/5 each year, as from the first year of possible exercise of the stock option tranche and therefore the last restriction will expire in 2012.
In the event that they should resign or be dismissed, thus terminating their employment on a non-consensual basis, in addition to being disqualified from Sipre, managers shall also have to give Banco back at no charge their shares that are still bound by the above mentioned lock-up.
This system is linked to the share value appreciation over the Managers' entire career, and has been introduced in Italy for the first time.
The plan was closed in 2007.

Share allocation plan for employees of the Banco Popolare Group within the sphere of the 2009 and 2010 Company Bonus envisaged by the national collective labour agreement (C.C.N.L.)

The Management Board of Banco Popolare, in the sessions held on 30 March 2010 and 7 April 2010, approved the share allocation plan for Group employees as part of the company bonus envisaged by the national collective labour agreement (C.C.N.L.) for 2009 and 2010 as well as the treasury shares purchase programme for the purposes of the Plan.
On 24 April 2010, 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 adopting the Plan, the Bank set itself the aim of enhancing the sense of belonging to the Group and commitment towards the corporate objectives, offering all the employees the possibility of receiving, in full or in part, the company bonus by means of allocation of ordinary Banco Popolare shares, for a maximum overall equivalent value of euro 2,065.83 in place of a monetary share in the bonus for the same amount. Furthermore, this decision was adopted on the basis of the consideration that, from an economic perspective, the plans based on financial instruments reserved for employees as things stand represent an advantageous opportunity both for the bank that adopts them and for the beneficiaries of the same.

By virtue of the authorisation resolved by the afore-mentioned shareholders' meeting, the Bank purchased treasury shares in the quantity identified on the basis of the requests of the beneficiaries and entrusted the individual Group companies with the task of allocating the right to receive said shares to each of their beneficiaries. More specifically, the following treasury shares were purchased as follows:

- as regards the 2009 company bonus: between 3 June and 15 June 2010, a total of 1,255,500 ordinary Banco Popolare shares were purchased entailing an overall investment of euro 5,511,218 (net of commission);

- as regards the 2010 company bonus: between 13 June and 22 June 2011, a total of 1,439,413 ordinary Banco Popolare shares were purchased entailing an overall investment of euro 2,326,932 (net of commission).

With reference to the 2009 bonus, 3,519 Group employees decided to participate in the Plan (out of 20,118 potential addressees), and asked, by means of a request submitted by 11 June 2010, to receive the whole company bonus or part of the same, through the allocation of a total of 1,218,745 shares for an equivalent value of euro 5,423,415.25. The allocation of the shares to the beneficiaries was carried out on 25 June 2010, taking the arithmetic average of the official prices of the share struck in the last month prior to 25 June 2010, equal to euro 4.450, as the unit reference price.
With regard to 2010 (2009 company bonus), the maximum number of shares assigned to each beneficiary did not exceed 464 shares.

With reference to the 2010 bonus, given the changes in the Group's scope and the companies involved, as well as the reduction in the number of total employees, the potential no. of addressees fell to 16,984, out of which 1,675 Group employees decided to participate in the Plan, and asked, by means of a request submitted by 15 June 2011, to receive the whole company bonus or part of the same, through the allocation of a total of 1,478,124 shares (of which: 1,439,413 purchased between 13 and 22 June 2011; 36,755 resulting from the purchases of treasury shares made to serve the 2009 company bonus; 1,956 relating to shares held by Banco Popolare) for an equivalent amount of euro 2,455,163.96. The allocation of the shares to the beneficiaries was carried out on 27 June 2011, taking the arithmetic average of the official prices of the share struck in the last month prior to 27 June 2011, equal to euro 1.661, as the unit reference price.
With regard to 2011 (2010 company bonus), the maximum number of shares assigned to each beneficiary did not exceed 1,243 shares.

Share allocation plan addressed to executive members of the Management Board 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 far of payment of part of the bonus on achievement of the company objectives included in incentive systems.

Banco Popolare's Management Board, in a meeting held on 25 March 2011, 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 aims 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 tern 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.

The Plan envisages the allocation of shares to Beneficiaries who, if the preliminary conditions required to trigger incentive schemes have been met, and on the basis of individual results achieved, have earned a bonus for 2011. The allocation of shares to beneficiaries is made for an amount corresponding to 50% of the bonus earned. 60% of the share allocation will be made in 2014 (short-term bonus with retention of 2 years), while the remaining 40% will be made in 2016 (deferred bonus with retention of one year).

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 at 31 December 2011 the segments are as follows:
- Network Divisions;
- Investment & Private Banking, Asset Management;
- Leasing;
- Corporate Centre and Other.

The "Network Divisions" segment (formerly "Network Banks") is comprised of the Network Divisions resulting from the merger by incorporation of the Network Banks (with the exception of Creberg, which has maintained its legal independence) into Banco Popolare, effective for accounting purposes from 1 January 2011. This segment also includes the banking network of Credito Bergamasco, insofar as its cash flows are strictly dependent on the policies and strategies established at Parent Company level, with a view to the harmonised development of the segment as a whole rather than the individual banks it encompasses.
Following the completion of the cited merger by incorporation, the contribution of the Divisions can no longer be recognised as a sum of the separate financial statements of the legal entities that represented the segment, but on an "operating" basis. Like last year, the contribution of Banco Popolare, net of the contribution of commercial business activities reported by the "Network Divisions" segment, therefore refers to its holding activities and is recognised in the residual segment "Corporate Centre and Other".

The breakdown of the other segments is obtained by classifying the various Group companies in relation to the main activities carried out by each one. The results of each segment derive from the aggregation of the separate financial statements of the corporate bodies assigned to that specific segment, adjusted to account for consolidation entries considered influential to the result of each segment.
Cancellations among different segments are classified in the "Corporate Centre and Other" segment and separate indication of the infragroup balances is not provided, in accordance with the management reporting system used by the Group.

A brief illustration of the composition of the various segments is provided below, while for a more detailed information on the business activities they engage in and the offered products and services, please refer to the Report on operations - "Banking activities".

The **"Network Divisions"** segment represents the cornerstone of the development of the Group's commercial activities throughout Italy and is the backbone of the entire organisational structure. This organisational model, centred on the newly-established 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.
With regard to retail customers, the Group's activities are focused on developing an offer in the following areas:
- Retail customer products and services: in particular, current accounts, consumer credit, mortgage loans, payment instruments (credit and debit cards), protection products and on-line services;
- Investment/Savings products and services: for example, the offer of bonds issued by the Parent Company, Asset Management, Life insurance, other investment/advisory instruments;
- Products and services for Small Businesses: in particular, current accounts, loan products, insurance products and payment instruments;
- "Direct Banking" products and services: home banking, Remote Banking, POS, "remote" services.

With regard to corporate customers in Italy and abroad, the primary objective pursued by the Group is a constant innovation/maintenance of the product and service portfolio and a constant regulatory compliance, both in the traditional commercial banking area and in the area of higher value added products and services, like those relating to commercial trades with foreign countries or derivative products to hedge against corporate risks.

The **"Investment & Private Banking, Asset Management"** segment includes the companies that carry out investment banking and asset management activities. The main subsidiaries included in this segment are:
- Aletti & C. Banca di Investimento Mobiliare S.p.A.
- Aletti Gestielle SGR S.P.A.
- Aletti Fiduciaria S.p.A.

The "**Leasing**" segment (previously Leasing and Factoring) is made up of Banca Italease and its subsidiaries. The income statement figures for last year included the contribution of Factorit, a company that conducted factoring activities, which was sold in 2010.
The leasing segment was involved in a reorganisation and restructuring plan, as from the acquisition date (July 2009); with regard to the rationalisation and reorganisation transactions pursued during 2011, reference should be made to the information contained in the section "Significant events during the period" of the Report on operations to the consolidated financial statements. During the period, the policy pursued with respect to this segment was marked by a careful governance of the volumes disbursed, based on efforts addressed to leases previously entered into, without however encouraging the signing of new leases. It should be noted that, subsequent to the sale of Factorit, the Group no longer works in the field of factoring. Therefore, as of 2011, the segment has been renamed "Leasing", as there will be no financial and economic contribution from the above.

The "**Corporate Centre and Other**" segment includes the contribution of the Parent Company Banco Popolare, with regard to its governance and support functions, ALM activities, the management of the corporate proprietary portfolio and of the investment portfolio, the centralised management of treasury and forex, bond issues, Capital Management and Wholesale Funding for the entire Group.
It also includes the service companies and the real estate companies, as well as foreign banks (Banco Popolare Croatia, Banco Popolare Hungary, Banco Popolare di Verona e Novara (Luxembourg) S.A.).
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".

Based on the above described identification and aggregation criteria, shown below is the 2011 operating segment reporting, compared with the previous year. The aggregates in the "Total" column correspond to the items indicated in the Group's reclassified schedules.
Note that the "income (loss) for the period" aggregate of each segment as at 31 December 2010, which corresponds to that published last year, has been restated in terms of its component items, in order to retroactively reflect the contribution of assets reclassified in 2011 as "held for sale" under IFRS 5.

Segment results – income statement figures

31 December 2011 *(in thousands of euro)*	**Network Divisions**	**Invest. Bank, Priv. Bank., Asset Man.**	**Leasing**	**Corporate Centre and Other**	**PPA(*)**	**TOTAL**
Interest margin	1,916,273	49,568	63,387	(91,837)	(126,916)	**1,810,475**
Dividends and results from investments in associates carried at equity	511	-	1,801	(10,215)		**(7,903)**
Financial margin	**1,916,784**	**49,568**	**65,188**	**(102,052)**	**(126,916)**	**1,802,572**
Net fee and commission income	1,379,382	77,693	70	(183,716)		**1,273,429**
Other net operating income	43,521	268	30,644	6,487	(37,563)	**43,357**
Net financial result	30,452	221,490	5,262	449,827	(9,761)	**697,270**
Other operating income	**1,453,355**	**299,451**	**35,976**	**272,598**	**(47,324)**	**2,014,056**
Operating income	**3,370,139**	**349,019**	**101,164**	**170,546**	**(174,240)**	**3,816,628**
Personnel expenses	(1,113,764)	(64,919)	(23,065)	(307,529)		**(1,509,277)**
Other administrative expenses	(895,289)	(57,812)	(53,641)	258,820		**(747,922)**
Net value adjustments on property and equipment and intangible assets	(38,598)	(1,933)	(26,086)	(78,086)	(4,687)	**(149,390)**
Operating expenses	**(2,047,651)**	**(124,664)**	**(102,792)**	**(126,795)**	**(4,687)**	**(2,406,589)**
Income (loss) from operations	**1,322,488**	**224,355**	**(1,628)**	**43,751**	**(178,927)**	**1,410,039**
Net value adjustments on loans (customers)	(683,018)	321	(74,852)	(1,801)		**(759,350)**
Net value adjustments on other assets	(54,343)	446	75	(38,559)		**(92,381)**
Net provisions for risks and charges	1,234	(3,032)	(57,604)	(4,675)	3	**(64,074)**
Value adjustments on goodwill and investments in associates and companies subject to joint control	-	(20,965)	-	19,713	-	**(1,252)**
Profits (losses) on investments in associates and companies subject to joint control and other investments	38	-	12,386	61,973	(6,505)	**67,892**
Income (loss) before tax from continuing operations	**586,399**	**201,125**	**(121,623)**	**80,402**	**(185,429)**	**560,874**
Taxes on income from continuing operations	(300,878)	(80,018)	32,324	310,935	54,322	**16,685**
Income (loss) after tax from continuing operations	**285,521**	**121,107**	**(89,299)**	**391,337**	**(131,107)**	**577,559**
Income (loss) after tax on non-current assets	-					**-**
held for sale	-	5,193	1,950	8,990	(92)	**16,041**
Income (loss) for the year attributable to minority	(22,593)	(7,769)	5,136	5,499	254	**(19,473)**

31 December 2011 *(in thousands of euro)*	**Network Divisions**	**Invest. Bank, Priv. Bank., Asset Man.**	**Leasing**	**Corporate Centre and Other**	**PPA(*)**	**TOTAL**
interests						
Net income before impairment	**262,928**	**118,531**	**(82,213)**	**405,826**		
Impairment of goodwill relating to the BPVN BPI business combination				(2,831,470)		**(2,831,470)**
Income (loss) of segments gross of PPA effect	**262,928**	**118,531**	**(82,213)**	**(2,425,644)**		
Effect of PPA on segments	**(88,350)**	**(577)**	**(34,206)**	**(7,812)**	**(130,945)**	
Net income for the year	**174,578**	**117,954**	**(116,419)**	**(2,433,456)**		**(2,257,343)**

(*) PPA (Purchase Price Allocation): cost of business combination generated by the mergers with the BPI Group and the Italease Group

31 December 2010 reclassified (**) *(in thousands of euro)*	**Network Banks**	**Invest. Bank, Priv. Bank., Asset Man.**	**Leasing and Factoring**	**Corporate Centre and Other**	**PPA(*)**	**TOTAL**
Interest margin	1,877,424	83,590	106,349	(37,463)	(213,759)	**1,816,141**
Dividends and results from investments in associates carried at equity	791	76	2	37,733		**38,602**
Financial margin	**1,878,215**	**83,666**	**106,351**	**270**	**(213,759)**	**1,854,743**
Net fee and commission income	1,338,285	78,463	7,899	(157,811)		**1,266,836**
Other net operating income	30,792	(598)	22,835	44,843	(40,001)	**57,871**
Net financial result	25,409	237,687	1,486	287,363	(12,408)	**539,537**
Other operating income	**1,394,486**	**315,552**	**32,220**	**174,395**	**(52,409)**	**1,864,244**
Operating income	**3,272,701**	**399,218**	**138,571**	**174,665**	**(266,168)**	**3,718,987**
Personnel expenses	(1,109,498)	(82,947)	(29,997)	(318,460)		**(1,540,902)**
Other administrative expenses	(937,549)	(76,138)	(48,813)	302,689		**(759,811)**
Net value adjustments on property and equipment and intangible assets	(41,642)	(3,084)	(23,592)	(75,815)	(4,016)	**(148,149)**
Operating expenses	**(2,088,689)**	**(162,169)**	**(102,402)**	**(91,586)**	**(4,016)**	**(2,448,862)**
Income (loss) from operations	**1,184,012**	**237,049**	**36,169**	**83,079**	**(270,184)**	**1,270,125**
Net value adjustments on loans (customers)	(669,918)	(59,177)	(41,141)	(887)		**(771,123)**
Net value adjustments on other assets	(23,585)	(6,781)	(31)	(65,839)		**(96,236)**
Net provisions for risks and charges	(3,189)	(8,484)	(223,456)	(1,190)		**(236,319)**
Value adjustments on goodwill and investments in associates and companies subject to joint control	(978)	(23,491)	(23)	23,354		**(1,138)**
Profits (losses) on investments in associates and companies subject to joint control and other investments	3,241	418	104,448	(55,013)	(40,395)	**12,699**
Income (loss) before tax from continuing operations	**489,583**	**139,534**	**(124,034)**	**(16,496)**	**(310,579)**	**178,008**
Taxes on income from continuing operations	(238,112)	(52,382)	322,886	(14,468)	97,303	**115,227**
Income (loss) after tax from continuing operations	**251,471**	**87,152**	**198,852**	**(30,964)**	**(213,276)**	**293,235**
Income (loss) after tax on non-current assets held for sale	268	22,395	7,069	36,413	(27,853)	**38,292**
Income (loss) for the year attributable to minority interests	(21,905)	(7,787)	(10,037)	8,747	7,470	**(23,512)**
Income (loss) of segments gross of PPA effect	**229,834**	**101,760**	**195,884**	**14,196**		
Effect of PPA on segments	**(109,564)**	**(17,727)**	**(96,502)**	**(9,866)**	**(233,661)**	
Net income for the year	**120,270**	**84,033**	**99,382**	**4,330**		**308,015**

(*) PPA (Purchase Price Allocation): cost of business combination generated by the mergers with the BPI Group and the Italease Group
(**) The figures were reclassified to comply with IFRS 5

Segment results – balance sheet figures

31 December 2011 *(in thousands of euro)*	**Network Divisions**	**Invest. Bank, Priv. Bank., Asset Man.**	**Leasing**	**Corporate Centre and Other**	**PPA(*)**	**TOTAL**
Loans to customers	78,145,297	1,452,066	8,139,249	5,649,129	8,584	93,394,325
Total assets	**88,467,919**	**18,524,028**	**10,531,147**	**17,963,252**	**(1,359,728)**	134,126,618

(*) PPA (Purchase Price Allocation): cost of business combination generated by the mergers with the BPI Group and the Italease Group.

31 December 2010 *(in thousands of euro)*	**Network Banks**	**Invest. Bank, Priv. Bank., Asset Man.**	**Leasing and Factoring**	**Corporate Centre and Other**	**PPA(*)**	**Total**
Loans to customers	78,973,380	4,050,865	9,624,663	1,721,956	91,041	94,461,905
Total assets	**95,667,344**	**24,150,162**	**12,477,303**	**3,451,117**	**(590,254)**	**135,155,672**

(*) PPA (Purchase Price Allocation): cost of business combination generated by the mergers with the BPI Group and the Italease Group.

31 December 2011 *(in thousands of euro)*	Network Divisions	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	70,996,212	8,337,365	3,488,100	17,472,735	(94,453)	100,199,959
Total liabilities	**88,467,919**	**18,524,028**	**10,531,147**	**17,963,252**	**(1,359,728)**	134,126,618

(*) PPA (Purchase Price Allocation): cost of business combination generated by the mergers with the BPI Group and the Italease Group.

31 December 2010 *(in thousands of euro)*	Network Banks	Invest. Bank, Priv. Bank., Asset Man.	Leasing and Factoring	Corporate Centre and Other	PPA(*)	Total
Due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss	71,179,084	10,927,369	5,297,497	17,267,251	(147,452)	104,523,749
Total liabilities	**95,667,344**	**24,150,162**	**12,477,303**	**3,451,117**	**(590,254)**	**135,155,672**

(*) PPA (Purchase Price Allocation): cost of business combination generated by the mergers with the BPI Group and the Italease Group.

31 December 2011 *(in thousands of euro)*	Network Divisions	Invest. Bank, Priv. Bank., Asset Man.	Consumer Credit	Other	Leasing	Total
Investments in associates and companies subject to joint control subject to significant influence	-	74,991	805,828	184,029	115,539	1,180,387

31 December 2010 *(in thousands of euro)*	Network Banks	Invest. Bank, Priv. Bank., Asset Man.	Consumer Credit	Other	Leasing and Factoring	Total
Investments in associates and companies subject to joint control subject to significant influence	-	85,472	1,116,164	310,505	129,307	1,641,448

Note that the majority of the assets and the 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.
A breakdown of operating income and assets by geographic area is presented below.

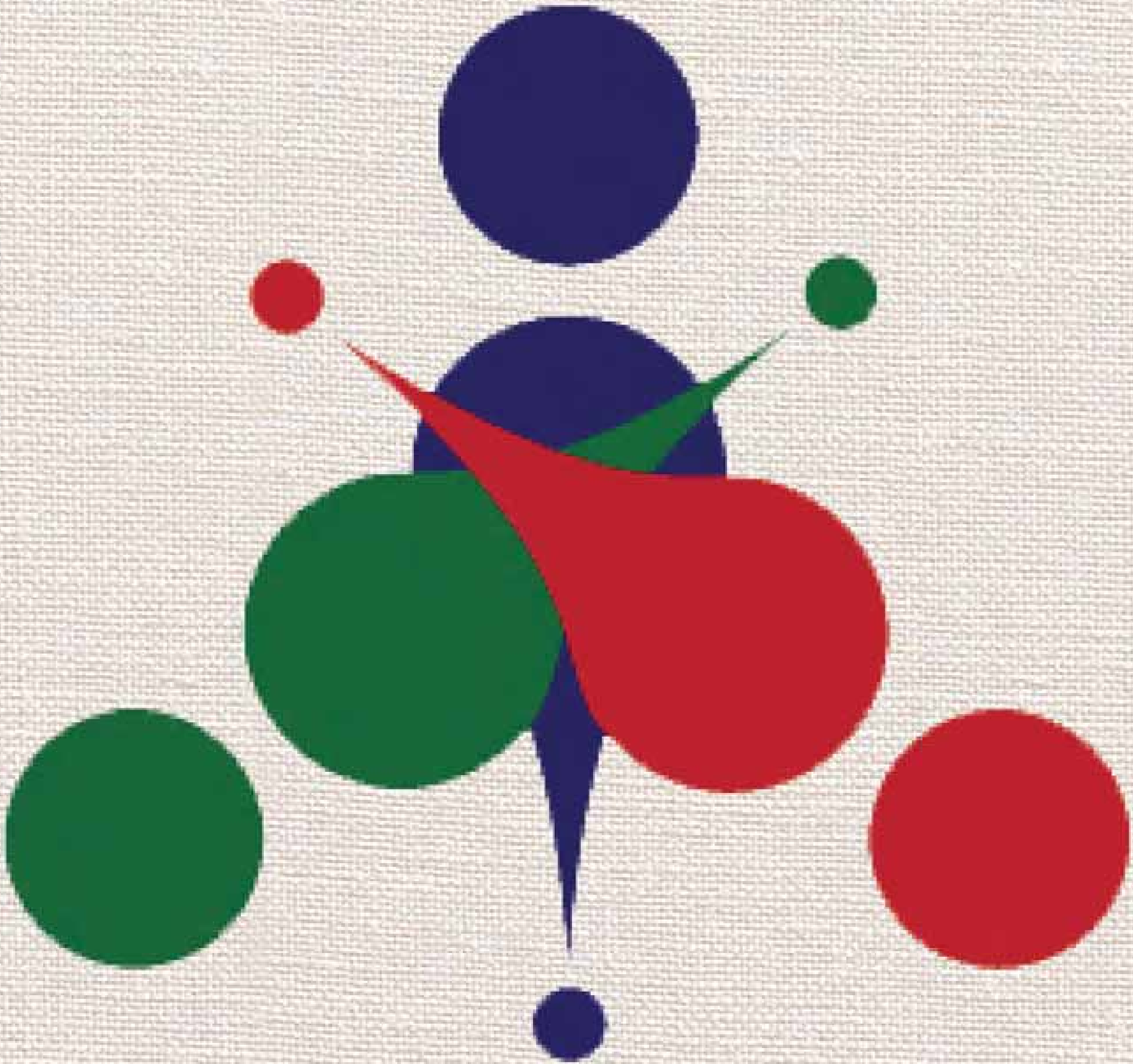
31 December 2011 *(in thousands of euro)*	Italy	Foreign operations	Other	Total
Operating income	**3,685,408**	**131,471**	**(251)**	**3,816,628**

31 December 2010 *(in thousands of euro)*	Italy	Foreign operations	Other	Total
Operating income	**3,629,015**	**95,317**	**(5,345)**	**3,718,987**

31 December 2011 *(in thousands of euro)*	Italy	Foreign operations	Other	Total
Total assets	**135,094,872**	**6,945,908**	**(7,914,162)**	**134,126,618**

31 December 2010 *(in thousands of euro)*	Italy	Foreign operations	Other	Total
Total assets	**136,119,923**	**7,288,792**	**(8,253,043)**	**135,155,672**

“Dots”



MARIA J. GOMEZ

“G.B. Cignaroli” Academy of Fine Arts, Verona

A symbol, an identity that everyone recognises. A point of contact where customers, workers and local communities find themselves in a single point, generating new meeting points. Three colours loaded with expressiveness. Red for protection, blue for stability and green for hope and serenity in our daily lives.

Annual Report

Year 2011

Attachments

Statement of significant equity investments pursuant to Article 126 of Consob Regulation No. 11971 of 14 May 1999 (*)

(Shareholdings exceeding 10% of capital represented by shares or quotas with voting rights in listed companies, held directly or indirectly, for any reason)

Subsidiaries	Percentage		Holder	Type of ownership
	Direct	Indirect		
Applicomp (India) Ltd		43.20%	Partecipazioni Italiane	Ownership
Archimede 1 S.p.A.	15.00%		Banco Popolare	Ownership
Banca Network Investimenti S.p.A.	19.92%		Banco Popolare	Ownership
Banca della Nuova Terra S.p.A.	19.50%		Banco Popolare	Ownership
Biasi S.p.A.	10.60%		Banco Popolare	Ownership
Black & Blue GMBH (in bankruptcy)	24.82%		Banco Popolare	Ownership
Earchimede S.p.A.	11.92%		Banco Popolare	Ownership
E-Mid Sim S.p.A.	10.60%		Banco Popolare	Ownership
FMCE S.p.A. (in bankruptcy)	15.60%		Banco Popolare	Ownership
Gruppo Operazioni Underwriting Banche Popolari S.r.l.		12.50%	Banca Aletti & C.	Ownership
Gruppo Stabila S.p.A.	12.13%		Banco Popolare	Ownership
H.D.C. S.p.A. (in bankruptcy)	15.14%		Banco Popolare	Ownership
Istituto Centrale delle Banche Popolari Italiane S.p.A.	9.62%		Banco Popolare	Ownership
		5.76%	Holding di Partecipazioni BP	Ownership
LU.CEN.SE. S.p.A.	12.50%		Banco Popolare	Ownership
Nuova Foar S.r.l. (in bankruptcy)		29.97%	COFILP	Ownership
Polis Fondi Immobiliari di Banche Popolari S.G.R.P.A.	19.60%		Banco Popolare	Ownership
S.P.I.L. Società Porto Industriale di Livorno S.p.A.	14.94%		Banco Popolare	Ownership
Società Gestione Crediti Delta S.p.A.	16.00%		Banco Popolare	Ownership
Tecnosistemi S.p.A. (under extraordinary receivership)	14.50%		Banco Popolare	Ownership
Unione Fiduciaria S.p.A.	15.00%		Banco Popolare	Ownership
		0.40%	Banca Italease	Ownership
United Business Holding S.p.A.	17.15%		Banco Popolare	Ownership
Albergo Basilea S.r.l.	100.00%		Banco Popolare	Pledge
Aurelia 80 S.p.A.	50.00%		Banco Popolare	Pledge
Aviongas S.r.l.		28.58%	Credito Bergamasco	Pledge
Avion Service S.r.l.		28.58%	Credito Bergamasco	Pledge
Bermugas S.r.l.		28.58%	Credito Bergamasco	Pledge
Carlo Raimondi fu Rodolfo S.r.l. in liquidation	13.05%		Banco Popolare	Pledge
C.G.M. S.r.l.	11.11%		Banco Popolare	Pledge
Consultinvest S.p.A.	12.01%		Banco Popolare	Pledge
Deca S.r.l.	60.00%		Banco Popolare	Pledge
Demiced S.r.l.	90.00%		Banco Popolare	Pledge
EMC2 S.r.l.	99.00%		Banco Popolare	Pledge
Eulip S.p.A.	40.00%		Banco Popolare	Pledge
Farmigea S.p.A.	100.00%		Banco Popolare	Pledge
F.M.H. S.r.l.	25.00%		Banco Popolare	Pledge
Fosber S.p.A.	30.00%		Banco Popolare	Pledge
G.F. Uno Real Estate S.r.l.	100.00%		Banco Popolare	Pledge
G.M. Immobili S.r.l.		28.58%	Credito Bergamasco	Pledge
Gregory Servizi S.r.l.	100.00%		Banco Popolare	Pledge
Gruppo Stabila Stabilimenti Italiani Laterizi S.p.A.	11.66%		Banco Popolare	Pledge
Immobiliare Futura S.r.l.	90.00%		Banco Popolare	Pledge
Latin Spark Italy S.r.l.	51.00%		Banco Popolare	Pledge
Ma-Fra S.r.l.	100.00%		Banco Popolare	Pledge
Massa Graniti S.r.l.	11.11%		Banco Popolare	Pledge
New Dieresin S.r.l.	100.00%		Banco Popolare	Pledge
O.M.P. S.r.l.	100.00%		Banco Popolare	Pledge
Plastic Company S.p.A.	22.22%		Banco Popolare	Pledge
Pneus 2000 S.p.A.	20.00%		Banco Popolare	Pledge
Telma S.r.l.	52.00%		Banco Popolare	Pledge
TS EDE S.r.l.	100.00%		Banco Popolare	Pledge
TTL S.r.l.	100.00%		Banco Popolare	Pledge
Wemar 2002 S.r.l.	100.00%		Banco Popolare	Pledge

(*) The list does not include consolidated companies.

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule as at 31 December 2011

Reclassified income statement items *(in thousands of euro)*		**2011**	**Recl. Merchant B. Invest.**	**Reclassificati ons**	**Reclassified schedule**
10	Interest and similar income	4,208,276	(1,201)	-	
20	Interest and similar expense	(2,394,602)	387	(2,385) a)	
	Interest margin				*1,810,475*
	Profits (losses) on investments in associates and companies subject to joint control			(7,903) b)	
	Income (loss) from investments in associates carried at equity				*(7,903)*
	Financial margin				**1,802,572**
40	Fee and commission income	1,367,655	-		
50	Fee and commission expense	(94,275)	49		
	Net fee and commission income				*1,273,429*
220	Other operating expenses	245,879	(1,974)	(200,548) c)	
	Other net operating income				*43,357*
	Interest and similar expense			2,385 a)	
70	Dividends and similar income	67,716	-	-	
80	Profits (losses) on trading	26,149	-	-	
90	Fair value adjustments in hedge accounting	**(4,538)**	-		
100	Profits (losses) on disposal or repurchase	81,653	-	4,937 d)	
	Net losses / recoveries on impairment			(3,653) e)	
110	Profits (losses) on financial assets and liabilities designated at fair value	522,620	1		
	Net financial result				*697,270*
	Other operating income				**2,014,056**
	Operating income				**3,816,628**
180 a)	*Personnel expenses*	(1,490,916)	384	(18,745) g)	*(1,509,277)*
180 b)	*Other administrative expenses*	(949,029)	1,890	180,472 c) 18,745 g)	*(747,922)*
200	Net adjustments to / recoveries on property and equipment	(93,080)	1		
210	Net adjustments to / recoveries on intangible assets	(79,368)	-	20,076 c) 2,981 f)	
	Net value adjustments on property and equipment and intangible assets				*(149,390)*
	Operating expenses				**(2,406,589)**
	Income (loss) from operations				**1,410,039**
	Profits (losses) on disposal or repurchase			(4,937) d)	
130	Net losses / recoveries on impairment	(850,447)		3,653 e)	
	Net adjustments on loans to customers				*(759,350)*
	Net adjustments on receivables due from banks and other assets				*(92,381)*
190	*Net provisions for risks and charges*	(64,074)	-	-	*(64,074)*
240	Profits (losses) on investments in associates and companies subject to joint control	(300,466)		(43,138) b)	
260	Value adjustments on goodwill	(2,766,564)		342,352 f) 2,766,564 f)	
	Value adjustments on goodwill and investments in associates and companies subject to joint control				*(1,252)*
270	Profits (losses) on disposal of investments	16,851		51,041 (b)	
	Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments				*67,892*
	Income (loss) before tax from continuing operations			-	**560,874**
290	Taxes on income from continuing operations	293,823	187	(277,325) f)	
	Taxes on income from continuing operations				*16,685*
310	Income (loss) after tax from discontinued operations	15,765	276		
	Income (loss) after tax from discontinued operations				*16,041*
330	Net income (loss) attributable to minority interests	(16,371)	-	(3,102) f)	
	Net income (loss) attributable to minority interests				*(19,473)*
	Net income before impairment			-	**574,127**
	Impairment of goodwill relating to the BPVN BPI business combination			(2,828,489) f) (2,981) f)	*(2,831,470)*
	Parent Company's net income (loss)	**(2,257,343)**	**-**	**-**	**(2,257,343)**

The letters shown beside the column "Other Reclassifications" have been included for the purpose of better understanding of the reclassifications carried out.

With regard to the statement of reconciliation shown above, the revenues and expenses of the investee companies relating to merchant banking activities carried out by the Group, which do not fall within the sphere of application of IFRS 5 but which in essence represent assets held for sale, are recorded in the consolidated income statement in the item Income/(loss) after tax from discontinued operations (euro 0.3 million as at 31 December 2011). In quantitative terms, these reclassifications are shown in the table above in the column "Merchant Banking Investment Reclassifications".
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 2.4 million;
- the item **"Income (loss) from investments in associates carried at equity"** shows the portion of the economic results pertaining to investee companies carried at equity (included in item 240) totalling -7.9 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 statements item "220 Other operating income/expenses", with the recoveries on indirect taxes, legal fees and other expenses, totalling euro 180.4 million, separated out, which, for reclassification purposes are shown in the item "Other administrative expenses". The item in question also does not include the amortisation charges on costs for improvements to third party assets of euro 18.4 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 38.5 million (taken from item 210 of the official schedule). The effect of the aforementioned reclassifications was negative overall for euro 200.5 million;
- the item **"Personnel expenses"** is represented by the financial statements item "180 a) Personnel expenses" and by several charges functionally related to personnel, amounting to euro 18.7 million, recognised in the balance sheet in item 180 b) "Other administrative expenses";
- the income statement item **"Net financial result"** includes dividends on shares classified under financial assets available for sale and financial assets held for trading (item 70), the "Profits (losses) on trading" (item 80), the "Fair value adjustments in hedge accounting (item 90), and the "Profits (losses) on financial assets and liabilities designated at fair value through profit and loss" (item 110). It also includes "Profits (losses) on disposal or repurchase" (item 100), with the exception of the loss of euro 4.9 million relating to the disposal of loans not represented by debt securities, classified in the operational aggregate "Net value adjustments on loans to customers". The reclassified item also includes the value adjustments on debt securities in the "Loans" portfolio, equal to euro 3.6 million, recognised in the financial statements under item "130. Net losses / recoveries on impairment", and the figurative costs of euro 2.4 million for structured products as described in the item relating to the "Interest margin". Overall, the aforementioned reclassifications amount to a positive figure of euro 3.7 million;
- the item "**Other administrative expenses**" is represented by the financial statements item 180 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling euro 180.4 million, included in the item "220 Other operating income/expenses", as described above, and of several charges functionally related to personnel, amounting to euro 18.7 million, recognised in the reclassified item "Personnel expenses";
- the item "**Net value adjustments on property and equipment and intangible assets"** equals the balance sheet items 200 and 210, gross of the portion of amortisation on costs for improvements to third party assets, of euro 18.4 million, recognised in the item "220 Other operating income/expenses" and net of the adjustments to intangible assets with definite useful lives (client relationship), grouped in the reclassified aggregate "Other net income from operations", of euro 38.5 million and in the reclassified item of "value adjustments to goodwill" of euro 3 million. The total effect of the aforementioned adjustments on the aggregate was a positive euro 23.1 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 4.9 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), excluding impairment recorded on debt securities classified in the loans portfolio, amounting to euro 3.6 million, which from an operational point of view is classified in the "Net financial result";
- the item **"Impairment of goodwill relating to the BPVN BPI business combination"**, of euro 2,831.5 million, is the result of the combination of the following components:
  - value adjustments of intangible assets allocated to the different CGU totalling euro 2,769.5 million, euro 2,766.5 of which was recognised in item 260 of the official income statement "Value adjustments on goodwill" and euro 3 million of which in item 210 "Net adjustments to / recoveries on intangible assets";
  - value adjustments to investments carried at equity, corresponding to euro 342.4 million, recognised on the official income statement in item 240 "Profits (losses) on investments in associates and companies subject to joint control", euro 332.3 million of which relates to Agos-Ducato and euro 10.1 million to Finoa (included in item 330 of the official income statement);

- o the positive impact resulting from prepaid and deferred taxes on the above-described write-downs totalling euro 277.3 million (shown in item 290 of the income statement "Taxes on income from continuing operations";
- o the positive impact of the allocation to minority shareholders of adjustments pertaining to the same of euro 3.1 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 of euro 51 million (which represents one of which of item 240 of the official income statement).

Reconciliation between the income statement schedules for 2010 and the same restated for comparative purposes

Income statement items *(in thousands of euro)*	**31/12/2010**	**Reclassifications for Bank of Italy "Roneata"**	**IFRS 5 reclassifications**	**31/12/2010 restated**
10 Interest and similar income	3,762,889	(946)	6,171	3,768,114
20 Interest and similar expense	(1,957,861)	469	4,193	(1,953,199)
30 Interest margin	**1,805,028**	**(477)**	**10,364**	**1,814,915**
40 Fee and commission income	1,419,847	946		1,420,793
50 Fee and commission expense	(154,123)	(469)	595	(153,997)
60 Net fee and commission income	**1,265,724**	477	**595**	**1,266,796**
70 Dividends and similar income	374,222	-		374,222
80 Profits (losses) on trading	(296,897)	-		(296,897)
90 Fair value adjustments in hedge accounting	11,293	-		11,293
100 Profits (losses) on disposal or repurchase of:	31,935	-	-	31,935
a) loans	328	-		328
b) financial assets available for sale	5,628	-		5,628
c) investments held to maturity	(8)	-		(8)
d) financial liabilities	25,987	-		25,987
110 Profits (losses) on financial assets and liabilities designated		-		
at fair value	425,690	-		425,690
120 Net interest and other banking income	**3,616,995**	**-**	**10,959**	**3,627,954**
130 Net losses / recoveries on impairment of:	(873,206)	-	-	(873,206)
a) loans	(782,377)	-		(782,377)
b) financial assets available for sale	(53,418)	-		(53,418)
c) investments held to maturity	-	-		-
d) other financial activities	(37,411)	-		(37,411)
140 Net income from banking activities	**2,743,789**	**-**	**10,959**	**2,754,748**
180 Administrative expenses:	(2,625,341)	-	138,066	(2,487,275)
a) personnel expenses	(1,679,375)	23,044	138,276	(1,518,055)
b) other administrative expenses	(945,966)	(23,044)	(210)	(969,220)
190 Net provisions for risks and charges	(236,319)	-		(236,319)
200 Net adjustments to / recoveries on property and equipment	(128,661)	-	36,426	(92,235)
210 Net adjustments to / recoveries on intangible assets	(78,312)	-	1,030	(77,282)
220 Other operating income (expenses)	492,618	-	(227,606)	265,012
230 Operating expenses	**(2,576,015)**	**-**	**(52,084)**	**(2,628,099)**
240 Profits (losses) on investments in associates and companies subject to joint control	42,190	-		42,190
260 Value adjustments on goodwill	-	-		-
270 Profits (losses) on disposal of investments	7,973	-		7,973
280 Income (loss) before tax from continuing operations	**217,937**	**-**	**(41,125)**	**176,812**
290 Taxes on income from continuing operations	99,922	-	14,828	114,750
300 Income (loss) after tax from continuing operations	**317,859**	**-**	**(26,297)**	**291,562**
310 Income (loss) after tax from		-		
discontinued operations	13,668	-	26,297	39,965
320 Net income (loss)	**331,527**	**-**	**-**	**331,527**
330 Net income (loss) attributable to minority interests	(23,512)	-		(23,512)
340 Parent Company's net income (loss)	**308,015**	**-**	**-**	**308,015**

Reconciliation between the income statement for 2010 and the same restated for comparative purposes

Reclassified income statement items *(in thousands of euro)*	**31/12/2010**	**IFRS 5 reclassifications**	**31/12/2010 restated**
Interest margin	1,812,481	3,660	1,816,141
Income (loss) from investments in associates carried at equity	38,602		38,602
Financial margin	**1,851,083**	**3,660**	**1,854,743**
Net fee and commission income	1,266,359	477	1,266,836
Other net operating income	62,558	(4,687)	57,871
Net financial result	539,537		539,537
Other operating income	**1,868,454**	**(4,210)**	**1,864,244**
Operating income	**3,719,537**	**(550)**	**3,718,987**
Personnel expenses	(1,544,260)	3,358	(1,540,902)
Other administrative expenses	(759,390)	(421)	(759,811)
Net value adjustments on property and equipment and intangible assets	(148,283)	134	(148,149)
Operating expenses	**(2,451,933)**	**3,071**	**(2,448,862)**
Income (loss) from operations	**1,267,604**	**2,521**	**1,270,125**
Net adjustments on loans to customers	(771,123)		(771,123)
Net adjustments on receivables due from banks and other assets	(96,236)		(96,236)
Net provisions for risks and charges	(236,319)		(236,319)
Value adjustments on goodwill and investments in associates and companies subject to joint control	(1,138)		(1,138)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	12,699		12,699
Income (loss) before tax from continuing operations	**175,487**	**2,521**	**178,008**
Taxes on income from continuing operations	114,536	691	115,227
Income (loss) after tax from merchant banking investments			-
and from discontinued operations	41,504	(3,212)	38,292
Net income (loss) attributable to minority interests	(23,512)	-	(23,512)
Parent Company's net income (loss)	**308,015**	**-**	**308,015**

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