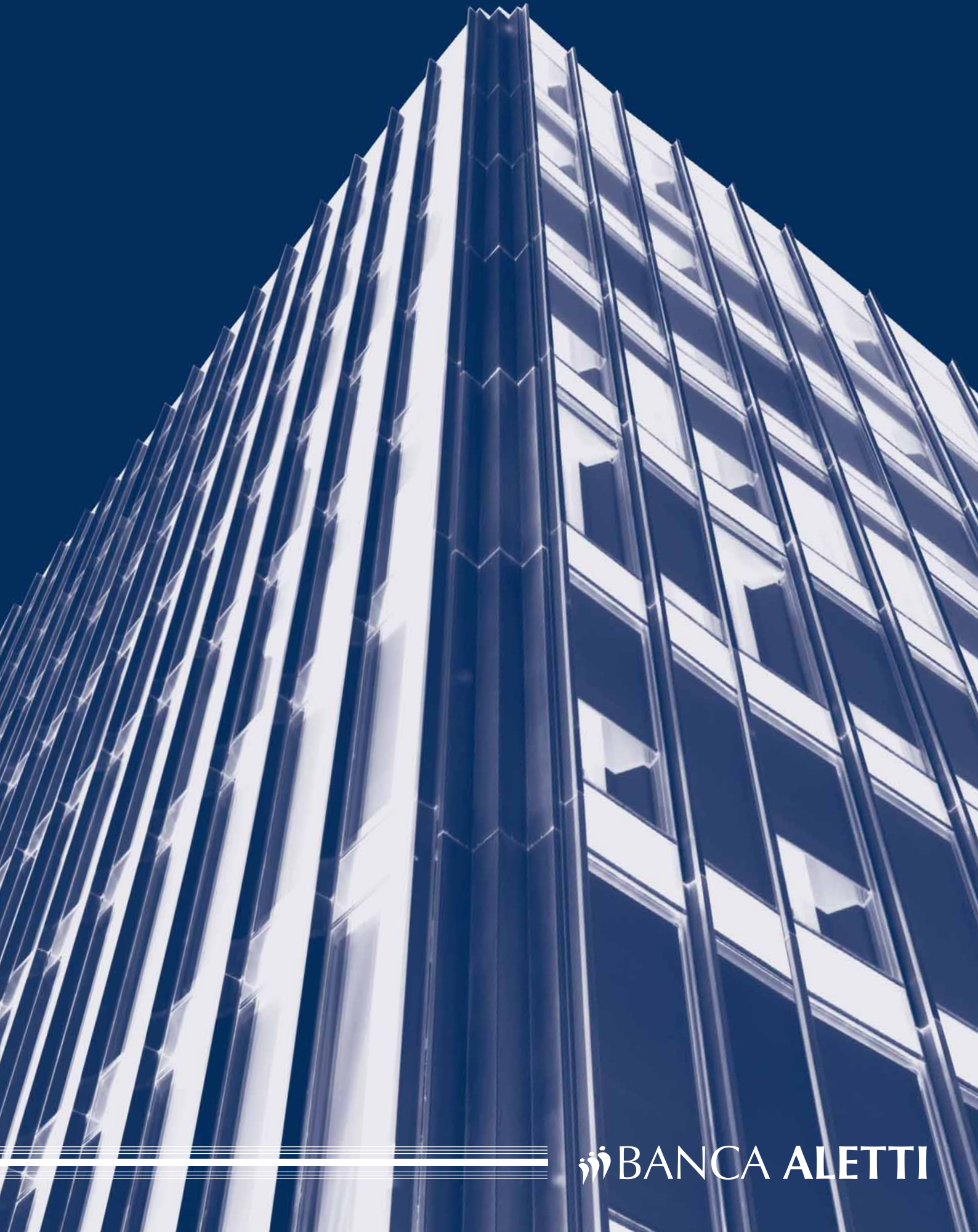


BANCA ALETTI. ANNUAL REPORT 2010.







Banca Aletti & C. S.p.A.
(Banco Popolare Banking Group)
under the management and coordination of Banco Popolare

Registered Office: Via Santo Spirito 14 – 20121 Milan, Italy
Fully paid-up share capital € 121,163,538.96
Milan Register of Companies
Tax Code and Registration number 00479730459
VAT no. 10994160157
Registered Bank

Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund

CORPORATE OFFICERS

Board of Directors

Chairman:

Urbano Aletti

Deputy Chairman:

Andrea Sironi

Directors:

Alberto Bauli
Bruno Bertoli
Cristiano Carrus
Marco Franceschini
Bruno Pezzoni

Board of Statutory Auditors

Chairman:

Maria Gabriella Cocco

Standing Auditors:

Alfonso Sonato

Franco Valotto

Alternate Auditors:

Marco Bronzato

Alberto Tron-Alvarez

General Manager

Maurizio Zancanaro

Deputy General Manager

Franco Dentella

Manager responsible for the preparation of corporate accounting documents

Roberto Gori

Independent Auditors

Reconta Ernst & Young S.p.A.



TABLE OF CONTENTS

| | |
|--------------------------------------------------------------------------------------------------------|------------|
| Financial highlights | 9 |
| Report on operations | 11 |
| Outcome of policies and strategies | 12 |
| Significant events | 14 |
| Reclassified balance sheet and income statement | 15 |
| Economic, financial and risk management policies | 18 |
| Planning, auditing and support services | 26 |
| Information on related party transactions | 34 |
| Banking activities | 35 |
| Business outlook | 40 |
| Profit allocation proposal | 41 |
| Statement of the Manager responsible for the preparation of corporate accounting documents..... | 43 |
| Statutory Auditors' Report..... | 45 |
| Independent Auditors' Report..... | 53 |
| Separate financial statements | 57 |
| Balance sheet..... | 58 |
| Income statement..... | 59 |
| Statement of comprehensive income | 60 |
| Statement of changes in shareholders' equity..... | 61 |
| Cash flow statement | 63 |
| Notes to the Financial Statements..... | 65 |
| Part A – Accounting policies..... | 66 |
| Part B – Balance sheet data | 87 |
| Part C – Income statement data | 113 |
| Part D – Comprehensive income..... | 126 |
| Part E – Information on risks and related hedging policies | 127 |
| Part F – Information on capital | 172 |
| Part H – Related party transactions..... | 176 |
| Part L – Operating segments..... | 177 |
| Annexes..... | 179 |



FINANCIAL HIGHLIGHTS

| | 31-12-2010 | 31-12-2009 | Changes |
|--------------------------------------------------------|------------|------------|---------|
| Income statement (in millions of euro) | | | |
| Interest margin | 30.11 | 53.07 | -43.28% |
| Net commissions | 35.81 | 66.16 | -45.86% |
| Operating income | 290.29 | 337.65 | -14.03% |
| Operating costs | -99.55 | -104.94 | -5.14% |
| Operating profit | 190.74 | 232.71 | -18.03% |
| Profit/(loss) on current operations before tax | 190.15 | 228.43 | -16.76% |
| Net profit/(loss) on current operations | 136.50 | 162.56 | -16.03% |
| Profit for the year | 136.50 | 162.56 | -16.03% |
| Balance sheet (in millions of euro) | | | |
| Total assets | 9,939.99 | 10,691.88 | -7.03% |
| Net loans to customers | 1,510.03 | 1,177.27 | 28.27% |
| Financial assets and hedging derivatives | 6,515.30 | 6,189.07 | 5.27% |
| Shareholders' equity | 576.47 | 596.30 | -3.33% |
| Customer financial assets (in millions of euro) | | | |
| Direct deposits | 746.83 | 892.05 | -16.28% |
| Indirect deposits | 17,022.51 | 15,306.93 | 11.21% |
| - Asset management | 14,112.12 | 12,178.65 | 15.88% |
| - Mutual funds and Sicavs | 553.96 | 437.69 | 26.57% |
| - Securities and fund management | 13,471.85 | 11,695.75 | 15.19% |
| - Insurance policies | 86.31 | 45.22 | 90.86% |
| - Administered assets | 2,910.39 | 3,128.28 | -6.97% |
| Organisation and operating performance | | | |
| Average workforce (*) | 433 | 467 | -7.26% |
| Number of branches | 36 | 36 | 0.00% |
| Net loans to customers per employee (€/1000) | 3,487 | 2,521 | 38.31% |
| Operating income per employee (€/1000) | 670 | 723 | -7.30% |
| Operating costs per employee (€/1000) | 230 | 225 | 2.28% |
| Operating profit per employee (€/1000) | 440 | 498 | -11.62% |
| Profitability ratios (%) | | | |
| ROE | 31.03% | 37.48% | -17.22% |
| Interest margin/Operating income | 10.37% | 15.72% | -34.02% |
| Net commissions/Operating income | 12.34% | 18.98% | -34.98% |
| Operating costs/Operating income | 34.29% | 31.08% | 10.34% |

(*) Arithmetic mean calculated monthly.



POWER

ERON

REPORT ON OPERATIONS

OUTCOME OF POLICIES AND STRATEGIES

The economic context

Global scenario

During 2010, the global economic recovery continued mainly as a result of the dynamics of international trade, with characteristics that were unique to individual geographic-economic areas. Emerging economies (particularly China) had very high growth rates, as they were the indirect beneficiaries of expansive monetary policies in the West, and the key industrialised economies, while growing, showed signs of continued difficulty in surmounting the effects of the recent global financial crisis.

In general, international economic development remain dependent on expansive, anti-crisis measures that were enacted, restrained by a general reduction in financial leverage from the private sector, by unfavourable market conditions in developed countries and by the government debt crisis in Europe related to large public deficits (Greece, Ireland, Portugal and Spain).

Specifically, U.S. GDP grew 2.9% in 2010, compared to a decline of 2.5% in 2009. As for the components, the primary contribution from consumer spending grew 1.8%, compared to a decline of 1.2% in 2009 in addition to strong performance in exports, +11.7%. Gross fixed investments in the private sectors recovered from its drop of 22.6% in 2009, posting growth of 16.7%. The building of inventories provided a positive contribution of 1.38% to the overall growth rate. Consumer prices showed an upward trend, however, prices were contained for the most part: in December the relative index was up 1.6% on a trend basis.

In Japan, GDP for the fourth quarter grew 1.1% on an annual basis (+4.5% in the third quarter), chiefly sustained by private consumption and exports. The contribution to growth from these two factors began declining compared to prior quarters due to the persistently high exchange rates.

In China, GDP grew in the third quarter of 2010 by 9.6% on a trend basis, confirming estimates that it will surpass the Japanese GDP in absolute terms by the end of the year. This growth occurred despite restrictive policies adopted by the Chinese Bank that, beginning in December 2010, again raised the mandatory reserve requirement for commercial banks by 50 basis points, the second time in two weeks and the fifth time in a year. This decision was made to fight inflationary pressure, after the consumer price index grew 3.6% in September on a trend basis and in October consumer prices were at their highest level in the last 25 months.

The strengthening of the global economic recovery and the substantial liquidity made available with the monetary policies of the last two years brought back vitality in raw material trends in 2010. Specifically, beginning in the third quarter of the year, there were once again moderate inflationary pressures on prices in international markets. Crude oil prices stood at more than 70 dollars per barrel at the end of the year, and then began to increase rapidly following tensions in North Africa. Gold reached a record high of more than 1,300 dollars per ounce. Agricultural raw materials showed a particularly significant upsurge, reaching record levels in some cases.

European and Italian Scenario

The Eurozone benefitted from an increase in exports due to the drop in the currency's value, caused by the Greek debt crisis, followed by similar crises in Ireland and Portugal. In the second half of the year, the expansionary pressure was offset by the effects of fiscal policies, which became more restrictive to prevent the Greek crisis from spreading to other countries. Over the twelve months, overall growth was moderate, but not consistent: while certain "core" countries saw a significant recovery in production activities, Germany being the primary example, other economies in the Eurozone showed continued weakness. The so-called peripheral countries did not experience a recovery in 2010 and the growth rate in their GDPs appears negative in the initial data for balances.

According to the latest available data, in the EA-16 region, GDP grew 1.7% in 2010. Exports for the region grew 20% on an annual trend basis. This phenomenon was particularly beneficial for Germany, due to its high penetration in Asian markets. However, growth of 24% annually for imports more than offset the export levels, at an aggregate level the positive trend in exports and the commercial trade balance declined from 3.2 billion euro in December 2009 to a negative balance of 0.5 billion euro in December 2010.

Inflation grew in comparison to 2009, closing the year at a 2.6% annual rate, over the 1.5% rate from the previous year.

Government deficits represented the weakest element in the European economic-financial situation. After the worsening of the public debt situation in the Eurozone in 2009, when the deficit/GDP ratio jumped to 6.3% from 2% in 2008, the situation seemed to stabilise in 2010: according to the initial indications, the ratio remains at 6.3% for the year.

As regards Italy, the economic growth rate was enhanced by the strong increase in exports, similar to our European neighbours. The expansionary stimulus, however, did not spread to domestic demand, which had a dampening effect on growth in the second half of the year. Uncertainties regarding unemployment in upcoming periods caused Italian families to adjust their consumption plans and increase savings. Expenditures by resident Italian families remained more or less consistent with the levels seen in the third quarter of 2009. At the same time, a depressive effect was caused by a spending reduction from Public Administration, due to containment plans initiated by the government.

After the sharp acceleration experienced in the first half of the year, gross fixed investments then slowed down, at least partly associated with the Tremonti-ter tax incentives not having the intended effect. After two years of sharp declines, the construction investment component showed the first weak signals of a reversal in the trend in the second half of the year,

particularly in the non-residential segment. Overall, 2010 GDP grew 1.3% over 2009. As regards the individual components, current estimates indicate increases of 0.6% in domestic consumption, 2.5% in gross fixed investments, 9.1% in exports of goods and services and 10.5% in imports. As a result, net exports of goods and services, which was already negative in 2009, continued to worsen.

With stagnant economic growth, consumer prices remained moderate, though increasing, posting an annual rate of 1.8% in December. Public finance closed the year with an improvement in the government sector deficit, both in terms of trends as well as cumulatively from the beginning of the year, ending at 67.5 billion euro against 85.8 billion euro in December 2009. The primary balance, equivalent to net indebtedness less interest expense, is currently -1,059 million euro, or -0.1% of GDP, an improvement compared to -0.7% in 2009. Italy is not among the most exposed countries in Europe, with a deficit/GDP ratio of 4.6%, in the initial ISTAT (Italian Statistics Institute) estimates, against 5.4% in 2009, even though the public debt level is among the highest. The ratio of government debt/GDP increased 3 percentage points, from 116% to 119%.

Money markets and financial markets

The climate in financial markets remained moderately positive, despite the crises in the Eurozone, as a result of expansive monetary policies in the chief industrialised economies, especially the United States. The key stock markets in the USA, Europe, Japan, China, and particularly emerging countries, closed the year positively, however with significant and widespread exceptions, including the drop in the Italian markets (FTSE MIB -13.2%) and weakness in the financial securities segment, particularly in Europe. The latter also experienced a progressive increase in financing costs in bond markets resulting from the increase in the credit risk premium required by subscribers. Government securities, especially European, continued to reflect concern over the considerable number of bond issues maturing in 2011, and the subsequent need for refinancing. The return of relative instability in currency markets and the temptation for competitive devaluations among industrialised countries, in order to stimulate exports in weak domestic economies, confirmed that the process of reducing international imbalances and absorbing the effects of the financial crisis will be slow and gradual.

During the year, the Fed kept the refinancing rate unchanged, at a level between 0% and 0.25%, and in the fourth quarter launched a prominent expansive initiative involving more than 600 billion US dollars (the so-called "Quantitative Easing 2") in order to support the economy. The ECB maintained the official rate at 1% throughout 2010 and continued to use the auction method at fixed rates for refinancing transactions, fully meeting demand. In general, interbank markets have remained strictly dependent on central banks' transactions in absence of a revitalisation of liquidity exchange between intermediaries due to the ever-present fears of counterparty risk. Money market rates fell in the initial months of the year, reaching historical lows (the 3-month Euribor rate reached 0.63%). The rates then began to recover toward the end of April, due to a more accommodating stance by the ECB compared to its counterpart across the Atlantic, and the rates on all maturities began to recover during the year. From October onward, the 3-month Euribor stabilised at around 1%, also as a result of ECB transactions to reduce excess liquidity.

In Europe, to respond to swings in the market for Greek government securities which developed in April, European Union (EU) authorities and Eurozone member countries agreed in May to a financial support plan that included granting bilateral loans for a total amount of 80 billion euro. The IMF granted an additional 30 billion euro, while the ECB subsidised the use of securities issued or guaranteed by the Greek government in banks' refinancing transactions. At almost the same time, Ecofin launched an inter-government stabilisation fund for a total of 440 billion euro.

As regards structural reforms, over the course of the year, the redesign of regulation governing international finance was particularly intense. At the meeting held in Seoul in November, the reform of banks' capital requirements was presented, known as "Basel 3", developed on 12 September 2010 by the Basel Committee and approved by the leaders of all participating G20 countries. Specifically, the strengthening of prudential regulations involves a new definition of capital, the introduction of a financial leverage index and the definition of new liquidity standards. The new rules will be introduced gradually beginning in 2013 and the transition to the new system will be completed by 2019. Subsequently the European Commission approved the reform of financial supervision in Europe, authorising the establishment of a new European control and supervision structure for intermediaries and markets (from 1 January 2011) as well as approving new restrictions and obligations for capital, leverage and liquidity provided in the new Basel 3 regulation.

Domestic banking industry

Following the strengthening in demand, connected with the economic recovery, bank loans to the private sector in 2010 increased, after the slowdown that occurred during the crisis. The trend in loans in Italy was based mainly on demand for medium/long-term loans from families, while the short-term component, normally involving businesses, continued to reflect the slow recovery. Only at the end of the year did the trend seem to reverse.

Specifically, based on ABI estimated data, loans to families and non-financial businesses grew at the end of 2010 at 3.8% on a trend basis. As previously noted, the key factor was loans to families, which grew 7.6% at the end of December, while loans to businesses grew only 1.6%. Loans up to one year increased at the end of 2010 by 0.8% on a trend basis, while other loan types with maturities beyond one year grew 4.9%. However, performance was differentiated by intermediary size: the largest banks showed loan growth rates at more contained levels, while medium- and small/medium-sized banks had more sizeable increases.

In 2010, deposit activity slowed down considerably, particularly in the medium-term component. From the beginning of the crisis in the PIGS countries, Italian banks have had to endure a loss in creditworthiness for reasons associated with the

sector. This element, along with the flattening of the yield curve, explains the weakness in bank bonds that, for the first time in more than a decade, were in decline as a fraction of total funding.

During the year, the trend in total deposits (deposits plus bonds) remained rather positive, however, there was a gradual decline over the year. The trend growth rate declined from +9.5% in January 2010 to +7.2% in March, to +5.6% in June, to +4.1% in September, finishing the year at +3.0%. However, based on indications from Bank of Italy, the deposit growth rate excluding repurchase agreements with entities involved in market functioning was slightly lower: in November 2010, the latest available data, there was a decline of 0.5% on a trend basis against the 3.7% rate of the same figures including the aforementioned gross transactions. Examining the specifics of the different types, deposits grew at a higher rate. At the end of 2010, the trend in growth in resident customer deposits was 6.3%, while bonds, which showed a negative trend for almost the entire second half, closed 2010 with a drop of 1.7% annually.

As regards bank interest rates, an accommodating monetary policy at key central banks kept yields on loans and deposits at constant levels and, on the whole, lower than the prior year. The spread between banking rates, or the difference between the average loan rate to families and non-financial companies and the average rate on deposits, was at 212 basis points in December (217 basis points in December 2009). The mark-up on loans over the 3-month Euribor rate concluded the year at 260 bps, a sharp decline over the previous year end (-45 bps). The mark-down was -48 bps, a considerable improvement (+40 bps) over the value recorded twelve months earlier. Lastly, as regards credit quality, available figures indicate that at the end of the year, mirroring the deteriorating economic situation, gross non-performing exposures for the Italian banking system totalled 77.8 billion euro, 18.7 billion more than in December 2009 and a 31.6% change year-on-year. As a ratio of loans, the aforementioned non-performing exposures are 4.0%, up 3.3% over December 2009. Non-performing loans net of write-downs amounted to 46.9 billion euro in December 2010 (+30.3% from the end of 2009).

The asset management sector closed 2010 with net deposits in Italian and foreign mutual funds with a positive balance of 1.1 billion euro. The assets of mutual funds as at December 2010 amounted to 452.5 billion euro, an annual growth rate of 4%.

SIGNIFICANT EVENTS

Purchase of asset management contracts from Banca Popolare di Puglia e Basilicata

On 9 December 2010, the Board of Directors of Banca Aletti resolved to approve the block purchase transaction of individual asset management contracts originated by Banca Popolare di Puglia e Basilicata. On 13 December 2010 the transaction was concluded with the transfer to Banca Aletti of 240 contracts for a total amount of assets managed of 36.9 million euro.

The objective of the transactions are to increase assets managed and to consolidate Banca Aletti's presence in the portfolio management market, as well as strengthen commercial relations with counterparties outside the Group and to acquire clients in a region in which the Group does not have strong roots.

RECLASSIFIED BALANCE SHEET AND INCOME STATEMENT

Balance sheet data

A summary overview of the performance of the main balance sheet data is provided in the reclassified balance sheet below:

| BALANCE SHEET | | | Changes | |
|---------------------------------------------------|-------------------|-------------------|-----------------|---------------|
| Reclassified assets (in thousands of euro) | 31/12/2010 | 31/12/2009 | | |
| Cash and cash equivalents | 24 | 49 | -25 | -51.28% |
| Financial assets and hedging derivatives | 6,515,296 | 6,189,070 | 326,226 | 5.27% |
| Due from banks | 1,780,410 | 3,174,354 | -1,393,944 | -43.91% |
| Due from customers | 1,510,030 | 1,177,267 | 332,763 | 28.27% |
| Investments | 21,031 | 21,047 | -16 | -0.08% |
| Property, plant and equipment | 1,677 | 1,686 | -9 | -0.53% |
| Intangible assets | 21,084 | 19,981 | 1,103 | 5.52% |
| of which: goodwill | 21,080 | 19,973 | 1,107 | 5.54% |
| Other asset items | 90,436 | 108,432 | -17,996 | -16.60% |
| Total | 9,939,987 | 10,691,885 | -751,898 | -7.03% |

| BALANCE SHEET | | | Changes | |
|--------------------------------------------------------|-------------------|-------------------|-----------------|---------------|
| Reclassified liabilities (in thousands of euro) | 31/12/2010 | 31/12/2009 | | |
| Due to banks | 3,303,363 | 3,130,497 | 172,866 | 5.52% |
| Due to customers and debt securities in issue | 1,164,400 | 1,730,067 | -565,667 | -32.70% |
| Financial Liabilities | 4,811,004 | 5,115,886 | -304,881 | -5.96% |
| Provisions | 15,287 | 18,711 | -3,423 | -18.30% |
| Other liability items | 69,467 | 100,425 | -30,959 | -30.83% |
| Shareholders' equity | 576,466 | 596,299 | -19,834 | -3.33% |
| - Share capital and reserves | 439,963 | 433,740 | 6,223 | 1.43% |
| - Profit for the year | 136,502 | 162,559 | -26,057 | -16.03% |
| Total | 9,939,987 | 10,691,885 | -751,898 | -7.03% |

Income Statement Data

Banca Aletti closed 2010 with a decrease in net profit of 16.03%, from 162.56 million euro as at 31 December 2009 to 136.5 million euro as at 31 December 2010.

However, recurring items increased from 165.28 million euro as at 31 December 2009 to 136.62 million euro as at 31 December 2010, a decrease of 17.34% or 28.66 million euro.

The reclassified Income Statement based on operating criteria and compliant with international accounting standards is provided below.

| Reclassified Income statement - progressive (in thousands of euro) | 31/12/2010 | | | 31/12/2009 | | | Recurring | |
|--------------------------------------------------------------------------|----------------|---------------|----------------|-----------------|---------------|-----------------|----------------|----------------|
| | Recurring | Non-recurring | Total | Recurring | Non-recurring | Total | Abs. change | % change |
| Interest margin | 30,105 | | 30,105 | 53,073 | | 53,073 | -22,968 | -43.28% |
| Net commissions | 35,814 | | 35,814 | 66,155 | | 66,155 | -30,341 | -45.86% |
| Net other operating income | 169 | | 169 | 192 | | 192 | -24 | -12.37% |
| Net profit/(loss) | 224,201 | | 224,201 | 218,113 | 118 | 218,231 | 6,088 | 2.79% |
| Other operating income | 260,183 | - | 260,183 | 284,460 | 118 | 284,578 | -24,277 | -8.53% |
| Operating income | 290,289 | - | 290,289 | 337,534 | 118 | 337,652 | -47,245 | -14.00% |
| Staff costs | -52,444 | -167 | -52,611 | -54,767 | | -54,767 | 2,323 | -4.24% |
| Other administrative costs net of recoveries | -45,809 | | -45,809 | -49,082 | | -49,082 | 3,273 | -6.67% |
| Net write-downs on property, plant, equipment and intangible assets | -1,127 | | -1,127 | -1,093 | | -1,093 | -34 | 3.11% |
| Operating costs | -99,381 | -167 | -99,548 | -104,942 | | -104,942 | 5,561 | -5.30% |
| Operating profit/(loss) | 190,908 | -167 | 190,741 | 232,592 | 118 | 232,710 | -41,684 | -17.92% |
| Net write-downs for impairment of loans | 2,009 | | 2,009 | 242 | | 242 | 1,767 | 730.17% |
| Write-downs on other assets | -1,401 | | -1,401 | - | | - | | |
| Net provisions for risks and charges | -1,200 | | -1,200 | -938 | | -939 | -262 | 27.93% |
| Gains (Losses) on investments | - | 3 | 3 | -1 | -3,585 | -3,585 | 1 | -100.00% |
| Profit (Loss) on current operations before tax | 190,316 | -164 | 190,152 | 231,895 | -3,468 | 228,427 | -41,579 | -17.93% |
| Income tax | -53,696 | 46 | -53,650 | -66,614 | 743 | -65,870 | 12,918 | -19.39% |
| Net profit (loss) on current operations | 136,620 | -118 | 136,502 | 165,284 | -2,725 | 162,559 | -28,664 | -17.34% |
| Profit for the year | 136,620 | -118 | 136,502 | 165,284 | -2,725 | 162,559 | -28,664 | -17.34% |

The recurring result indicates a 14% drop in recurring operating income, reaching 290.29 million euro (337.53 million euro as at 31 December 2009).

The recurring interest margin figure, 30.1 million euro as at 31 December 2010, was lower than the 2009 figure of 53.07 million euro, mainly due to the impact of the transfer of liquidity risk, interest rate and exchange rate risk management from Banca Aletti to Banco Popolare.

Other recurring operating income recorded an overall decrease of 8.53% as a result of a consistent drop in net commissions from 66.15 million euro as at 31 December 2009 to 35.81 million euro as at 31 December 2010. Net financial income, however, rose 2.79%, from 218.11 million euro as at 31 December 2009 to 224.20 million euro as at 31 December 2010.

Recurring operating charges decreased 5.30% from 104.94 million euro as at 31 December 2009 to 99.38 million euro as at 31 December 2010.

Illustrated below are the reclassifications with respect to balances shown in the income statement as required by the Bank of Italy:

- the calculated cost to fund financial asset purchased to create structured financial products held for trading was reclassified from interest expense (item 20) to net financial income;
- dividends on shares classified among assets available for sale and assets held for trading (item 70) were reclassified to net financial income;
- net trading and hedging gains (items 80 and 90), and net profit/loss from fair value financial assets and liabilities (item 110) were recognised to net financial income;
- gains and losses from disposal or repurchase of available-for-sale financial assets and financial liabilities (item 100) were reclassified to net financial income;
- tax and other expense recoveries (included in item 230) were directly deducted from administrative costs rather than recognised to other operating income.

Note, that in general the following criteria were adopted to identify non-recurring items:

- gains from the disposal of all fixed assets (investments, property, plant & equipment, AFS financial assets, financial assets held to maturity and NPL portfolios) are considered non-recurring;
- income components linked to business combinations, restructuring, etc. (e.g. charges for recourse to redundancy funds) are considered non-recurring;
- material income components not due to be recorded frequently (e.g. sanctions, impairment of fixed assets, effects of regulatory changes, exceptional results, etc.) are considered non-recurring.

Illustrated below are the main 2010 income components considered non-recurring.

Gains/(Losses) on investments considered non-recurring for a total of 3 thousand euro refer to the gain on the partial disposal of the investment in the company Group Srl.

Staff costs include 167 thousand euro for a non-recurring provision for costs related to the voluntary redundancy incentive plans.

Analysis of financial highlights

Customer deposits

| (in millions of euro) | 31-12-2010 | 31-12-2009 | 31-12-2008 | Change since 31/12/2009 | Change since 31/12/2008 |
|----------------------------------|-----------------|-----------------|-----------------|----------------------------|----------------------------|
| Customer financial assets | 17,769.3 | 16,199.0 | 15,078.7 | 9.7% | 17.8% |
| Direct deposits | 746.8 | 892.1 | 1,025.2 | -16.3% | -27.2% |
| Indirect deposits | 17,022.5 | 15,306.9 | 14,053.5 | 11.2% | 21.1% |
| - Asset management | 14,112.1 | 12,178.7 | 11,482.9 | 15.9% | 22.9% |
| - Mutual funds and Sicavs | 554.0 | 437.7 | 633.0 | 26.6% | -12.5% |
| - Securities and fund management | 13,471.9 | 11,695.7 | 10,849.9 | 15.2% | 24.2% |
| - Insurance policies | 86.3 | 45.2 | - | 90.9% | |
| - Administered assets | 2,910.4 | 3,128.3 | 2,570.5 | -7.0% | 13.2% |

The trend in customer deposits shows constant growth over the last two years. Specifically, the asset management department posted double digit growth.

Productivity and profitability ratios

| | 31-12-2010 | 31-12-2009 | 31-12-2008 | Change since 31/12/2009 | Change since 31/12/2008 |
|----------------------------------------------|------------|------------|------------|----------------------------|----------------------------|
| Productivity ratios | | | | | |
| Net loans to customers per employee (€/1000) | 3,486.6 | 2,520.9 | 4,127.1 | 38.3% | -15.5% |
| Operating income per employee (€/1000) | 670.3 | 723.0 | 613.1 | -7.3% | 9.3% |
| Operating costs per employee (€/1000) | 229.8 | 224.7 | 235.4 | 2.3% | -2.4% |
| Operating profit per employee (€/1000) | 440.4 | 498.3 | 377.7 | -11.6% | 16.6% |
| Profitability ratios (%) | | | | | |
| ROE | 31.03% | 37.48% | 22.60% | -17.2% | 37.3% |
| Interest margin/Operating income | 10.37% | 15.72% | 34.20% | -34.0% | -69.7% |
| Net commissions/Operating income | 12.34% | 18.98% | 26.50% | -35.0% | -53.4% |
| Operating costs/Operating income | 34.29% | 31.08% | 38.40% | 10.3% | -10.7% |

The productivity and profitability ratios as at 31 December 2010 are lower than the previous year, however, they are still at very high levels.

Specifically, ROE is still greater than 30% (31.03% at 31 December 2010) and the cost/income ratio is lower than the banking industry average (34.29% as at 31 December 2010).

ECONOMIC, FINANCIAL AND RISK MANAGEMENT POLICIES

Main risks and uncertainties for the company

Banca Aletti business activities result in exposure to the following main risk categories: credit risk, market risk, liquidity risk, operational risk and business risk.

Credit risk is the risk that a Group borrower (which includes also counterparties in OTC derivative transactions - in this case, more specifically counterparty risk) may fail to meet an obligation, or that the borrower's credit rating deteriorates. Closely connected with credit risk, if not an actual constituent, is concentration risk, emerging from exposures to a group of counterparties that are interrelated or from the same economic sector, perform the same business activities or are from the same geographical area. The assessment of potential losses that could be incurred with regard to a single credit exposure or to the total loan portfolio is an inherently uncertain activity and depends upon many factors, including general business performance, or the performance of individual manufacturing sectors, a change in the rating of individual counterparties, borrowers' structural and technology changes, deterioration of the competitive position of counterparties, the potential mismanagement of companies or the borrowing counterparties, increasing household borrowings and other external factors such as legal and regulatory requirements.

Specific attention is paid to the credit ratings of banks and institutional counterparties (investment banks and finance companies), particularly in reference to financial transactions (trading of derivatives and money market instruments, lending, investments in bonds).

The key principles to managing risk originating from these counterparties are:

- parent company centralisation of the lending process;
- internal rating and review system (supplementing the rating assigned by international rating agencies);
- daily measurement and monitoring systems for credit exposure and compliance with ceilings;
- minimising risk generated from OTC derivative trading by making wide use of Credit Support Annex agreements with all the main counterparties.

Market risk is represented by the possibility that the bank may generate less revenues than expected, or suffer balance sheet or capital losses from open financial positions, due to sharp and adverse movements in market rates or prices, in particular interest rates, share prices, exchange rates and related volatility (macro risk), or due to events that may impair the issuer's financial position (micro risk). These losses depend on the presence of asset and liability mismatching in terms of item maturity, duration and degree of risk hedging. Market risk can materialise both with regard to the trading book, which includes financial trading and related derivatives, and with regard to the banking book, which includes all other financial assets and liabilities.

The main market risks for Banca Aletti, largely deriving from commercial activities performed by the Group's retail banks, stem from interest rate exposures and share price risks arising from money market, listed derivative and OTC derivative trading. In contrast, the exposure to exchange rate risk is minimal, despite Banca Aletti's active presence on this market.

Market risk is measured by specific estimate and control models, within specific risk limits assigned to the risk management departments involved, and adequate monitoring procedures. In line with the market's financial innovation, in particular in derivatives, the Group constantly develops financial instrument valuation and risk assessment methodologies and systems, especially for the more complex instruments and their related market benchmarks.

For further details, reference should be made to the report on operations and Part E of the Notes to the Financial Statements.

Liquidity risk is represented by potential instability from negative mismatching between short-term inflows and outflows not covered by liquidity reserves represented by available ECB-eligible securities. This risk, which could materialise mostly in the presence of exceptional events such as market liquidity squeezes, resulting in the bank's difficulty in meeting payment obligations, is monitored closely. It is managed and minimised by diversifying the funding sources and by increasing the reserves of eligible securities for countering unexpected outflows. Moreover, the Group has introduced a precise set of limits, both for operational or treasury liquidity and for the structural liquidity generated by the entire banking book. A specific Liquidity Contingency Plan was prepared and submitted for approval by the corporate bodies, to guarantee prompt and efficient management of any liquidity crisis or stress. The Plan includes specific early warnings – monitored and controlled on a daily basis – that can forewarn of liquidity stress conditions associated with market crises or Group-specific crises.

Operational risk is the risk of incurring losses as a result of procedural inadequacy or malfunction, human error or IT system failure or external events. In short, operational risk is a combination of all anomalies that could lead to economic loss, higher operating costs or lower revenues. It includes legal risk, but not strategic or reputation risk. The primary sources of operating risks are: operating processes unable to adapt quickly to business growth and developments or to market swings, IT system security, outsourcing of business activities without the implementation of related supervision/monitoring, strategic developments, fraud and errors. Banca Aletti cannot identify a prevailing source of constant operational risk, since this risk is inherent to all business processes and activities. This leads to the implementation of widespread risk mitigation and management, in particular by transferring the risk by means of insurance instruments and/or outsourcing, by constantly improving process efficiency (control enhancement and re-engineering) and by ensuring their compliance with regulations.

Business risk is the risk of incurring losses, in terms of a decrease in service margins, due to changes in the macro- or micro-economic environments which lead to volume reduction and/or margin squeezes affecting the bank's profitability. Particularly important is the risk of fluctuations in commission income from investment services. This risk is managed and minimised through commercial policies and actions aimed at building customer loyalty, so as to stabilise and ensure profits from rendering services, maintaining a high value added and innovative product mix, in line with customers' present and foreseeable needs.

In addition to the above risks, covered by quantitative analysis processes, supervisory regulations cover other risk classes in relation to the capital adequacy valuation process that are at present mainly subject to qualitative analysis.

In particular these refer to strategic risk, reputation risk and compliance risk.

Strategic risk is the current or prospective risk of suffering a decrease in profits or capital as a result of changes in the competitive scenario or of erroneous strategic business decisions, inappropriate implementation of strategic decisions, or inadequate reaction, or a failure to react, to changes in the competitive scenario. For example, the risk may derive from the assumed developments of key indicators (e.g. projected levels of GDP or inflation, household savings, planned investments in the various business sectors or geographical areas, etc.) that do not match market expectations, generating a positive impact on Group results which is then not fully achieved. Constant monitoring of operating performance, of the company's key financials and of all other important variables, internal or external to Banca Aletti or to the Group, allows the strategic decision-making bodies to minimise this risk, making it possible to promptly correct and/or adjust action should competitive or market contexts change.

Reputation risk is the current or prospective risk of suffering a decrease in profits or capital as a result of a negative perception of the bank in the eyes of customers, counterparties, bank shareholders, investors or supervisory authorities as a result of specific critical events relating to, for example, certain operating areas, products or processes, etc.

Both strategic and reputation risk are risk classes controlled mainly at the Group level. Testing and development of valuation models – including quantitative models – are currently in progress for these two risk classes.

Compliance risk is the risk of incurring administrative and legal sanctions as a result of non-compliance between internal and external regulatory sources (and company procedures) and between self-regulatory codes and internal codes of conduct. It also includes situations of non-compliance that result in significant economic loss and damages of a reputational nature.

For further details of compliance risk management and monitoring, reference should be made to the specific section of this report.

Risk assumption, management and hedging objectives and policies

The Banco Popolare Group and its companies align their activities to the criteria of prudence and low risk exposure, with regard to:

- the need for stability with respect to its banking activities;
- its investors' profile;
- its own profile as a cooperative and lending bank.

The Group's overall risk appetite is measured synthetically by identifying, within the Group's regulatory capital, one of its capital components that is not eligible for risk assumption (unexpected losses), held for medium/long-term going concern purposes, gradual strengthening of equity, maintaining operating flexibility (so-called strategic capital reserves) and hedging capital against the impact of severe stress conditions (so-called stress capital).

In keeping with its risk appetite, the Group and its subsidiaries pursue the following goals:

- steady, sustainable long-term growth, i.e., characterised by limited fluctuations in results and corporate value;
- generation of added value for shareholders in comparison to financial investments with a comparable risk-return profile;
- strong credit risk spreading, in line with the objective of mainly financing SMEs and households;
- exposure to structural interest rate risk in line with industry best practices;
- market risk-taking in strict relation to commercial needs;
- exclusion of risks that are unrelated to core business and accurate assessment of initiatives that introduce new types of risks;
- development of increasingly accurate and comprehensive risk monitoring methodologies, also in view of the validation of internal models for supervisory purposes;
- active corporate risk management, based on state-of-the-art hedging and mitigation techniques;
- increasing market transparency in relation to risk exposure.

The Group relies on an organisational structure, corporate processes, human resources and skills that are well suited to guaranteeing the identification, monitoring, control and management of the various risks to which its business is exposed, where the objective is to protect the Group's financial soundness and reputation against adverse events.

The entire risk management and control process is coordinated by Banco Popolare in its twin capacity as parent company and entity into which the entire Group's joint and common interest departments are merged.

The process of managing, controlling and hedging risks is developed on different organisational levels.

The key role in risk management and monitoring is played by the parent company Supervisory Board, which establishes

strategic guidelines, approves risk management policies and assesses the level of efficiency and adequacy of internal controls, particularly with regard to risk monitoring.

For internal risk management and control the Supervisory Board has set up its own Control Committee.

The parent company Management Board and the Subsidiaries' Boards of Directors define the management and operating guidelines and limits for the assumption of risk, governed by the Regulations on risk limits, containing guidelines, risk limits and control procedures that are consistent with those established by the Supervisory Board.

Risk Management policy is developed by the Group Risk Committee and Finance and ALM Committee, both operative at the parent company level. An important role is played by the Group's Risk Management Department and by the Audit Department, which are part of the parent company's governance structures.

Support to the parent company Management Board and individual boards of directors is provided by the Group Risk Committee, formed by the Managing Director and members of all the key parent company departments, which helps boards to formulate risk policies and takes remedial action on any situation not consistent with those policies.

The Finance and ALM Committee meets periodically and supervises market and liquidity risk management, defining the Group's funding policies.

Capital adequacy assessment

The Group carries out systematic assessments of capital adequacy on a quarterly basis, in relation to a wider range of risks than those envisaged in First Pillar regulations, under ordinary, as well as stress, conditions.

This assessment involves the use, for the most part, of risk measurement tools of a management nature, primarily based on statistical-quantitative methodologies particularly related to the VaR (Value at Risk) technique.

The results of these analyses are included in specific reports to corporate bodies and the relevant business department of the parent company, through a specific structured document (*Tableau de Board*).

These same metrics are then used, both for the current period as well as prospectively, to develop the ICAAP (Internal Capital Assessment Process) Report sent to Bank of Italy on a yearly basis.

This document, which is submitted for approval to the corporate bodies (Management Board and Supervisory Board), contains the assessment of capital adequacy at a consolidated level as well as individually for the major Group companies, as well as the analysis and evaluation of the existing organisational controls or the review, for each risk, of the IT support systems, internal regulations, controls, reporting, etc. for managing and mitigating those risks.

The report also includes the formal mapping of relevant risks, the description of measurement models and integration of quantifiable risks as well as the techniques used for the stress tests, carried out to evaluate the vulnerability to exceptional, but possible events.

Risk management through the risk ceilings system

The assumption of business risks is governed specifically by the system of risk limits or ceilings.

With the exception of liquidity risks, the limits are defined in terms of VaR (Variance at Risk) and represent the maximum level of potential losses that may be incurred consistent with the risk-return profile established by the Group.

The responsibility for compliance with each limit is assigned to specific company divisions/departments, which manage the operating leverage and determine changes in the risks.

There are two categories of ceilings:

- an overall Group risk ceiling, defined in reference to the overall exposure to business risks;
- specific ceilings, defined for each of the Group's key risks (credit, market, operational, and the interest rate on the banking book).

The specific ceilings are broken down into sub-limits that refer, depending on the case, to individual banks within the Group, to portfolios (retail and corporate) and to operating areas (human resources, systems and procedures). This breakdown responds to the need to allow better monitoring and a more efficient risks management by the responsible parties. As such, the ceilings are considered a management lever.

For liquidity risks, the exposure ceilings are defined using the "maturity ladder" tool, where future liquidity flows generated by maturities for credit and financial intermediation transactions are placed within the corresponding time bands, thereby measuring imbalances in liquidity and ensuring sustainability, by having adequate liquidity reserves (primarily available ECB-eligible securities), including during any situations of tension.

Market disclosures

Since April 2009, pursuant to the Third Pillar of Basel 2, a special public disclosure is published annually on the parent company web site containing qualitative and quantitative information on the Group's capital adequacy, exposure to risks and the general characteristics of the systems adopted to identify, measure and manage and control risks.

For further details of the risk management and monitoring system, reference should be made to Part E of the Notes to the Financial Statements.

Other risk factors

Outlook on risks/Group objectives

The Group implements selection, acceptance, management and mitigation of risks deriving from banking and finance activities so as to pursue stable, long-term sustainable growth targets, consistent with Supervisory Board resolutions carried on Management Board proposals, and governed by the "Group regulation on risk limits" as well as other procedures.

These guidelines include: strong credit risk spreading consistent with the aim of financing mainly households and SMEs, market risk-taking in strict relation to commercial needs, careful monitoring of liquidity in order to be ready to take rapid action to meet expected and unexpected financial needs and to exclude risks extraneous to core business.

Implementation of these guidelines offers the Group a guarantee of being able to best overcome potential adverse developments, including unexpected swings, in the economic and financial scenario.

Considerable uncertainty continues regarding the strength and outlook for the economic recovery, specifically in reference to the Italian system, which makes it difficult to forecast business risks, in particular credit risks. In reference to the latter, the uncertainties make it problematic to forecast default probabilities (at 12 months), which showed a downward trend over the course of 2010.

Although not expected by leading analysts, any deterioration in the economic scenario, or even a continued stagnation, could, at system level, lead to a tightening up of companies' solvency positions, with potential negative repercussions on banking system budgets.

The credit policy objectives pursued by the Group aim, amongst other things, for diversification of the loan portfolio, restricting exposure concentration and supporting development of local activities, exploiting its more direct awareness of its customers. These objectives therefore attempt to minimise risks linked to a possible adverse economic situation. Also important is the Group's commitment, as part of impact analysis programmes defined by the supervisory authorities, to performing stress testing on credit risk as a tool for verifying long-term resilience to phenomena involving a strong deterioration in the economic framework.

In terms of liquidity risk, the integration of the former Banca Italease Group, net of impaired loans, obviously resulted in an increase in maturing liabilities, to which the Group responded by constantly improving control tools it uses, as well as searching for better balance in financial maturities, by increasing liquidity reserves and implementing new tools (e.g. covered bonds and soft mandatory) that also provide a buffer against sudden, significant drops in system liquidity.

In addition, at the end of 2010 the new regulation on prudential supervision of liquidity, as well as new international regulation (Basel 3) were issued, which will become effective at different times. In 2011 the Group will be involved in implementing the new regulation being introduced.

The stringency of the regulation could lead, in the future, to phenomena of over-issue of medium and long term bank liabilities by the national and international banking system, with potential repercussions on the liquidity position of individual banks and the profitability of the banking system as a whole, with possible risks of competitions with sovereign states and businesses in renewing medium/long-term funding.

With regard to interest rate risk, and as part of the integration of the former Banca Italease Group, any increase in rates as a result of restrictive measures by supervisory authorities will find the Group well positioned in terms of their positive impact on the interest margin. A scenario such as that described above could, on the other hand, lead to an increase in interest rate volatility and therefore in related risks (in terms of a potential drop in market value) to both the regulatory trading book and the banking book, even if there are positive effects on income. Constant management and control of these risks, along with the support of the ceilings system, ensure that capital levels are sustainable in such a scenario.

With reference to the integration process of the former Banca Italease Group, the commitment in terms of managing the loans portfolio in default is to reduce risks, with a particular focus on "large risks".

Projects in progress

Market risk

In 2010 the Group continued its efforts to constantly improve market risk management, from both a technological and a methodological point of view.

Along with the increase in risks associated with governments that was seen in 2010, the credit spread component implicit in government and non-government bonds was added to the VaR risk measure. The measurement began to be monitored with its application to positions in the trading book, and was then extended to positions in the banking book.

Furthermore, the VaR simulation methodology was refined by giving greater weight to all the scenarios over the last year and more recent historical data, in this case in the event the volatility of risk parameters should increase.

During the year, analyses were conducted to verify the economic impacts from extreme changes in market risk factors, both historical and potential (stress test).

Finally, further analysis was undertaken on the impact of the new regulations for calculating the capital absorption that will become effective beginning 31 December 2011.

Analyses on the use of the internal model as a replacement for the standard approach are underway, in light of effects from changes in supervisory regulations by the Basel Committee (July 2009), changes that tend to significantly reduce the convenience of using the internal model, in terms of capital.

Liquidity risk

During 2010, the Banco Popolare Group implemented its liquidity risk management and control system and is completing the 2010 QIS questionnaire relative to this risk. The study conducted under Bank of Italy guidelines resulted, at the end of year, in the Bank of Italy issuing new supervisory regulations for this area, which will become effective over time. In addition, in 2011, the Group will be involved in planning activities for the full implementation of the new European Community regulations.

Counterparty risk

During 2010, some methodological innovations were initiated for estimating counterparty risk (specifically, management of ISDA multi-branch agreements, the analytical calculation for interest rate derivatives). In addition, impact estimates were developed (Quantitative Impact Study or QIS) relative to new regulations on counterparty risk (OTC derivatives perimeter) and related capital requirements, that are expected to become effective in 2013.

In 2011, the activities of methodological analysis and application development will continue, in order to implement risk monitoring and control processes frequently, using management metrics consistent with new regulatory provisions.

Basel 2

In 2010, as part of Basel 2, Banco Popolare continued to implement activities for Supervisory Authority approval for the use of internal methodologies to calculate minimum capital requirements. For this and other projects, the progress status as at 31 December 2010 is included below.

Credit Risk

In 2010 the Banco Popolare Group continued to implement all the pre-validation activities with the Supervisory Authority, to obtain authorisation to use internal rating systems for capital requirement calculations. The activities involve both the scope of the estimate models (see subsequent paragraph) as well as the organisational processes connected to the internal rating system. In reference to the latter, in addition to the continual analyses performed for the Basel 2 programme, the activities specifically regard (i) management uses for ratings and LGD (loss given default), (ii) loans portfolio monitoring (in particular, Large Corporate) and customers (Economic Groups), (iii) data quality and (iv) the control system.

Credit risk assessment models

The activities involved:

- development and implementation of the PD (probability of default) model for acceptance for the Mid Corporate and Small Business segments;
- the re-estimation and implementation of the EAD (exposure at default) model for the Large Corporate, Mid Corporate, Small Business and Private segments;
- the recalibration of the "PD-Private" Model in order to introduce distinct metrics for acceptance/renewal and monitoring;
- adjusting the parameters of the LGD (loss given default) model for all business segments and for the Private segment.

Risk measurement

Below is the description of the application parameters that were refined, associated with:

- the calculation of capital requirements on credit risks under the Basel 2 "Standard" approach;
- the "Parallel Calculation" of the Group's consolidated capital requirements based on various methodologies (Standard-IRB).

During the year, the definition of guidelines and dissemination of project results saw the constant involvement of Top Management and the Corporate bodies.

In addition, the final risk ceilings defined based on statistical metrics (VaR) were introduced and applied to the primary Group companies, as a supplement to the governing ceilings for the Group as a whole.

Operational risks

During 2010, activities to implement the operational risk model were undertaken.

In reference to identification activities, the fourth level of event classification was implemented, while for assessment and monitoring activities the methodology and the framework for the anomalies and exposures reporting system were

developed, consistent with activities performed to prepare the quantitative data necessary for the 2010 QIS questionnaire. The AMA calculation model, used for internal management and particularly for assessments of capital adequacy (ICAAP), provided during the year for development work for risks classes, analysis and management of extreme events and scenario evaluations. In 2011, there will be further enhancements to the model, including the new guidelines issued for AMA models by the Basel Committee, in consultation in December 2010.

Rating

| <i>Rating agency</i> | <i>Short-term borrowings</i> | <i>Long-term borrowings</i> | <i>Other ratings / Outlook</i> |
|----------------------|------------------------------|-----------------------------|--------------------------------|
| Standard & Poor's | A-2 | A- | Negative |

On 10 March 2010 Standard & Poor's removed the credit watch on the long-term rating of Banco Popolare and its subsidiaries Credito Bergamasco and Banca Aletti, however, keeping the rating the same as that published on 17 December 2009.

It also changed the outlook from "Watch Negative" to "Negative".

Report on corporate governance and ownership structure

Banca Aletti has not issued shares admitted to trading on regulated markets or multilateral trading systems.

Pursuant to art. 123-bis subsection 5 of Italian Legislative Decree no. 58 of 24 February 1998, Banca Aletti is only required to provide information on the main risk management and internal control systems implemented for financial reporting purposes in its corporate governance and ownership structure report.

For transparency, note that this information can be found in the following section, "Appointment of the Manager responsible for the preparation of corporate accounting documents".

Appointment of the Manager responsible for the preparation of corporate accounting documents

Following approval of the Board of Statutory Auditors and in compliance with the provisions of art. 154-bis, Italian Law 262/2005, the Board of Directors appointed Roberto Gori to the executive post of Manager responsible for the preparation of corporate accounting documents.

In accordance with the Articles of Association, in addition to meeting the integrity requirements under current regulations for officers performing administrative and management duties, this executive is expected to meet professional requirements characterised by specific administrative and accounting skills in lending, finance, securities and insurance-related matters. These skills must be acquired through experience in positions of a suitable level of responsibility for a reasonable period of time in companies comparable in size to the Bank.

The corporate accounting manager is responsible for specific duties to guarantee truthful and accurate disclosure of the equity, economic and financial position of the Group. Specifically, the corporate accounting manager is assigned the following tasks:

- to confirm that documents and communications disclosed to the market and relating to the bank's interim and annual accounting data correspond with accounting documents, books and records;
- with support from the company departments concerned, to prepare adequate administrative and accounting procedures for preparation of the separate and consolidated financial statements, and all other disclosures of a financial nature;
- to confirm, with the Chairman of the Board of Directors and by means of the special report attached to the separate financial statements and simplified half-yearly statements:
 - the adequacy and effective application of administrative and accounting procedures during the period to which the statements refer;
 - that the statements were drafted in compliance with international accounting standards endorsed by the European Union pursuant to European Parliament and Council Regulation 1606/2002/EC of 19 July 2002.
 - correspondence of the statements with accounting records;
 - the suitability of the statements to present a truthful and accurate view of the equity, economic and financial position of the issuer;
 - for the separate financial statements, that the report on operations includes a reliable analysis of the operating performance and results, the position of the issuer and a description of the main risks and uncertainties to which the issuer is exposed;
 - for the simplified half-yearly statements, that the interim report on operations contains a reliable analysis of references to major events occurring in the first six months of the year and their impact on the simplified half-yearly statements, together with a description of the main risks and uncertainties to which the issuer is exposed.

For the purpose of full implementation of the aforementioned regulations, Banca Aletti has defined its own "Group Regulation for the Manager responsible for the preparation of corporate accounting documents" (see § 11).

The Group Regulation for the Manager responsible for the preparation of corporate accounting documents also assigns specific powers and tools as indicated below.

The corporate accounting manager is guaranteed:

- free access to the accounting data necessary to produce Banca Aletti financial reports, without the need for authorisation;
- free access to operating data linked to events that could have a significant impact on Banca Aletti performance;
- freedom to perform controls, through the relevant company departments, on corporate procedures with a direct or indirect impact on financial disclosures;
- the right to communicate directly with the Board of Directors and Internal Control bodies;
- in agreement with the Chairman of the Board of Directors, the power to submit proposals to the corporate accounting manager of the parent company, Banco Popolare, on the implementation of plans to improve the administrative accounting organisation.

With regard to operating tools, the corporate accounting manager:

- makes use of an adequate, specifically dedicated group business unit;
- may call for external advice on problems of an accounting, tax or legal-administrative nature, and obtain professional services necessary to perform his duty in compliance with current regulations and the assigned budget;
- makes use of the full cooperation and support of other parent company departments in order to perform his duties in compliance with regulatory provisions;
- receives suitable dataflows from the corporate control bodies;
- receives suitable dataflows from various company departments involved in controls (Internal Audit, Compliance, Risk Management, etc.);
- receives suitable dataflows from other company departments reporting any procedural anomalies or malfunctions discovered as part of their duties, which could have a significant impact on Banca Aletti's economic and equity position;
- on invitation, attends Board of Directors and Internal Control meetings if the agenda includes matters relating to his own responsibilities, and attends meetings of committees of which he is a member.

If the corporate accounting manager discovers that his assigned powers and operating tools are not sufficient or fully effective to perform his duties as envisaged by law, he must inform the Chairman of the Board of Directors immediately.

If as part of its supervisory duties or if informed by the Chairman, the Board of Directors discovers that the powers and operating tools assigned to the corporate accounting manager are not sufficient/effective based on the provisions of current regulations, remedial action must be taken.

Main characteristics of the current risk management and internal control system in relation to the financial reporting procedure

With reference to the CoSO and COBIT Framework, Banca Aletti has adopted its own internal control system to confirm the adequacy and effective application of administrative and accounting procedures (the "Model", refer to the Report on Operations and Part E of the Notes to the Financial Statements for a more generic presentation of the corporate risk management system), including the following analyses:

- **internal control analysis at entity level**, to reduce the risk of errors and improper conduct for accounting and financial reporting purposes;
- **accounting and financial disclosure monitoring analysis** and subsequent ongoing verification of related adequacy and effective application of process controls.

Correct functioning of the Model in terms of development and subsequent monitoring of the adequacy and effective application of controls involves the following activities:

Identification of the scope of controls in terms of the financial statements items affected and the administrative and accounting processes considered most significant

Each year the definition of the scope of controls is based on data taken from the latest approved Financial Statements and assumes parameters of a quantitative nature (contribution to the balances of balance sheet items representing Banca Aletti operations) and a qualitative nature (presence of specific risks). This activity is performed by the Manager responsible for the preparation of corporate accounting documents (the corporate accounting manager).

Assessment of entity level control

Assessment of the internal control system at entity level calls for annual assessment of the five environments envisaged in the reference internal control model (CoSo Report, i.e. Internal Control, Risk Assessment, Control-related activities, Reporting and disclosures, Monitoring): This task is performed by the corporate accounting manager.

Formalisation of processes, related risks and mitigation controls

The formalisation of processes considered significant for financial reporting purposes, identified as definition of the scope of application, is performed according to "CoSO Framework" guidelines. This task is assigned to a Group department and performed on behalf of the corporate accounting manager.

This step involves the formalisation of significant processes, consisting in a description of the main activities, identification of the risks intrinsic to the processes, identification of the controls to monitor the identified risks and the assignment of specific roles and responsibilities to all players involved in the processes.

Risk assessment and adequacy of the adopted map of controls

The risk assessment and controls stage aims to identify and assess the adequacy of controls adopted for the financial report production process as part of the administrative and control procedures underlying preparation of the financial statements and all other financial disclosures. These tasks are performed by the corporate accounting manager.

Testing of effective, constant application of controls by operations departments and the definition and monitoring of any remedial action

The stage involving testing control efficiency aims to assess the effective application in the reporting period of administrative and accounting procedures for the purpose of preparing financial statements and all other financial disclosures, and the IT governance procedures. In this stage, the effective operation of key controls are tested. For this purpose, the corporate accounting manager prepares a test schedule to be implemented by Internal Audit.

Dataflows

The Model also defines a suitable system of dataflows between the corporate accounting manager and other company departments/bodies to ensure his prompt and full receipt of information relevant to financial disclosures (i.e. copies of board decisions and audit reports relating to administrative and accounting processes and/or affecting the equity, economic or financial position of Banca Aletti).

The corporate accounting manager reports to the Board of Directors on the management and control of the process to prepare accounting documents and financial disclosures for the market, on any critical points discovered, on remedial action taken to overcome criticalities and on the adequacy and effective application of financial statements-related procedures. This reporting obligation is met by means of a half-yearly report submitted via the Chairman to the Board of Directors prior to approval of the half-yearly and annual financial statements.

In addition, the corporate accounting manager informs the Chairman of the Board of Directors immediately of any significant and urgent events.

The sub-certification process

The Model defines a system for the assumption of responsibility involving managers of the operating units, departments and services ("Strategic Managers"). More precisely:

- the managers of operating units certify that their assigned controls have been performed;
- strategic managers confirm that the data produced by the operating units correspond with data under their own control, with records and that the controls carried out by those units in the reporting period were complete and accurate.

Internal control system analysis regarding the preparation of corporate accounting disclosures

The overall assessment of the internal control system for financial reporting purposes is the preliminary phase to preparation of the corporate accounting manager's report to the Board of Directors and release of the regulatory certification. This task is performed every six months by the corporate accounting manager by obtaining, analysing and consolidating assessments on the real effectiveness of his internal control system at entity level, analysing the administrative and financial processes performed at both identified risk assessment and adopted control levels and verifying their effective, constant application, and by assessing the controls performed in relation to IT system governance.

Identification and implementation of a remediation plan

Assessment of the internal control system can give rise to anomalies in terms of:

- inadequacy or partial inadequacy of the key controls schedule;
- absence of one or more key controls with respect to the Financial Assertion to be monitored;
- ineffective performance of controls discovered during testing.

In agreement with the Chairman of the Board of Directors, the corporate accounting manager of the parent company implements or promotes remedial action and submits proposals to the corporate accounting manager of the parent company, Banco Popolare, on the implementation of plans to improve the administrative accounting organisation.

Once remediation has been defined, the action is coordinated by the relevant Group departments and IT Systems Division, each to the extent of their duties. The corporate accounting manager is responsible for monitoring implementation of the required action.

PLANNING, AUDITING AND SUPPORT SERVICES

Human resources

Departments and organisation

Listed below are the most significant organisational changes introduced during the year, some of which were part of the reorganisations resolved in 2009 in application of the related guidelines provided by the Bank's revised operating model:

Corporate Affairs Department

The activities performed by the Issuance of Financial Instruments Office were transferred to the parent company while the activities of the Corporate Secretary's Office were included with those of the Corporate Affairs Department. The Issuance of Financial Instruments Office and the Corporate Secretary's Office were closed.

Cost Planning and Control Department

This department was renamed the Operations Planning and Control Department while the dependent Cost Planning and Control Office was closed and its activities were centralised in the Operations Planning and Control Office, renamed Operations and Cost Control.

Operations Department

As part of the Operations Support and Controls office, the individual portfolio management support activities were transferred to the Administrative Services Department of SGS. The Office, renamed Operations Support, retained the activities associated with the internal branch and support of the commercial network, reporting directly to the Operations Department, renamed the Supervision of Delegated Activities Department. The Logistical Support and Safety Office was closed and its activities were transferred to the competent Group departments.

Investment Management Department

The Private Customer Management Department was closed and the VIP Management Department, transferred from Verona to Milan, and the Private and Retail Management Office were included with the activities of the Institutional Customer Management Department, which was then renamed the Customer Management Department.

Brokerage Department

The Repo Desk Office in Lodi was closed and its activities were transferred to the Retail Banking Office in Verona.

Equity Proprietary Trading and GSF Department

As part of the initiatives taken to have a more incisive view of the market segments in which we operate, the operations in the proprietary trading stock market were split into two distinct organisational units, establishing the Equity Proprietary Trading Office and the Market Making and Arbitrage Office, the latter focusing on arbitrage activities, basket trading and market making on individual stock futures on the IDEM market.

Commercial Division

The following changes were made to the Private Network:

- incorporating the "Verona Corso Porta Nuova" unit in the "Verona via Zambelli" unit, renaming the latter to the "Verona" unit;
- cancellation of the "Central South" area, which had already been renamed "Campania and Sicily";
- renaming of the "Piedmont and Valle d'Aosta" area to "Piedmont, Lazio and Campania", and including the Rome and Naples unit in the area;
- renaming of the "South Lombardy" area to "South Lombardy and Sicily", and adding the Catania unit to it;

Illustrated below is an overview of workforce changes in the last three years:

| | Workforce | Increases | Employees | Increases | Seconded In | Increases | Seconded Out | Increases |
|------------|------------|-----------|------------|-----------|-------------|-----------|--------------|-----------|
| 31/12/2008 | 499 | 4.80% | 425 | 5.50% | 96 | -8.60% | 22 | -31.30% |
| 31/12/2009 | 454 | -9.00% | 413 | -2.80% | 72 | -25.00% | 31 | 40.90% |
| 31/12/2010 | 430 | -5.30% | 415 | 0.50% | 52 | -27.80% | 37 | 19.40% |

and certain statistics of a general nature:

| | 2008 | % | 2009 | % | 2010 | % |
|---------------------------|-----------------|------|-----------------|------|-----------------|------|
| Grades | | | | | | |
| Area 2 | 3 | 0.6 | 3 | 0.7 | 2 | 0.5 |
| Area 3 – grades 1 and 2 | 78 | 15.6 | 58 | 12.8 | 56 | 13.0 |
| Area 3 – grades 3 and 4 | 53 | 10.6 | 53 | 11.7 | 50 | 11.6 |
| Managers – levels 1 and 2 | 126 | 25.3 | 117 | 25.8 | 106 | 24.7 |
| Managers – levels 3 and 4 | 216 | 43.3 | 200 | 44.1 | 192 | 44.7 |
| Executives | 23 | 4.6 | 23 | 5.1 | 24 | 5.6 |
| | 499 | | 454 | | 430 | |
| Gender | | | | | | |
| M | 331 | 66.3 | 300 | 66.1 | 275 | 64 |
| F | 168 | 33.7 | 154 | 33.9 | 155 | 36 |
| | 499 | | 454 | | 430 | |
| Education | | | | | | |
| University degree | 258 | 51.7 | 234 | 51.5 | 234 | 54.4 |
| High school diploma | 222 | 44.5 | 211 | 46.5 | 190 | 44.2 |
| Other | 19 | 3.8 | 9 | 2.0 | 6 | 1.4 |
| | 499 | | 454 | | 430 | |
| Average age | 40 Y 8 M | | 40 Y 8 M | | 41 Y 1 M | |
| Average seniority | 3 Y 11 M | | 4 Y 9 M | | 5 Y 2 M | |

Selection, Recruitment and HR Management

Approximately 350 CVs were received during the year.

46 recruitments were arranged, 26 of which involving personnel from Group companies.

36 employees left the Bank, of which 16 under intra-group mobility.

Also during the year, 18 employees were seconded in from the Group, 33 secondments were terminated, whilst 36 were seconded out to Group companies and 24 were terminated.

Again during the year 37 transfers were arranged within the Bank and new responsibilities assigned to 9 colleagues.

Recourse was made to temporary work contracts in 2010 to cover staff absences, office support needs or needs arising from reorganisations.

Hence, 14 new temp contracts were arranged, whilst 11 temporary employees were hired by the bank under temporary or open-ended contracts.

At year end the total number of temporary employees was 15.

Also during the year, a total of 7 new work experience and orientation schemes were implemented, 4 of which led to a different form of collaboration with the company.

Training

In the first half of 2010, the bank completed an important management training course dedicated to managerial roles in the Private Network, provided by the group Human Resources Division and professors from the Bocconi Business School.

This initiative involved a total of 62 resources for a total of 372 training days.

In addition, ad-hoc projects were carried out for specific needs related to regulatory or procedural changes or requirements. Specifically, training was provided on the new Wealth Management application, (involving 171 resources for a total of 500 training days), Italian Legislative Decree 231/2001 that directly involved all of the managers of the bank's organisational units (43 resources for 22 total training days), as well as mandatory ISVAP training (involving 84 resources for 168 training days), whilst for certain topics distance learning tools were used web-based courses on Administrative Liability of Banks, Anti-Money Laundering, Privacy and the Payments Services Directive.

The usual focus was placed on professional updating regarding specific technical matters - through courses held by external organisations (20 days and 12 participants), whilst courses included in the internal training "catalogue" were reconfirmed, particularly the foreign language courses, with the conclusion of courses that began at the end of 2009 (30 participants) and the start up of a second session in 2010, which will be concluded in the initial months of 2011 (26 participants).

Finally, with the support of the Group Human Resources Division, Management Development meetings were held dedicated to Executives (18 resources, 42 days), Private Area managers (8 resources, 48 days) and Central Department/Office managers (40 resources, 96 days).

Relations with Trade Unions

In 2010, meetings with trade union representatives were held at a company level on operational issues, as well as at the Group level for more general issues, such as the payment in shares of the corporate award and management of infragroup secondments resulting from the Business Plan.

Internal Audit

Internal Auditing in Banca Aletti is delegated to the Group Audit Department of the parent company Banco Popolare. The supervision of Banca Aletti's internal control system is performed specifically by the Finance Processes Audit department, involving two offices dedicated to the activities of intermediation/investment banking and the rendering of investment services by the Banca Aletti network. The primary aim of this department is to confirm that operations comply with internal and external regulations and guarantee the integrity of corporate assets. Additional Internal Audit tasks, as defined by the Supervisory Instructions for Banks, assess:

- the adequacy and functions of first and second level auditing systems, proposing enhancements as appropriate to optimise their management;
- the effectiveness of existing operating processes;
- compliance with current regulations and the degree of risk management inherent to processes, to avoid possible organisational malfunction.

The Group Audit Department is responsible for on-site audits in all the central and peripheral offices of Banca Aletti, remote auditing of peripheral structures, ICT (Information & Communication Technology) auditing and claim management (for both banking and investment services), and monitors audit-related issues pursuant to Italian Legislative Decree 231/2001, as support for the Surveillance Body set up for this purpose. The Group Audit Department is also responsible the tasks pursuant to art. 14 of the joint Consob-Bank of Italy Regulation.

Compliance

The Banco Popolare Group allocates specific importance to the monitoring of compliance risk, assuming that compliance with regulations and business accuracy are core elements of the bank's activities, given its nature based on trust.

The initial step in managing compliance risk is to identify a compliance manager from among the Group strategic managers and create a Compliance Department. In 2010, having reached the original workforce target for the department, which may increase based on new regulatory requirements, the department was consolidated from an organisational perspective. Specifically, the new organisational model from the Legal and Compliance Division, to which Compliance directly reports, saw the creation of a support department, under the Compliance Manager's responsibility, called upon firstly to verify compliance on issues for which the Management Board requires compliance review. At the same time, the Compliance Department was gradually expected to expand its supervision to the various business processes and activities, also through backtesting, especially (but not only) in relation to investment services, using increasing technological support.

Activities conducted during the year focused on areas considered most significant for compliance risk purposes, and in particular:

- Intermediation – Provision of investment services – Distribution of insurance products
- Transparency in customer relations – Credit intermediation
- Insider List and Market Abuse Prevention
- Management of conflicts of interest
- Usury prevention
- Anti-money laundering and the fight against terrorism
- Equal treatment in the bonus system

On these issues, the contribution of the Compliance Department was particularly important in the following activities:

- participation in the "Level III MiFID Project" (on Illiquid Products) to define and implement procedures in application of Consob regulations on correctness and transparency in the distribution of illiquid financial products and the project to improve monitoring of investment services rendered, including following the audit reviews conducted by the competent authority on a Group bank;
- participation in the project for improved implementation in the company structure dictated in Italian Legislative Decree no. 231/2007 as amended;
- continuous support to the process of monitoring and managing conflicts of interest;
- participation in the "Anti-usury Project", focusing on the implementation of the modified instructions issued by bank of Italy regarding and resulting in the preparation of related internal regulation in the form of a "Consolidated Law";
- participation in the Transparency Project to implement the modified instructions issued by bank of Italy regarding and resulting in the preparation of related internal regulation for SGT (Transparency Management System);
- to the extent of their duties, input in relations with Audit Departments to pinpoint compliance risks;
- provide training to Group operating units on chosen topics (e.g. market abuse prevention, management of conflicts of interest);
- participation in the definition the incentive system and the assessment system for the commercial network, in accordance with principles of accuracy defined by the Supervisory Authorities; to the extent duties, validate staff incentive campaigns;
- launch of systematic monitoring of behavioural indices for potential anomalies in the rendering of investment services;

- performing specific assessment activities upon request from various authorities;
- monitoring complaints related to investment services, for which compliant handling process is managed by the parent company's Quality Department;
- supervision of the Related Parties Project.

Finally, note that in terms of monitoring and containing non-compliance risks, the contribution of the systematic participation of the Compliance Manager in the Management Committee, the Finance and ALM Committee, the Basel 2 Committee and the Financial Products Innovation Committee is particularly important (in the latter case, with the support of the Service Manager).

Marketing

Banca Aletti's Marketing Department is responsible for promoting and enhancing the corporate image, in close cooperation with similar departments at Group level.

Its main activities cover External Relations, Corporate Identity, Operations Marketing, Internal Communications and Media Relations.

1) External Relations

In 2010 External Relations organised and managed approximately 90 different events. Of particular interest is the rediscovery of cultural treasures in the cities in which we operate, as well as special jazz and classical music concerts, exclusive gala evenings with international guests, specialist conferences, golf and sailing events.

2) Corporate Identity

In addition to the routine maintenance and updating of the various communication tools used, Corporate Identity also developed institutional and product communication tools (Aletti Suisse brochures; advertising campaigns for new services, new "Cash Collect" and "Per Due" [For Two] Aletti Certificates; Certificate web site brochures; asset management brochures for the networks, the Aletti Certificate newsletter, etc.).

Publication of the periodical newsletter "Aletti Inside" continued.

The restyling of the institutional web site was completed.

3) Internal Communications

To improve internal communication, the Aletti News project continued, circulated to all colleagues via e-mail as a fast, regular information update.

Management of the events calendar for internal, marketing and management departments also continued.

In addition, organisational logistics support was provided for external training courses.

4) Operations Marketing

Management of CRM activities (data entry, quality control, data extraction, etc.) and Market Share analysis for the Private and Institutional customer base.

5) Media Relations

Media Relations, managed by the Group Press Office, allowed Banca Aletti to be covered by various communications media, particularly the Finance specialists.

Articles, largely journalistic/editorial and often presented as an interview, contributed to establishing and strengthening the Aletti brand, and to circulating news on the bank's activities.

Technology and administrative services

All technology and applications development services, IT system and physical security management and administrative services for the Banco Popolare Group were centralised in Società Gestione Servizi BP S.C.p.A. (hereinafter SGS). This centralisation will provide obvious advantages: efficiency optimisation, improvement in efficiency and quality of services provided to Group companies and the rationalisation of costs and resources.

SGS operates in this channel, and thus focused its activities in 2010. The fundamental issues for the year were:

- improving and optimising procedures for new product and service development, further enhancing existing procedures and supporting the business for Group companies,
- updating procedures for regulatory or system changes.

The key activities conducted by the company involved:

- Technology services, primarily focused on strengthening the network to improve response time for procedures and overseeing IT emergencies;
- Group security, ensuring the supervision and maintenance of security, in terms of technological and physical, while working in a context of rapid changes and updates;
- Administrative services, which focused on centralising functions and refining the organisational model to achieve greater efficiency in branch services;

- Application services, which supported commercial activities with new products and procedures and pursued the objective of taking advantage of possible opportunities from internal and external obstacles in their respective areas.

Extremely innovative projects were carried out, in particular in the Credit and Finance areas, improving user applications in terms of both functionality as well as quality/security. Specifically, rather sophisticated solutions were implemented for risk monitoring and control and to ensure that the tools continue to be adequate, given the continuous evolution in the financial world and in the products offered to customers.

Technology services

During 2010, the network was enhanced to increase the transmission capacity and to offer improved application response times to users.

At the same time, the functioning of the typical activities of data processing services and data transmission were ensured so that all Group branches and offices could have continuity in operations. In addition, resolution of breakdowns and failures and requests for new functionality (approximately 124,000 technical and IT assistance requests) were handled.

The key projects carried out in 2010, which also involved Banca Aletti, were:

- IT Emergency Management Procedure: a continual application that oversees the correct functioning of procedures; immediately notifies the competent departments and management of any failures, to ensure rapid problem resolution;
- Operational Consultancy: this service to branches was improved through organisational and technology interventions to support supervisors;
- Application Project Management: project activities must be managed to avoid release overlaps that would not only nullify the validity of the tools but would also be counter-productive for network efficiency. Therefore, an SGS application was released that monitors application projects and verifies the release programme timing.

Group Security

2010 was characterised by improvements to optimise and innovate the various security environments, both physical as well as technological. The improvements aimed to reduce costs and risks from the use of technology, safeguarding data assets and protecting people and health in the workplace.

IT System Security

The activities performed were focused on safeguarding privacy and system security with the objective of ensuring adequate accessibility as well as data protection, in a rapidly changing context that requires monitoring and prevention tools to be constantly updated. For services provided to customers through innovative channels, the solutions adopted by the Group have always been particularly reliable in terms of security and, to a lesser extent than other businesses, the Group was exposed to damages from electronic attacks on the systems or improper use of products by customers.

At the same time, we worked to strengthen protection against card cloning, identity theft and related issues. Particular attention was given to new trends in criminal activity in the areas of fraud and embezzlement through the use of IT tools to verify new customers' identities.

Health and Safety

As regards workplace health and safety, we carried out planned interventions related to specific regulation (visits for employees working through video terminals, night workers, etc.). In addition, the continual updating of emergency plans was launched for all Group sites: 720 evacuation drills were conducted in low-risk organisational units and 7 drills in medium-risk central Group offices. To develop a culture of prevention within the Group, the drills were accompanied by specialised training courses, in which more than 5,600 resources participated.

Business Continuity and Disaster Recovery

During the year, 14 operating continuity tests were conducted involving organisational units of Banco Popolare, Banca Aletti, SGS and one local bank. To make the simulations more effective, the tests were conducted by completely blocking the various operating units, forcing them to work on the back-up system.

Administrative Services

In 2010, Administrative Services worked on three specific areas:

- further centralisation of Middle Office and Back Office activities
- further development of service models and qualifying Information Systems
- implementation of a business functioning model.

As regards the primary business objectives (service efficiency and quality, cost containment, creation of new work tools), Administrative Services launched the AMICO programme (Accelerate Continuous Improvement), whose aim is to reach a high level of customer service by guaranteeing efficiency and managing operating risks. The actions taken resulted in important cost synergies, strengthened the organisation system and allowed Group banks to offer distinct and high-quality products and services.

Among the project activities carried out by other company structures, those that involved Administrative Services were:

- launch of Automated Finance for Public Entities within Single Treasury;
- digitisation of cheques handled by Group Banks;
- adoption of the role of “Calculation Agent” for CSA (Credit Support Annex) contracts and adoption of the Trioptima platform;
- the revision of position-keeping processes and applications for Group Finance and Group Treasury;
- definition of new pricing policy for securities held by customers;
- launch of Custodian Bank activities on the Arca Formula funds for OTC derivatives and for Triparty Repo;
- transfer of collateral accounts of Aletti Gestielle SGR Funds from Banca Aletti to Banco Popolare;
- completion of the TDT (Securities Dossier Transferability) project as part of ABI Pattichiari;
- extension to Banca Aletti of regulation through CLS (Continuous Linked Settlement);
- administrative management of “Scudo-quater” capital repatriation and/or re-settlement transactions.

Project activities and technology investments

Listed below are the project activities and technology investments made by SGS affecting Banca Aletti.

Streamlining of trusts

The business development plan for Banco Popolare trusts, linked to the constant need to make the operating processes more efficient, resulted in the decision to merge two Group Trusts, Aletti Fiduciaria and Nazionale Fiduciaria, in a single corporate entity, both from a legal as well as an organisational point of view, effective 31 December 2010.

The Merger Project for the two companies provided an opportunity to upgrade management software in order to support the optimisation of operating processes, including technically. In November, activities to migrate and prepare the personal data interface were initiated and at the end of the year the data migration was completed.

MiFID

Each year the MiFID Directive is updated, and in 2010 the focus was on informational transparency toward customers through the completion of developments connected with the pre-order module and the model for providing consultancy, for which operational blocks for inappropriate transactions were implemented and trading and placement contracts were revised.

Specifically, certain details were introduced in the operating model for rendering consultancy services for branches that involve:

- mandatory signing of the consultancy contract for transactions on branded financial products (issued by the Group or for which the Group has a conflict of interest);
- blocking of consultancy transactions that generated an assessment of “inadequate”;

With the aim of creating ever-more prudent oversight of the rendering of investment services within each Group bank, the role of “Investment Services Manager” was created, who will be a central link between administrative bodies and the commercial/operational decisions for which each bank is responsible as the provider of investment services to the customer. Moreover, the Group adopted a specific “Group regulation for managing conflicts of interest”, which governs the methods of identifying, preventing, containing and managing conflicts of interest in providing services and investment activities for customers.

As regards the requirements dictated by the introduction of the so-called “Personal Transactions” directive, the bank developed a specific Group regulation (Personal Transaction Regulation) that was extended to the other Group companies, in order to prevent intermediaries from carrying out transactions that may constitute market abuse, abuse of privileged information, or that may result in conflict with the obligations that bind the intermediary in rendering investment services.

Italian Law 262/05

Italian Law 262/05, “Provisions to protect savings and the discipline of financial markets”, introduced new regulations on preparing corporate accounting documents, giving greater importance to internal control systems and defining the specific responsibilities of companies, audit management and audit departments on the adequacy of the internal control system.

In addition, in 2010 SGS collaborated in implementing the Group control model oversees both general controls, related to the IT infrastructure and services, as well as application controls. Therefore, the applications and application controls that directly affect risk mitigation for financial statements were identified and surveyed, or those risks that may compromise the veracity of financial disclosures. Subsequently, the analysis was extended to those applications that support the administrative processes involved in generating financial disclosures, or:

- Settlements of current accounts in Italy;
- Correspondence Banks/Checks;
- Property Management and Purchasing;
- Records of Assets;
- Basel II DB Pro;
- *Esterio Premia*;

- *Square Bilancio*;
- Certificates of Deposit.

The project concluded by updating the Group regulation that included the new directives.

Investment Management Division

In 2010, important projects to support the work of account managers and advisors were completed.

Specifically, regarding the asset management business, all asset management contracts were centralised in a single application, which is more efficient and better meets the constantly changing needs of the business.

In addition, a feasibility analysis was conducted to include derivative instruments among the products available to the account manager, which forms the basis for developing the key project of the division for the upcoming year and will involve the management of opportunities provided by these new products.

For the advisory business (advanced consultancy for key customers for whom there has been a significant increase in volumes over the year), activities were undertaken to ensure better system performance and enhanced functionality, in particular the application architecture was refined to improve efficiency and integration.

The constant growth in this business raises certain questions about the possibility of introducing new automated features that allow advisors to rationalise their activities as well as new monitoring indicators.

These questions will provide the guidelines for the planned 2011 activities, with particular focus on the portfolio rotation index, performance results, reporting available to customers and advisors, management of commissions and related exceptions, alert and monitoring systems and the logic that governs the applications.

Private Customer Division

The main project in this division in 2010 was the development of the new service model for portfolio consultancy.

Following a thorough testing phase, a new wealth management application was released in certain pilot units of Banca Aletti in October. The application will be extended to the entire Private Network by mid February 2011, including integration with the operating procedure to allow immediate, automatic execution of advice on the purchase/sale of financial instruments.

Banca Aletti gradually conferred the role of Financial Planner to its private bankers who, based on governing regulation, are individuals that professionally conduct off-premises sales in the interest of a single intermediary. These individuals must be enrolled in the appropriate professional registry and meet specific requirements of integrity and professionalism.

Currently, Banca Aletti's financial planners may enter instructions in the "off-premises" mode regarding:

- financial instruments traded in regulated markets
- financial instruments placed in a basket product.

In the first quarter of 2011, mutual funds and Sicavs placement and Banca Aletti Asset Management placement will be available in the "off-premises" mode.

Front Office and Position Keeping Division

2010 was a year of intense activity aimed at expanding and refining the tools available to front office desks, of both Banca Aletti and the parent company, with a specific focus on issues related to Risk Management to identify and control market risks. Also during the year, a sweeping overhaul was conducted on the position keeping applications in order to ensure the operations desks have the best professional performance.

In addition, over the course of the year, numerous activities were conducted to make new tools available for forecasting analysis of risk positions, improve contract pricing and controls on inflation indices, manage the correlation between derivative positions and related securitisation transactions, strengthen the mechanisms supporting middle and back office activities and optimise purchasing, management and control processes of market parameters.

At the end of 2010, the Group began a feasibility study of indirect subscription to a clearinghouse for OTC derivative transactions with market counterparties, consistent with the regulatory changes that are expected at the European Community level that aim to minimise systemic risks, increase transparency of the OTC derivatives market and reduce regulatory risks.

In the Securities Lending area, priority was given to the consolidation of operating processes in order to extend the Securities Lending service to the Group's administrative customers in 2011. These customers, having signed a specific contract, will be allowed to lend securities deposited for custody and administration by Group Banks and thus achieve higher portfolio returns.

"Financial Markets" Division

This area is in constant evolution both in terms of business needs (new products, new customers, and new markets) as well as in terms of regulatory or structural changes (changes in the market platform technology or rationalisation of application architecture). Therefore, there were numerous activities requested and performed in 2010.

As regards the business needs connected with services rendered by Banca Aletti to its Institutional Customers, applications and order management and transmission services were enhanced to improve performance and market access times, distinct

elements to allow scalping transactions by said customers. In addition, direct connection with the Eurex market was initiated, one of the most important European derivatives markets, allowing automated order transmission.

The turmoil that characterises this area gave rise to the development of certain application solutions aimed at supporting branch communication related to certain types of securities that are of specific interest to the customer (equity structured bonds, Forex and Certificates), as well as specific regarding currency settlements on various international holidays as well as euro treasury rates.

In the short term, this area will be involved in implementations connected with the need to offer the customer a “dynamic best execution” service for equity securities, similar to the one already in place for bond securities.

This will take place by joining the “Equiduct” regulated market, which ensures that it obtains the best price in the “market” at any moment (“market” meaning all of the execution locations in which the security is handled).

As regards the asset management area, the key initiatives involved the placement of new products (mutual funds/Sicavs), merger/rationalisation transactions and meeting regulatory requirements.

For new products, during the first quarter, the bank began selling the new Aletti Gestielle Mutual Funds “Total Return Obiettivo Più”, Aletti Gestielle “Brasile” and Arca “Cedola Bond 2015 Alto Potenziale”.

Additionally, a single organisational model was defined at the Group level for placement of mutual funds and Sicavs that allowed standardisation and greater process automation, preparation of a more complete internal regulation and assignment of activities to centralised offices, which resulted in achieving positive results in terms of greater efficiency and operating risk mitigation.

From the regulatory perspective, the material impact of new anti-money laundering regulation made it necessary to implement placement applications to meet requirements introduced by new organisational models and to update new control procedures for money laundering risk exposure for which the SGRs are equipped.

Trust Company

During 2010, a project was launched, with the support of a leading consultancy, with the objective of consolidating the Group Trust Company’s Service Model.

Firstly, the project identified the main compliance and operating risks and then defined appropriate safeguards in the definition phase of the company’s Organisational Structure and in preparing Organisational Processes.

The project completed its work at the beginning of the summer, issuing the necessary Regulations And Operating Manuals.

Research and Development

During the year, the Bank conducted no research and development activities.

Privacy Protection

Pursuant to Law Decree no. 196 of 30 June 2003, Banca Aletti updated its policy document on personal data processing security.

Main events with regard to equity investments

Streamlining of the trusts

Following the transfer of Banca Valori’s Private business unit, at the end of 2008 Banca Aletti took over the direct and indirect control of three different trusts (Aletti Fiduciaria, Nazionale Fiduciaria and Critefi SIM). To streamline this segment and to optimise costs and market presence, a project was launched to reduce the number of product companies to two, one dealing with static trust assignments and the other acting as a trust company. This plan, requiring the involvement of Carfid SpA, a trust controlled by Banco Popolare, will be implemented in 3 steps:

1. Carfid SpA adoption of amendments to the Articles of Association for operational start-up as a trust company, control of Carfid then being transferred from the parent company to Banca Aletti & C. SpA;
2. merger of Critefi SIM SpA into Banca Aletti & C. SpA;
3. merger of Aletti Fiduciaria SpA into Nazionale Fiduciaria SpA.

The plan was approved by the parent company Board of Directors on 27 January 2009 and by the Banca Aletti Board of Directors on 19 February 2009.

This operation qualifies as a related party transaction under IAS 24 and governed by art. 2391-bis of the Italian Civil Code.

Over the course of 2009, all steps were completed in relation to completing the first two point described above. In 2010, the project was concluded with the completion of the third point.

On 31 December 2010, the merger transaction of Aletti Fiduciaria S.p.A. into Nazionale Fiduciaria S.p.A. was completed, which simultaneously changed its name to Aletti Fiduciaria S.p.A. The incorporated company’s transactions were recorded in the financial statements of the merging company from 1 January 2010. This also applies to tax implications.

The merger took place without a share exchange ratio or cash settlement and resulted in the extinction of the merged company along with the cancellation of its share capital, without substitution. Therefore, the merger did not result in any share capital increases for the merging company Nazionale Fiduciaria.

INFORMATION ON RELATED PARTY TRANSACTIONS

Relations with Group companies

Banca Aletti serves as the Banco Popolare Group's Investment and Private Bank, and is also the gateway to the main domestic and international markets for the Group's entire retail network. Funding is mainly based on demand and term deposits received from the Banco Popolare Group. As part of the progressive opening of specialist centres within the Group, Banca Aletti relies on Società Gestione Servizi BP to provide various services (information technology, middle and back office, etc); Banca Aletti has also outsourced other activities to specific parent company departments (risk management, correspondent banking, short term treasury, regulatory reporting , etc.).

Outsourced services and financial transactions with Group counterparties are governed by agreements that provide for the application of arm's length conditions.

Further details of equity and economic relations with Group companies can be found in "Part H – Related party transactions" in the Notes to the Financial Statements.

Reasons underlying decisions/Influenced decisions

Pursuant to art. 2497-bis of the Italian Civil Code, Banca Aletti is subject to the management and coordination of Banco Popolare Società Cooperativa, parent company of the Banco Popolare Banking Group.

Numerous companies of various kinds belong to this Group (banking, finance, product, services, etc.), over which Banco Popolare exercises the same management and coordination, adopting common logic to achieve the most efficient management possible of an entity as typically complex as a banking group. In this respect, it is considered that many decisions made over time by Banca Aletti (as by other companies directly or indirectly controlled by the parent company) which, were they seen in other organisational or market contexts, would be considered influenced under art. 2497-ter of the Italian Civil Code, do not apply in this case as they, in effect, represent a consistent and necessary consequence of correct application of said logic.

For example, and focusing on decisions of greatest import or note, they refer to decisions on outsourcing numerous activities and services (to Group departments, services companies, specialist operators, etc.), or of activating instruments designed to standardise the handling of significant issues, especially during important mergers.

Having said this, with the aim of providing information in the financial statements that is as up-to-date and qualified as possible, in 2010 certain transactions were developed - under the management and coordination of the parent company given their nature/extent - for which the decisions, obviously made independently by the Bank's Board of Directors, could be considered influenced in the sense implied above.

BANKING ACTIVITIES

Private and Finance business segment

Investment Management and Private Banking

Private Banking

Banca Aletti closed 2010 with global AUM (administered and managed assets) of 14.9 billion euro, 0.3 billion of which attributable to institutional customers.

2010 was characterised by a slight recovery in the earnings margin compared to the previous year, with the monthly trend indicating constant, gradual growth. This was achieved despite the persisting difficulties in the market, emphasised by tensions in the months of May and November, which kept many customers on the defensive, while changes in rates put pressure on the interest margin, particularly in the first half. The re-launch that began in 2009 as part of the medium-term portfolio reorganisation, which continued throughout this year, resulted in an increase in asset management, with a recovery in the earnings margin and strengthening the recurring revenue component.

In a context of notable contraction of bankrolls following negative growth in the real economy, the year was also characterised by a constant focus on increasing AUM and expanding the customer base.

In the initial months of the year, assets repatriated from the reopening of terms for the "Scudo Fiscale Ter" continued, however at a much lower level than 2009, which saw Banca Aletti play a coordinating role within the Group in terms of training, constant support and reporting.

Net deposits (973 million euro in the private segment alone) proved essentially in line with the business targets for the period (97% of the budget).

The "cross selling private-corporate" project, or "Pri-Corp", is now in its fourth year, with fully synchronised cooperation with the Group Networks. Since the launch of the project (2006) 2,874 million euro have been raised, 814 million euro of which in 2010.

During the year project work continued for the new advanced consultancy service, Wealth Management, which is expected to launch in the first quarter of 2011. During October, four pilot units were activated that completed the initial consultancy contracts and began limited operations, which resulted in the consolidation of the testing phase.

As in past years, strategies were defined to increase development opportunities with the aim of generating contact with potential customers, for example by organising a series of local events (approximately 90 in 2010).

At an organisational level, in the first half the Verona "Corso di Porta Nuova" and Verona "Via Zambelli" units were merged and the new Verbania unit was opened.

In the second half, as part of the rationalisation of local branch monitoring, the Central South area was divided: the Rome and Naples units were assigned to the Piedmont Val d'Aosta area, which was renamed Piedmont, Lazio and Campania. The Catania unit was added to the "South Lombardy" area, which was renamed "South Lombardy and Sicily".

After these changes, at the end of 2010 the Banca Aletti network comprised 8 Area Offices, 36 Units and 180 Private Bankers.

As regards the training plan, in addition to activities that have been scheduled for the past few years, a new session dedicated to updating and developing a better understanding of certain issues related to family businesses was added.

Finally, in the second half of the year, the first phase of the training programme dedicated to the Wealth Management service was completed; all Private Bankers were involved in a theory and application session that took place of two non-consecutive days.

Investment Management

In 2010, the global macroeconomic scenario was characterised by the consolidation of the economic recovery across all areas. Among industrialised economies, the United States, Japan and Germany recorded growth rates near or greater than 3%, while the majority of Eurozone economies showed more modest growth rates as a result of both institutional rigidity as well as the weight of the public debt crises in peripheral countries, and the resulting need for adjustments to national budgets. Emerging economies returned to the high GDP levels they experienced prior to the financial crisis, in many cases forcing economic policy authorities to adopt restrictive policies in order to dampen inflationary pressures.

As regards the equity market, among the more industrialised countries, the best performance was achieved by the US indices and, in Europe, by the DAX and FTSE 100 indices. For emerging countries, the positive performance of approximately 10% in local currency indices was, as a whole, lower than 2009.

The performance of the global government bond market in 2010 was positive, however, it was associated with high volatility as a result of government debt crises for the Eurozone peripheral countries. For the Eurozone, the moderately positive result (+1% in local currency) of the government debt denominated in euro is in contrast to the superior performance of 12% for emerging countries. The high-rating corporate bond segment recorded essentially flat performance over the year.

The euro exchange rate on the currency market depreciated against other major currencies, in particular the U.S. dollar (-7.7%) and the Japanese yen (-22%). The diverse macroeconomic phases between emerging economies and more industrialised economies, on one hand, and the continued upward trend in commodities and food product prices on the

other, were the primary causes of the general trend of appreciation in emerging countries' currencies in comparison with the principal international reserve currencies.

The returns offered by managed products tended to be in line with the reference indices, although constrained in the bond component by recurring phases in which the spread widened between "core" countries and "peripheral" countries and, for the equity component, by the structural increase in risk aversion and the volatility that characterised 2010.

As at 31 December 2010, AUM was 13,750 million euro, an increase of 15.5% over December 2009. The net positive performance in deposits in the first three quarters of the year was in contrast to the slowdown during the final months of the year. Looking at the breakdown of AUM, the performance in deposits for the GPM Private, GPM VIP and institutional lines was positive; deposits related to retail lines and guaranteed-capital products, however, continued the negative results seen in 2009.

As regards internal service activities, the migration to the ANTANA front office platform for all management lines was completed, with the migration of the lines for VIP and institutional customers during July.

The Advisory Desk service, activated for direct and accredited private customers, experienced growth in activities in 2010, working in close collaboration with the commercial network; the service had 130 active contracts for a countervalue of 304 million euro, an improvement on the corresponding figures for 2009. A relevant portion of internal service activities in 2011 will be focused on integrating internal procedures with order transmission procedures.

Investment Banking

Derivatives and Structured Products - Financial Engineering

The climate of instability in financial markets characterised all of 2009 and continued throughout 2010. The interventions of major governments and central banks across the globe, undertaken to halt the crisis in primary financial institutions, triggered new fears regarding the solidity and sustainability of these governments' budgets, specifically in Europe, where Greece, Portugal, Ireland, Spain and Hungary were identified as the riskiest countries.

The key issues for 2010 in the fixed income market were the increase in interest rates, forecasted and expected by the ECB at the maturity of the Long Term Repo transaction on 30 June 2010, and the development of problems related to the credit spread for the peripheral European countries.

As regards liquidity, the ECB was able to effectively manage the re-absorption by the market of the exceptional measures undertaken in 2009, and the monetary rates began an upward trend, bringing the 3-month Euribor above the ECB rate (1.00%) toward the end of the year. The rate curve continued to flatten due to the expected increase in short-term rates, until the sharp correction that was experienced at the end of the year.

As regards the spread on government securities of "peripheral" EU countries, the difficulties that emerged in Greece in 2010 and the resulting extraordinary measures that were approved resulted in an abrupt repricing of government securities for the weakest EU countries, which then also involved the credit spread of many European financial institutions.

As regards cash flows, in 2010 the low level of interest rates encouraged the sale to customers of protection products such as Warrant Caps, whose volume grew above the 1 billion euro ceiling, and the issues associated with interest rates grew with respect to 2009, from 7.1 billion euro to 7.9 billion euro. However, sales of hedging products for Corporate customers declined, from 5 billion euro to 3.5 billion euro.

The currency exchange market showed a constant weakening of the euro with respect to all other key currencies, reaching its lowest levels in the first half, followed by a slight recovery in the second half after financial support was offered to Greece and Ireland. Equity performance also suffered in this context, with much wider trading ranges characterised by implicit and real volatility and correlation remained significantly high, albeit lower than those of the previous year.

Share trading in this context was characterised, on one hand, by the search for precise hedging for maturities and less liquid underlying assets, to reduce risk positions on the books as much as possible, and on the other hand, opportunities associated with risk positions on the spot market, volatility and correlation positions, though restricted to the more liquid underlyings. Market making on the regulated IDEM and SEDEX markets instead remained in line with the previous year, although concentrated almost exclusively on short-term maturities. The introduction of the new SOLA platform for the LSE derivatives market that occurred at the beginning of November led to questions about the possibility/opportunity for Banca Aletti to change its role in this market from a simple Market Maker to a Primary Market Maker for option contracts. A thorough analysis is underway.

Structuring of equity-linked products plunged due to lower volumes of products placed by the Group networks as well as non-captive customers. Product requests were concentrated exclusively on certificate instruments. In the last quarter of the year, Banca Aletti issued its first two "Borsa Protetta con Cap" certificates, registered on a commodities basket and aimed at the Group's Private customers Demand for short-term hedges by corporate customers was stable.

Activities performed by the Financial Engineering Department in 2010 mainly involved the development of new tools for managing the risk of derivative financial instruments.

In reference to the interest rate derivatives macro-category, a Montecarlo pricing framework was developed, which allows greater flexibility in managing multiple payout types, with early exercise and path-dependency clauses, and therefore capable of substantially eliminating (including prospectively) the need for interest rate positions that are not recordable in Bank books.

At the same, all existing proprietary pricing models for basic risk management were updated according to market best practices, (i.e., 3-month Euribor vs. 6-month Euribor), which increased notably over the last two years.

A tree pricing model was also developed, based on the Hull & White dynamics with one or more risk factors, for the management of derivatives classified in the Bermuda swaptions category.

This model allows the Bank to significantly extend the pricing possibilities available to the trading desks and in the future will replace the corresponding native model of the position keeping system.

As regards pricing models for equity derivatives, the performance of certain hedging tools was optimised and new payout clauses were implemented that, used with the best practice of both local volatility dynamic as well as stochastic, manage an even greater number of cases thus keeping up with the constant evolution in products requested by the market.

Another important activity that began in the second half of 2010 is the testing of new and more efficient types of parallel calculation, in collaboration with SGS structures.

Specifically, a process to adopt the proprietary electronic libraries for equity derivatives was undertaken, with the objective of being able to conduct the Montecarlo calculation in parallel on an external grid computing system independent of the Risque position keeping system.

This significant change in technology will be subject to additional and final testing over the first half of 2011 and in the future will considerably expand the bank's commercial offer, allowing the management of certain types of derivatives and pricing models that under the current architecture are too computationally cumbersome.

Other important activities completed by the department over the first half are summarised in the list below:

- supervision of the calculation methodologies for risk indicators implemented by the supplier Prometeia as part of the Private Wealth Management project;
- development of information tools to meet regulatory requirements in preparing return simulations for public tender offers (i.e., Italease IPO securities 2014/2016 vs. new BP issues; Iceland IPO securities in default underlying insurance policies vs. new BP issues);
- quarterly updating of the risk indicator (EPF - potential future exposure indicator) for products in the corporate catalogue.

Trading & Brokerage

The year just concluded was characterised by unusual volatility in financial markets, a liquidity squeeze, mainly in the bond department, and a loss of confidence in measures undertaken by governments and regulators in terms of the economy, regulation and controls. There were alternating moments of great tension and other of excessive optimism that proved very difficult for portfolio managers. In this complex scenario, the positive results achieved by the bank are even more significant, both on the bond department as well in equities.

Bond market

2010 was distinguished by the crisis of European government issuers.

The slowdown in economic activity and the resulting deterioration in the labour market together with the steps taken to bailout banks in difficulty had a hugely negative impact on government budgets in peripheral countries, generating a substantial increase in the risk premium for these issuers.

The tensions related to government deficits had repercussions for European banks, which saw their access to capital markets diminish in relation to the risk premium of the country in which they were located.

The market uncertainty in the government segment was dealt with by our operators using a tactical trading approach that allowed them to achieve excellent profit levels

In fact, if, on one hand, the abundant liquidity made available by the ECB enabled profitable financing costs for positions, on the other hand, the widening of the credit spread weighed heavily on capital accounts. The adoption of a dynamic trading strategy together with a limited duration resulted in exceptional portfolio performance.

In the non-government segment, careful attention was given to selecting issuers and a limited duration was maintained, thereby making it possible to achieve a considerably positive portfolio margin despite the widening of the credit spread.

During the year, the growth trend continued in the bank's trading volumes in the bond department, as well as the interbank market and Hi-MTF.

Equity market

After a substantially positive first quarter, growing fears about the solvency of certain EC countries resulted in extreme volatility in equity markets in many European indices - not only those directly involved in the insolvency fears - which then closed the year with a negative result. The tone on the North American market was decidedly more positive, with the dollar making a solid recovery compared to the lows for the year.

Despite the performance of the indices and worries about the continued economic crisis, dominated in 2009 by a reduction in stocks in the portfolio of institutional investors, investors' money began flowing back into stock exchanges, resulting in an increase in transactions and a normalisation of activities. The Italian stock market saw a 10% increase in volumes.

For its part, Banca Aletti recorded a positive year for trading that saw volumes increase over 2009, bringing the third-party market share of 1.71%.

Despite the negative trend in the reference equity indices, proprietary portfolio management achieved a notable financial result due to the adoption of neutral market strategies, cash/future arbitrage activities, and careful selection of M&A transactions.

As Primary Market Maker on Idem Stock Futures, Banca Aletti continually listed a total of 46 underlying assets to which were added, for the April-May-June period, an additional 7 (so-called "Short-Term SSFs"), confirming the bank as one of the principal operators in this specific market segment.

During the year Banca Aletti became Specialist Operator on the Alternative Capital Market (MAC), managed by Borsa Italiana, of two new issuers: Editoriale Olimpia Spa and Gruppo Effegi Spa.

Capital Markets

Equity Capital Market

With continued uncertainty in financial markets, in 2010 the Italian primary equity market continued to be characterised for the most part by share capital increases and takeover bids, with a total of 26 transactions against just 8 new listings, 6 of which on the AIM Italia.

In January the rights offer for the Credito Valtellinese 2009-2013 4.25% Convertible Bond Loan, initiated in 2009, was concluded, for which Banca Aletti had assumed sub-guarantee commitment for 60 million euro.

In June, Banca Aletti participated in the underwriting and placement syndicate for the Tesmec listing; in July in the underwriting syndicate for the Banca Ifis share capital increase; and in November and December in the underwriting and placement syndicate for the Enel Green Power listing, collecting subscriptions for 75 million euro.

During the year, Banca Aletti collected subscriptions as part of 6 takeover bids.

Also during the year, two new mandates as specialist operator were acquired, related to the Editoriale Olimpia and Gruppo Effegi shares, both companies listed on the MAC, while the mandate terminated for Banca Finnat shares. As at 31 December 2010 the bank has 14 mandates in progress as specialist operator.

Debt Capital Market

In 2010, Banca Aletti actively participated, in senior roles, in the placement of all bond issues of Banco Popolare aimed at institutional investors:

- two bond issues related to the EMTN programme - the first for a duration of two years, carried out in January for 500 million euro and the second for three years, also for 500 million euro, carried out in September, for which Banca Aletti acted as Joint Bookrunner;
- two issues of covered bonds related to the new BP Covered Bond programme - a first issue carried out at the beginning of March, with a duration of seven years for 1 billion euro, with the role of Joint Lead Manager, second issue for 800 million euro for five years, carried out in September, subsequently reopened in October for an additional 150 million, with the role of Joint Bookrunner;
- two Lower Tier II subordinated bond loans - in April a loan of seven years entirely structured and placed by Banca Aletti as Sole Bookrunner for 100 million euro, and in November an issue for ten years of 1 billion euro, acting as Joint Bookrunner.

As regards placement activities for third-party bond issuers, in February Banca Aletti participated in the Public Offering of ENEL 2010-2016 fixed rate and floating rate bonds, collecting subscriptions for a total countervalue of more than 350 million euro. In November and December, the bank participated, along with other Group banks, in the IPO of Royal Bank of Scotland 2016 bond loans at mixed rates with cap and floor.

During 2010, Banca Aletti also participated as Co-Lead Manager in the placement of five EIB bond issues.

Equity Research

In a context of slow recovery in the business cycle but with persistent illiquidity in certain asset classes, in 2010 the Equity Research desk focused on retaining its research footprint and on stabilising the number of counterparties. In keeping with the Group's customer base, coverage continues to focus on Italian Small/Mid Caps, with ongoing expansion in mid caps due to the persistent illiquidity of institutional investors. This was achieved by discontinuing the coverage of certain securities with limited float and capitalisation, and also by the hiring of new professionals, who broadened the coverage to include new securities and new capitalisation sectors. Marketing also continued with the key counterparties.

Corporate & Institutional Sales

Group Networks Distribution

In 2010, the distribution activities and the activities of investment product structuring and placement were affected by the persistence of certain macroeconomic trends.

Customers continued to prefer simple, guaranteed capital products, with indexing to interest rates and Banco Popolare with respect to third party issuers.

As a result, of the 9.5 billion euro of structured, placed products (in line with 2009), 65% is made up of Banco Popolare bonds.

From June, third party issues began again, totalling more than 1.7 billion euro at the end of the year (+40% over 2009).

Despite customers' continued elevated risk aversion, Banca Aletti maintained its prominent position on the Italian certificates market.

Volumes placed by the Group's network doubled over 2009, with an acceleration in the second half of the year, the first signals of a renewed interest in products indexed to equity markets.

As regards interest rate hedging products, there was particular interest in the offer for Covered Warrants Caps on the Euribor to customers holding mortgages at floating rates, through the Group's networks.

These assets showed an increase in hedged volumes of 48% compared to 2009, reaching 1.1 billion euro, due to the historically low short-term interest rate level and expectation for future increases in these rates.

As regards asset management by banks and branches, the growth trend continued in 2010 due to placement of bancassurance products, against asset management divestments.

Institutional Sales

With regards to commercial activities conducted by intermediaries and "non-captive" institutional customers, the preference for simpler structures and for Italian issuers boosted activities as "arranger" for Banco Popolare issues.

Banca Aletti was Bookrunner for Banco Popolare senior and subordinate issues and Co-Lead for the initial two issues of Banco Popolare Covered Bonds.

In addition, over 288 million euro in private placements were arranged with institutional investors.

Bond trading on secondary markets also benefitted from the continuation of certain market dynamics that resulted in many institutional investors repositioning into less risky investments such as bonds, which allowed the bank to increase the volumes traded and acquire 17 new customers through these transactions.

As regards Banca Aletti product placement activities, the elevated risk aversion, which led customers to prefer products indexed to interest rates, resulted in a downturn in certificates volume, with 15 issues placed on banking network and by advisors during the year.

However, in terms of interest rate risk hedging products, the volumes of Warrant Caps recorded a considerable increase in volumes over 2009 due to forecasted increases in interest rates.

With regard to the placement of asset management products through non-captive networks, however, a negative result was recorded for net deposits, due to the difficult period faced in general by the asset management sector that led to a preference for direct deposit products with insurance content, such as capitalisation policies.

In December, the purchase of asset management contracts from Banca Popolare di Puglia e Basilicata was completed.

In Equity Brokerage, with the focus on Italian small/mid caps, institutional investors continued to prefer companies with higher capitalisations, resulting in a downturn in volumes. Finally, marketing activities continued that resulted in the opening of new relationships.

Large Corporate Sales

In 2010 the Large Corporate Sales Department consolidated the Financial Risk Management activities for accredited customers of local banks and continued its development initiatives in relation to potentially creditable new customers. As at 31 December 2010 the number of active customers for the department was 45, 17 of which were accredited in 2010.

50 visits were made to customers during the year to present the services offered and to consolidate existing relations.

Over the year, interest rate and exchange rate hedging transactions were completed with 31 counterparties of major standing, for a total notional amount of approximately 808 million euro.

The interest rate risk management tools adopted were exclusively effective hedging products (IRS and Cap), in line with the specific medium/long-term borrowing profile.

The exchange rate hedges mainly involved the U.S. dollar and, to a lesser extent, the GB pound and the Canadian dollar, and were primarily implemented through simple forward transactions or plain vanilla options, or, in certain cases, with knock-in forward instruments.

BUSINESS OUTLOOK

The global business cycle is showing signs of strengthening and the spreading of growth trends, no longer limited to emerging areas but expanding to developed countries, particularly Germany and the United States. However, the scenario continues to be characterised by high uncertainty about the future, along with new, worrying fluctuations in raw material prices - aggravated by recent events in North Africa - and remaining tension in government debt markets in some peripheral Eurozone areas as well as widespread weakness in the labour market.

In the Eurozone, the economic context is characterised by a moderate and irregular recovery, primarily due to exports, with internal demand and consumption still weak. This framework leads the Bank to anticipate that the expansive monetary policy will continue for most of 2011, with interest rates at historic lows, unless there are sudden changes in inflationary risks.

As previously stated, in Italy the recovery is less evident than other countries, despite signs of improvement, again mainly from exports.

The outlook continues for modest growth, around 1%, both in 2011 and 2012, with business manufacturing activities, household consumption and employment still weak.

The financial markets reflected new worries about government debt in the Eurozone (the most recent cases involving Portugal and Ireland), reflecting a general pressure toward higher funding costs, including for banks and businesses.

The authorities are continuing their work to coordinate and strengthen financial regulation and supervision. In the future, the context in which intermediaries must work will be strongly affected, in particular, by new prudential regulation for banks defined by the Basel Committee that will reinforce institutions' capital and liquidity requirements.

This economic and regulatory framework will mean a structurally complex and uncertain operating environment for Italian banks. Low growth as a result of weakness in the economic cycle, revenue contraction caused by higher funding costs, low interest rates and continued elevated customer risk, the need to put more solid capital and liquidity structures in place: these are the extremely difficult challenges forcing intermediaries to achieve ever higher management effectiveness and efficiency.

2011 will be characterised by the implementation of the guidelines in the Group's new Business Plan, currently being developed.

The Plan aims to significantly and structurally improve the Group's profitability profile through a series of distinct initiatives to re-launch the commercial business, acquire market share, increase the customer base, improve operating efficiency and realise synergies.

The guidelines that apply specifically to Banca Aletti outline a series of priority areas for action:

- Central departments - strengthening the role of management and control of the parent company and rebalancing the commercial structures and staff between the parent company and local banks.
- Private Banking customers - transfer the management of customers with more than 2 million euro in assets to Banca Aletti; reinforce commercial synergies between Banca Aletti, corporate operators and retail operators.

As a whole, these initiatives will result in a competitive repositioning of the Group so that it can better exploit market opportunities.

PROFIT ALLOCATION PROPOSAL

We propose that the Shareholders' Meeting approves the Financial Statements as submitted and allocates the 136,502,236.93 euro profit for the year as follows:

- 6,885,427.79 euro to other reserves;
- 129,616,809.14 euro to shareholders, corresponding to 5.52 euro per share.

The requirements of art. 2430 of the Italian Civil Code regarding allocation of part of the profits to the legal reserve are disregarded as the legal reserve already amounts to one-fifth of the share capital.

Should the above proposals be approved, the makeup of Banca Aletti shareholders' equity will be as follows:

| <i>(in thousands of euro)</i> | Current | New |
|-----------------------------------|-------------------|-------------------|
| Capital | 121,163.54 | 121,163.54 |
| Share premium reserve | 72,590.21 | 72,590.21 |
| Legal reserve | 24,232.71 | 24,232.71 |
| Other reserves | 219,252.74 | 226,138.16 |
| Valuation reserves | 2,724.23 | 2,724.23 |
| Total Shareholders' Equity | 439,963.41 | 446,848.84 |

Chairman of the Board of Directors

Urbano Aletti



Certification of the financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

1. The undersigned, Urbano Aletti, as Chairman of the Board of Directors of Banca Aletti & C. S.p.A. and Roberto Gori, as Manager responsible for preparing the Company's financial reports of Banca Aletti & C. S.p.A., hereby declare, also taking into account the provisions of Article 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 financial statements in 2010.

2. The assessment of the adequacy and the effective application of the administrative and accounting procedures for the formation of the financial statements as at 31 December 2010 was based on an internal model set in place by Banca Aletti & C. S.p.A., developed on the basis of that drawn up by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Report") that represents the standard for the internal audit system generally accepted at international level.

3. We also hereby certify that:

3.1 The 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 books and the accounting journal entries;

c) are suitable to provide a true and fair view of the balance sheet, income statement and financial situation of Banca Aletti & C. S.p.A.

3.2 The report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which the same is exposed.

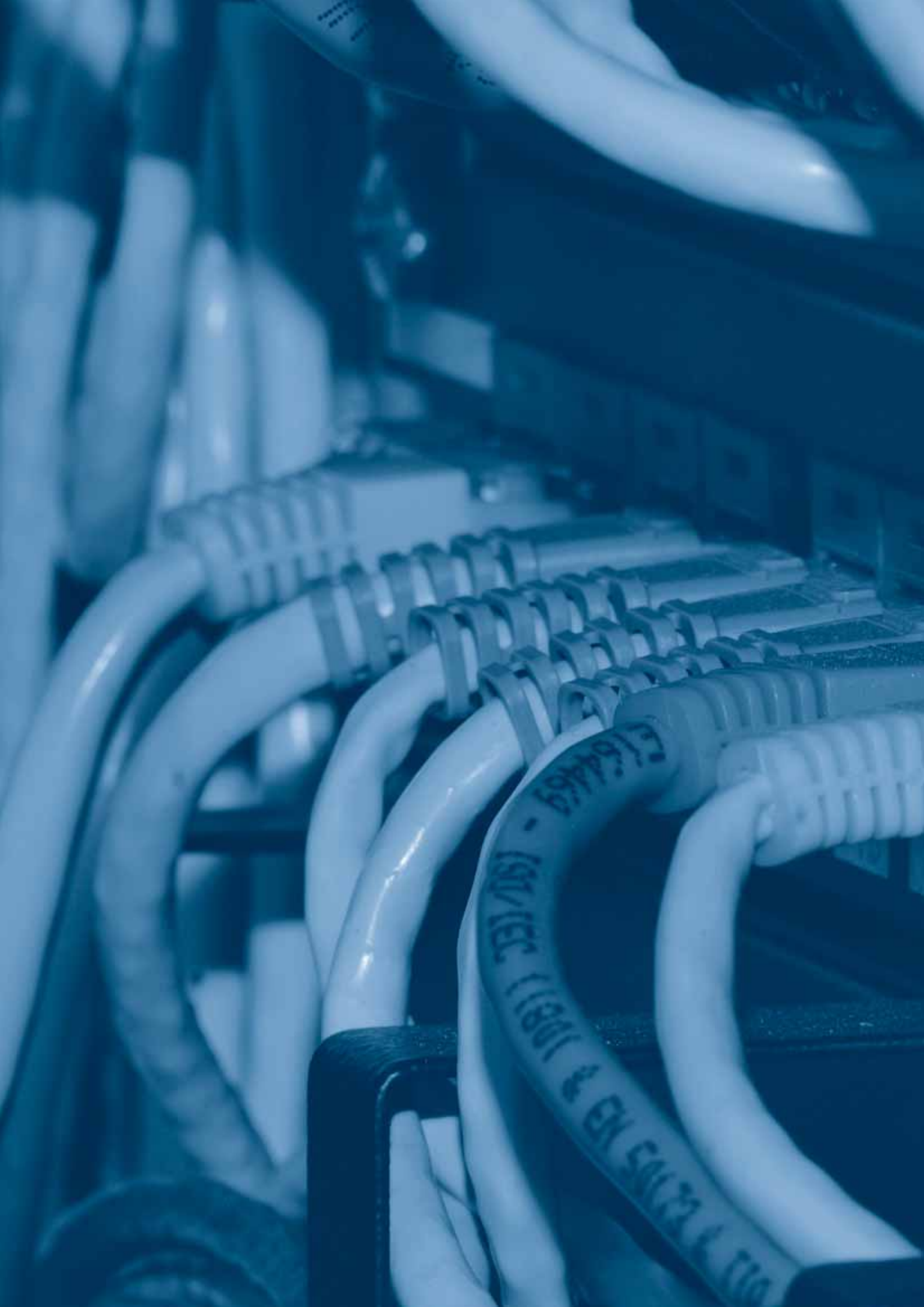
Date: 10 March 2011

Urbano Aletti

Chairman of the Board of Directors

Roberto Gori

Manager responsible for preparing
the Company's financial reports





STATUTORY AUDITORS' REPORT



STATUTORY AUDITORS' REPORT TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010

Dear Shareholders,

The separate financial statements as at 31 December 2010, including the Notes to the financial statements and *Report on Operations*, were approved by the Board of Directors on 10 March 2011 and made available to the Board of Statutory Auditors on that same date, in accordance with the law.

The financial statements are certified by RECONTA ERNST & YOUNG S.p.A., as the company is subject to compulsory audit. The financial statements as at 31 December 2010 are therefore accompanied by the Independent Auditors' Report pursuant to art. 156 of the Consolidated Law on Finance, as amended by Legislative Decree 39/2010, after having completed the relevant audit tasks.

The financial statements contain the statement pursuant to art. 154-bis, subsection 5 of the Consolidated Law on Finance, in compliance with art. 81-ter of Consob Regulation no. 11971/1999, as amended (the Issuers' Regulation), to the effect that administrative and accounting procedures considered in preparing the separate financial statements were suitable and applied. The opinion on the suitability and effective application is based on the "COSO report" model. The financial statements were prepared in accordance with IAS/IFRS standards and correspond to the data and information that we discovered in performing our duties.

a) Supervision by the Board of Statutory Auditors

The Board of Statutory Auditors performed its supervisory tasks in compliance with Italian Civil Code provisions - where applicable - the Consolidated Law on Finance (Legislative Decree no. 58, 24 February 1998), and Legislative Decree no. 39/2010, in keeping with related Consob Communications and also in consideration of Bank of Italy instructions on bank governance.

The work completed by the Board of Statutory Auditors can be summarised as follows:

- as required by law, the Board of Statutory Auditors attended the Shareholders' and Board of Directors' Meetings. On these occasions, the Board of Statutory Auditors was duly informed by the Directors of general business activities and the outlook for the future as well as the most significant economic, financial and equity transactions performed. The frequency of these meetings fulfilled the directors' formal reporting requirements pursuant to the current art. 150, subsection 1, of the Consolidated Law on Finance.

b) Results of the supervisory audits conducted by the Board of Statutory Auditors

Illustrated below is the main audit information emerging from Board of Statutory Auditors activities during the year.

01. The Board of Statutory Auditors was informed of the main transactions performed by the Bank.

In December 2010, the bank acquired individual asset management contracts from BANCA POPOLARE DI PUGLIA E BASILICATA, for a total AUM of 36.9 million euro.

To rationalise trust activities at directly controlled companies, a project to reduce the number of companies in said sector to two was completed: one dealing with static trust assignments (NAZIONALE FIDUCIARIA S.p.A., that incorporated ALETTI FIDUCIARIA S.p.A. on 31 December 2010 with effective fiscal date of 1 January 2010 and which assumed the name) and the other acting as a trust company (formerly CARFID S.p.A., which in 2009 modified its articles of association and changed its name to ALETTI TRUST S.p.A.). The investments held in ALETTI FIDUCIARIA S.p.A. (established by the merger by incorporation of ALETTI FIDUCIARIA S.p.A. in NAZIONALE FIDUCIARIA S.p.A., 100% owned by BANCA ALETTI, were subject to impairment tests, which found no evidence to support any write-downs on the investments.

02. No atypical or unusual transactions were identified, either with third parties or with companies of the Group. It is the Board of Statutory Auditors' opinion that infragroup and related parties transactions were carried out in accordance with the business plans coordinated by the parent company BANCO POPOLARE. During the year, the Board of Statutory Auditors constantly focused Top Management's attention on consistency with this principle. In Board of Directors' meetings, the key aspects of transactions potentially influenced by the parent company BANCO POPOLARE, pursuant to art. 2497 of the Italian Civil Code were highlighted and analysed in detail in a specific section of a report that was reviewed by the Board. However, it should be remembered that in information provided by the bank, your Directors have specified that decisions influenced by the parent company represent the correct application of Group logic with the objective of greater efficiency of the organisation as a whole.

03. The Board of Statutory Auditors considers the information regarding related parties transactions provided by Directors in the *Report on Operations* to be adequate.

A specific section of the *Notes to the financial statements* contains additional information on related party transactions, with specific information on transactions with Group companies.

04. No objections have been raised by the Independent Auditors.

The Board of Statutory Auditors has been able to verify the autonomy of the Independent Auditors, based on information the latter provided in its independence statement.

05. No reports have been received pursuant to art. 2408 of the Italian Civil Code.

06. With regard to complaints concerning investment services, these are discussed in the 2010 Compliance Department Annual Report, which is currently being drafted. The Board of Statutory Auditors expects that a specific report on the matter will be prepared every half-year. However, note that the Compliance Department has not reported any complaint that would indicate significant structural inadequacies.

07. In 2010, the Independent Auditors were assigned the following tasks:

- to independent auditors RECONTA ERNST & YOUNG S.p.A.:

| | | |
|----------------------------|----------|-----|
| Accounting audit | Euro/100 | 214 |
| Endorsement of tax returns | Euro/100 | 5 |

- to ERNST & YOUNG FINANCIAL BUSINESS ADVISORY S.p.A:

| | | |
|----------------------------------------------------------------|----------|----|
| Compliance with global investment performance standards (GIPS) | Euro/100 | 47 |
|----------------------------------------------------------------|----------|----|

All amounts are stated net of VAT and expenses.

No other mandates were assigned to parties bound by permanent relations to the Independent Auditors.

08. No circumstances arose during the year that required the Board of Statutory Auditors to issue opinions by law, with the exception of its opinion on the "Annual report on the compliance control of Group compliance activities" for 2009 (submitted in 2010). In accordance with the provisions of the bank's Organisational, Management and Control Model, pursuant to Legislative Decree 231/01, the Board of Statutory Auditors issued its preliminary opinion in relation to the adoption of said Model. The Board was kept constantly informed, at Board of Directors meetings and during periodic inspections, on activities performed by the following departments:

- Internal Audit
- Compliance
- Anti-Money Laundering
- Administrative Process Control.

These departments are the main contacts regarding the analysis of regulatory compliance, both prior and subsequent to activities performed by the Bank, as well as the review of internal control systems and the financial disclosure process.

It is important to remember that all of these sensitive tasks are performed with the parent company BANCO POPOLARE through service contracts. As with all outsourced activities, these are assessed in the light of reports submitted to the Board of Directors on a half-yearly basis, indicating the levels of satisfaction and any issues regarding the provision of such services according to a practice – in our opinion correct – as instructed by BANCA ALETTI. These reports on the performance of the outsourcing services by Group departments are necessary, as well as legitimate, given that the risks associated with the improper performance of the outsourced activities are borne by BANCA ALETTI.

On these occasions the Board of Statutory Auditors expressed its opinions, to support the effort to achieve greater regulatory and operating adequacy. For a summary of these opinions, reference should be made to point 12 of this report, on infragroup relations.

Finally, in reference to administrative-accounting processes, the Board of Statutory Auditors acknowledged the Audit Department's assessment of "substantially adequate" for the processes of preparing the financial statements, and calls for the improvement actions identified in the audit report to be implemented.

In performing its activities over the course of the year in question, the Board of Statutory Auditors deemed it appropriate to report to Supervisory Authorities:

- both past anomalies in entries to the AUI single database, discussed in the independent auditors' report on the results of its assessment activities commissioned by the parent Company, and on request of the Board of Statutory Auditors, which involved, among other items, a review of the proper maintenance of the AUI single database (report as per art. 52, subsection 1 of the Consolidated Banking Act and art. 52, subsection 2 of Legislative Decree no. 231/2007),
- as well as any irregularities due to behavioural and procedural anomalies, in one case, and misappropriation, in the other case, carried out by two private bankers (report as per art. 5, subsection 1 of the Consolidated Banking Act).

In reference to the first report, note that an external company was empowered as necessary to audit the processes relating to BANCA ALETTI's AUI single database in order to further confirm the accuracy of data relevant to this sensitive database and related input procedures. This activity was completed in 2010.

The issues reported to the Supervisory Authorities were subject to further review and follow up by the Board of Statutory Auditors, with the support of the Audit Department and the Group's Anti-Money Laundering manager, in order to assess the effectiveness of proposed and implemented solutions. Specifically:

- past anomalies in AUI single database entries were corrected at the procedural and organisational level, so that new anomalies do not occur, and the recovery of incomplete data from the past is currently underway;
- in reference to behavioural and procedural anomalies found in the activities of two private bankers, actions to significantly reduce the risk of similar irregularities were undertaken, and for the most part completed. For greater effectiveness of the overall result, after the appropriate analysis by the competent, mandated Group departments,

the Board of Statutory Auditors calls for additional control procedures to be introduced related to disinvestment of financial instruments from the securities portfolio.

09. There are no substantial remarks to be made in relation to compliance with the principles of proper management. Note that the Bank conducts its business activities independently, albeit in keeping with the plans and coordination of BANCO POPOLARE, benefiting from the advantages of belonging to the Group. Once again in 2010, BANCA ALETTI achieved a very significant result for its Banking Group, exceeding the forecast, and in consideration of the fact that in the prior year, though limited to the 1st quarter of 2009, the bank benefitted from the results of activities related to treasury and securities portfolio management performed by BANCO POPOLARE, as well as forex transactions for the entire Group that were transferred to the parent company effective 1 April 2009.

10. During the year, the Board of Statutory Auditors conducted the following audits:

- 22 ordinary or extraordinary audits,
- 5 audits of Private Branches,
- 2 audits linked to meetings with the Control Committee of the parent company, BANCO POPOLARE.

3 meetings with the independent auditors were held.

11. The *Report on Operations* provides an accurate identification of the Bank's areas of business in its various aspects.

The bank's total workforce declined by 24, from 454 in 2009, to 430 in 2010. Intragroup resources were rationalised during the year.

12. With regard to intragroup relations, the Board wishes to draw attention to points emerging during the various meetings of the board of directors regarding outsourced activities. The *Outsourced Activities Oversight* department was proposed in 2010 as a method of monitoring these relationships.

The review of the annexes in the outsourcing contract with the parent company was completed, as well as the review of the SLA annexed to the SGS-BP contract.

With respect to the prior year, the *Group Audit* Department was reorganised and the *Compliance* Department was strengthened.

As regards credit disbursement to BANCA ALETTI's direct customers, an very marginal activity of the bank's overall operations, the parent company *Credit* Department and Organisational Service are finishing their review of the bank's Credit Regulation.

During the year, small improvements were made with respect to the New Asset Management Model and in the Off-premises Offer; also note that the project to offer securities lending to administrative customers was launched.

Loopholes in certain information systems (Mutual Funds and Asset Management) were closed, discovered during the analysis carried out during the year as a result of the events described in point 8.

13. The bank's risk management is carried out under the coordination of BANCO POPOLARE, as parent company, and of companies into which activities of common interest to the GROUP have been centralised.

Specifically, the Bank is primarily exposed to *credit risk* and *counterparty risk* (for credit risks associated with counterparties in financial transactions involving OTC derivative instruments), *market risk*, *liquidity risk*, *operational risk*, *business risk*, as well as *strategic risk*, *reputational risk* and *compliance risk*. The *Report on Operations* provides the definition of these risks, identifies them within the bank's departments and describes their controls.

Of said risks, the first part are monitored through *quantitative* assessments, while the second part are subject to essentially *qualitative* analysis.

In particular, *market risk* is continually monitored through VaR systems using historical simulations, giving greater weight to more recent data.

The bank's *liquidity risk* is monitored at the parent company level.

Regarding *operational risk*, it should be noted that a new monitoring system had been implemented in the previous year, which is also managed centrally. Appropriate information was provided to the Board of Directors and the Board of Statutory Auditors regarding the most important operational risk elements for BANCA ALETTI in the first half of 2010, in the "Management report on Banca Aletti operational risks, June 2010", prepared by the parent company's Operational Risk Office, outlining:

- in the first section, the capital duly allocated to operational risk,
- and in the second section, the analysis of operational losses due to operational risk.

The Bank has adapted to all standards envisaged in the calculation of Group capital requirements.

The Bank's management in any event places constant focus and commitment to developments in terms of these operational risks, which by definition cannot be completely eliminated.

For the second half, the parent company's *Operational Risk Office* forecasted that the amount is slightly higher following the reclassification at Group level of certain items from "commercial reimbursement" to "operational loss".

14. With regard to the administrative accounting system and its capacity to correctly represent operating results, reference should be made to statements by the Manager responsible for the preparation of corporate accounts referred to at the beginning of this report.

In order to comply with the provisions of Legislative Decree 39/2010 that envisages the oversight of the Board of Statutory Auditors on information processes for the financial statements, the Board met with the Manager responsible for the preparation of corporate accounts and the manager of the "262 Control Support" Department (currently "Administrative Processes Control").

The Board was then able to verify that in the second half of 2010, analyses were planned and carried out on certain aspects relevant to the 262 Model (more precisely, “*Group Regulation for the Manager responsible for the preparation of corporate accounts*”)

These analyses included:

- identification of the reference perimeter for the financial statement accounts, highlighting the areas and items not directly attributable to balance sheet items, and noting cross-company production processes (financial disclosure, supervisory reporting, related parties);
- analysis of formalised administrative-accounting processes, their related risks and the controls implemented to mitigate said risks, included in the “*Development of an integrated process repository and review of regulatory framework*” project. This project was created to eliminate the fragmented view of said processes, specifically to allow the corporate accounting manager to highlight sensitive risks and controls for his/her area (financial disclosure);
- *Fast Closing* highlights the manual activities associated with the quantification of items included in “*Other assets/Other liabilities*”;
- formalisation of IT processes.

15. As previously stated, during the year the Board of Statutory Auditors was in constant contact with the *Audit and Compliance* departments.

Specifically, the Board had the opportunity to meet regularly with the *Audit* Department and jointly review both the “*Report on activities delegated to parent company’s Group Audit Department*” for the 2nd half of 2009, as well as the “*Half-year report on activities performed by the Group Audit Department for BANCA ALETTI & C. S.p.A.*” for the first half of 2010, in light of observations by bank management submitted to the Board of Directors. The report on the second half of 2010 is being prepared and will be presented to the Board of Directors.

In 2010, the Group Audit Department performed not only audits at Private Branches, the majority of which were found to be substantially adequate, as well as reviews and follow-ups on finance and compliance processes (Securities Lending, MiFID regulation compliance, transactions in listed financial instruments, the Origination process and structuring of bond loans and index-linked insurance policies for retail customers in local banks, Fixed Income Structured Products, Private & Retail Management Office, and VIP Management Office, completed in 2011). When preparing the half-year report, unless requested earlier, the Audit Department informs the Board of Statutory Auditors of the results of assessments on centralised departments (e.g., SGS-BP and parent company), if they are of interest to BANCA ALETTI.

The results provided by the Audit Department show the substantial adequacy of the areas audited, however, certain aspects in the Origination process need to be improved.

The 2010 Audit Plan was concluded, with the exception of the postponement to 2011 of the audit of a Private Unit, more than justified by the extraordinary activities performed during the year, relating to the activities of two private bankers.

The Board of Statutory Auditors also met with Compliance, mainly to review the activities and audits related to the off-market purchase of own shares by customers. In addition, the “*Control Department annual report of conformity with Group Compliance activities*” for 2009 (submitted in 2010), for BANCA ALETTI was reviewed, including customer claims regarding investment services, of which no significant organisational/procedural inadequacies were found for the bank.

Moreover, the Board of Statutory Auditors met periodically with the Group’s Anti-Money Laundering Manager, both to review the bank’s activities to remediate the issues that emerged after the independent company’s report on the result of its audit of the AUI single database, as well as to periodically monitor the anti-money laundering area. The competent departments of the bank and the trust companies were requested to give particular attention to this issue, with regard to managing “*Scudo Fiscale*” transactions.

To facilitate dataflow exchange regarding Bank and Group controls, in addition to meetings with *Audit* and *Compliance* representatives and the Group’s *Anti-Money Laundering* Manager, the Board of Statutory Auditors also met periodically with:

- the parent company Internal Control Committee, to which the Board reported on its activities, with the option of discussing and providing guidance on areas potentially subject to further study and operating improvement;
- the Boards of Statutory Auditors of the subsidiaries ALETTI FIDUCIARIA S.p.A., NAZIONALE FIDUCIARIA S.p.A and ALETTI TRUST S.p.A. to obtain information on the results of their activities, in compliance with the control procedures adopted at Group level. Special attention was given to the reorganisation processes for the Trust Department and the Trust Company’s organisation structures, monitoring and, if necessary, requesting, supervision from the Audit and Compliance Departments, as well as the updating/adoption of the Organisation, Management and Control Model pursuant to Legislative Decree 231/01; as regards ALETTI TRUST S.p.A., a recommendation was made to reinforce the organisational structure, to make it more appropriate for the highly-specialised and professional activities the company performs, and requesting an analysis of existing trust relationships and those to be initiated, as well as the adoption of suitable procedures for the analysis of said relationships;
- the 231/01 Surveillance Body, with whom a periodic information flow has been established.

The Board of Statutory Auditors acknowledges that in the second half of 2010 the approval process for the new Organisation, Management and Control Model, as per Legislative Decree 231/01, to which planned updates were added, including new presumed crimes for the new circumstances introduced by the amendments to the original text of Legislative Decree 231/01 and the corporate crimes as amended by art. 27 of Legislative Decree 39/2010. The Model was supported by the favourable opinion of the 231/01 Surveillance Body. In its opinion, the body gave a positive review of the bank’s decision to strengthen the 231/01 oversight by attributing to a specific organisational unit of the bank the responsibility of ensuring the effective implementation of the Model, effective July 2010, and additional opportunities for organisational

refinement were noted in order to optimise the Model. Specifically, the mapping of risks related to so-called "crimes of association" and related links to the Model, as well as, following organisational changes, mapping of risks related to equity market transactions of Proprietary Trading and related links to the Model, and finally, the sanctioning system for strategic management.

Note also that an ad-hoc project was undertaken related to training on Legislative Decree 231/01 that directly involved all the Managers of the Bank's Organisational Units.

Finally, there were no communications of behaviours relevant to Legislative Decree 231/01.

16. Over the course of the year, periodic meetings were held with the Independent Auditors to ensure the necessary exchange of information, from which there are no significant aspects to report.

The meetings also involved the analysis of activities to be performed, in accordance with art. 19, subsection 1, paragraph c) of Legislative Decree 39/2010, regarding the Board of Statutory Auditors' duty to oversee the annual and consolidated accounting audit and to perform an initial analysis on the adequacy of the internal control system.

In observance of the recent regulation introduced by Legislative Decree 39/2010, the Independent Auditors are preparing a "Report on the fundamental issues" which will be issued shortly. As such, in the meetings that were held, we were informed that no significant inadequacies were found for the internal control system in relation to the financial disclosure process (as per art. 19, subsection 3 of Legislative Decree 39/2010).

In the "Report on the fundamental issues", the independent auditors have also noted that they will highlight the most significant estimated entries, reported in the Notes to the financial statements, as required by law.

Finally, the Board of Statutory Auditors has performed the necessary oversight on the autonomy of the independent auditors, who on 29 March 2011 issued their "Annual statement of autonomy pursuant to art. 17, subsection 9, paragraph a) of Legislative Decree 39/2010" in accordance with art. 10 and art. 17, subsection 9 of Legislative Decree 39/2010. This statement notes that there are no reasons for incompatibility or limitations on the autonomy of the independent auditors. The Board of Statutory Auditors acknowledges that, during the year, it did not receive information on factors or elements of possible causes for incompatibility or limitations on the autonomy of the independent auditors.

17. As the company is not listed, the corporate governance code for listed companies was not adopted. It should be noted that the bank has adopted both the Code of Ethics and Self-Imposed Code of Conduct issued at parent company level.

18. Reports to Supervisory Authorities in relation to the activities performed by the Board of Statutory Auditors are discussed above.

19. and 20. The Board of Statutory Auditors has no proposals to submit to the Shareholders' Meeting pursuant to art. 153 of the Consolidated Law on Finance.

* * *

With regard to supervisory tasks performed in 2010, given all of the above, having read the independent auditors' report from RECONTA ERNST & YOUNG of 29 March 2011 on the 2010 separate financial statements, and having considered that it states "In our opinion, the financial statements of Banca Aletti & C. S.p.A. as at 31 December 2010 comply with the International Financial Reporting Standards adopted by the European Union, and with the directives implementing art. 9, Italian Legislative Decree 38/2005; therefore they are prepared with clarity and provide a truthful and accurate representation of the equity and financial position, economic results and cash flows of Banca Aletti & C. S.p.A. for the financial year ending on that date", and, "By law we are required to express an opinion on the correspondence between the Report on Operations and the specific section on corporate governance and ownership structure, and the financial statements, limited to the information as per art. 123-bis, subsection 2, paragraph b) of Legislative Decree 58/98. For this purpose we completed the procedures established in auditing principle no. 001 issued by the Italian Accounting Profession as recommended by Consob. In our opinion the Report on Operations and information pursuant to art. 123-bis, subsection 2, paragraph b) of Legislative Decree 58/98 provided in the specific section of said report is consistent with the separate financial statements of Banca Aletti & C. S.p.A. as at 31 December 2010", the Board of Statutory Auditors hereby expresses opinion in favour of approving the separate financial statements and the profit allocation proposal as indicated in the Report on Operations.

Milan, 29 March 2011

The Board of Statutory Auditors

Maria Gabriella Cocco, *Chairman*
Alfonso Sonato, *Standing Auditor*
Franco Valotto, *Standing Auditor*

14 SARAH CATANIA
 13 FILIPPO COCCHERI
 13 CALYON CREDIT
 12 DAVID DURAN PAZ
 12 DANIELA FERRARO
 11 GIOVANNI TARDITI
 09 FILIPPO COCCHERI
 09 SID GOWDA
 09 GIOVANNI TARDITI
 09 LUIGI FANCIANO
 08 STEFANO RAZIO
 08 LOREDANA ABBADINI
 08 STEFANO RAZIO

Schatze Auction - bid to cover has been 2.1 co
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 Launch of the new Schatz Mar.11 - strong dema
 [/] EUROPEAN BANK CDS AXES
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 BANG-A-THON...MAIN 192 1/4 -193 1/4
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 HANNOVER RE Q4 08 RESULTS OUT, PROFIT DRO
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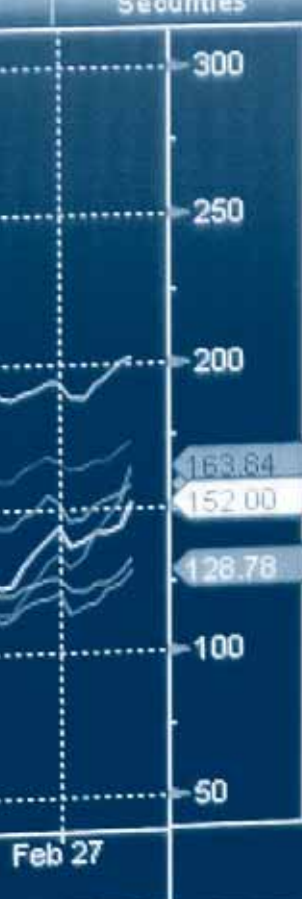
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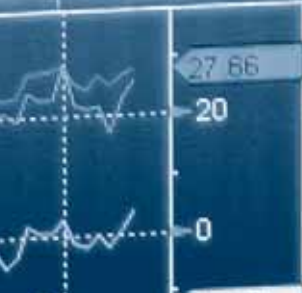
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|----------------|---------------|---------------|-----------|--------------|
| Quote | RXA Comdty | Properties | Bloomberg | Note |
| Last | 123.92 | EX | | BYFC-G |
| Change | -0.57 | -.46% | | |
| Bid | 123.92 | 88 | | |
| Ask | 123.93 | 144 | | 10:15 |
| Opn/Cls | 124.49 | 124.49 | | London |

Time Bonds(copy) Properties

| Ticker | Price | Yield | Chg 5D | GSpd | Asw | 5C |
|-----------------------|--------|-------|--------|------|-----|----|
| DT 4 1/2 10/25/13 | 101.29 | 4.18 | -0.44 | 198 | 149 | |
| FRTEL 7 1/4 01/28/13 | 111.12 | 4.08 | -0.83 | 200 | 166 | |
| TITIM 6 7/8 01/24/13 | 103.91 | 5.71 | -1.44 | 363 | 322 | |
| KPN 4 1/2 03/18/13 | 99.09 | 4.76 | -0.83 | 268 | 215 | |
| BRITEL 5 1/4 01/22/13 | 98.53 | 5.68 | -1.20 | 360 | 308 | |
| TELEFO 5 1/8 02/14/13 | 104.54 | 3.85 | 0.05 | 177 | 134 | |
| VOD 3 5/8 11/29/12 | 100.11 | 3.59 | -0.72 | 168 | 109 | |
| SUP | | | | | | |
| EIB 3 3/4 11/24/10 | 103.75 | 1.49 | -0.28 | -23 | -45 | .0 |
| EIB 3 5/8 10/15/13 | 103.04 | 2.91 | -.3652 | 83 | 24 | .0 |
| EIB 4 1/4 04/15/15 | 105.61 | 3.22 | 0.40 | 73 | 31 | .0 |
| EIB 4 5/8 04/15/20 | 106.62 | 3.88 | 2.08 | 85 | 45 | .0 |
| EM | | | | | | |

INDEPENDENT AUDITORS' REPORT
ON SEPARATE FINANCIAL STATEMENTS



**Independent auditors' report
pursuant to articles 14 and 16 of Legislative Decree n. 39 of January 27, 2010
(Translation from the original Italian text)**

To the Shareholders of Banca Aletti & C. S.p.A.

1. We have audited the financial statements of Banca Aletti & C. S.p.A. as of and for the year ended December 31, 2010, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement 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 article 9 of Legislative Decree n. 38/2005 is the responsibility of the Banca Aletti & C. S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made 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 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 financial statements of the prior year are presented for comparative purposes. As reported in the explanatory notes, management has restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditors' report dated March 26, 2010. 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 our opinion on the financial statements as of and for the year ended December 31, 2010.

3. In our opinion, the financial statements of Banca Aletti & C. S.p.A. as of December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Banca Aletti & C. S.p.A. for the year then ended.
4. The management of Banca Aletti & C. S.p.A. is responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. As required by law, our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and of the specific section on Corporate Governance and Ownership Structure limited to the information presented therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 2, letter b). 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 presented therein in compliance with article 123-bis of Legislative Decree n. 58/1998, paragraph 2), letter b), included in the specific section on Corporate Governance and Ownership Structure, are consistent with the financial statements of Banca Aletti & C. S.p.A. as of December 31, 2010.

Milan, March 29, 2011

Reconta Ernst & Young S.p.A.
Signed by: Riccardo Schioppo, Partner

This report has been translated into the English language solely for the convenience of international readers.





SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET

| Assets | 31/12/2010 | 31/12/2009 | Changes | |
|----------------------------------------|----------------------|-----------------------|----------------------|--------------|
| 10 Cash and cash equivalents | 24,061 | 49,390 | (25,329) | -51.3% |
| 20 Financial assets held for trading | 6,488,385,319 | 6,162,322,969 | 326,062,350 | 5.3% |
| 30 Fair value financial assets | 18,298,967 | 18,540,027 | (241,061) | -1.3% |
| 40 Available-for-sale financial assets | 8,611,621 | 8,206,748 | 404,873 | 4.9% |
| 60 Due from banks | 1,780,410,140 | 3,174,354,655 | (1,393,944,515) | -43.9% |
| 70 Due from customers | 1,510,029,782 | 1,177,266,671 | 332,763,111 | 28.3% |
| 100 Investments | 21,030,734 | 21,046,734 | (16,000) | -0.1% |
| 110 Property, plant and equipment | 1,677,267 | 1,686,185 | (8,918) | -0.5% |
| 120 Intangible assets | 21,083,667 | 19,980,728 | 1,102,939 | 5.5% |
| <i>of which: goodwill</i> | 21,080,270 | 19,973,005 | 1,107,265 | 5.5% |
| 130 Tax assets | 18,803,023 | 22,508,609 | (3,705,586) | -16.5% |
| a) current | 7,546,916 | 9,544,952 | (1,998,036) | -20.9% |
| b) prepaid | 11,256,106 | 12,963,657 | (1,707,551) | -13.2% |
| 150 Other assets | 71,632,512 | 85,921,945 | (14,289,433) | -16.6% |
| Total | 9,939,987,094 | 10,691,884,662 | (751,897,568) | -7.0% |

| Liabilities and shareholders' equity | 31/12/2010 | 31/12/2009 | Changes | |
|-------------------------------------------|----------------------|-----------------------|----------------------|--------------|
| 10 Due to banks | 3,303,363,222 | 3,130,497,066 | 172,866,156 | 5.5% |
| 20 Due to customers | 1,164,399,850 | 1,695,430,659 | (531,030,809) | -31.3% |
| 30 Securities in issue | - | 34,636,212 | (34,636,212) | |
| 40 Financial liabilities held for trading | 4,811,004,443 | 5,115,885,511 | (304,881,068) | -6.0% |
| 60 Hedging derivatives | - | 148,482 | (148,482) | |
| 80 Tax liabilities | 3,873,970 | 3,976,244 | (102,274) | -2.6% |
| a) current | 394,086 | 550,094 | (156,007) | -28.4% |
| b) deferred | 3,479,883 | 3,426,150 | 53,733 | 1.6% |
| 100 Other liabilities | 65,592,667 | 96,300,454 | (30,707,787) | -31.9% |
| 110 Employee termination indemnity | 2,816,653 | 2,703,120 | 113,533 | 4.2% |
| 120 Provisions for risks and charges | 12,470,638 | 16,007,593 | (3,536,955) | -22.1% |
| b) other provisions | 12,470,638 | 16,007,593 | (3,536,955) | -22.1% |
| 130 Valuation reserves | 2,724,227 | 1,735,383 | 988,844 | n.s. |
| 160 Reserves | 243,485,444 | 238,251,287 | 5,234,156 | 2.2% |
| 170 Share premium reserve | 72,590,205 | 72,590,205 | - | 0.0% |
| 180 Capital | 121,163,539 | 121,163,539 | - | 0.0% |
| 200 Profit for the year | 136,502,237 | 162,558,907 | (26,056,670) | -16.0% |
| Total | 9,939,987,094 | 10,691,884,662 | (751,897,568) | -7.0% |

INCOME STATEMENT

| Income Statement items | 2010 | 2009 | Changes | |
|------------------------------------------------------------------------|----------------------|----------------------|---------------------|---------------|
| 10 Interest income and similar revenues | 120,988,800 | 323,544,169 | (202,555,369) | -62.6% |
| 20 Interest expense and similar charges | (91,743,485) | (269,012,562) | 177,269,077 | -65.9% |
| 30 Interest margin | 29,245,315 | 54,531,607 | (25,286,292) | -46.4% |
| 40 Commission income | 156,185,707 | 160,040,443 | (3,854,736) | -2.4% |
| 50 Commission expense | (120,371,578) | (93,692,341) | (26,679,237) | 28.5% |
| 60 Net commissions | 35,814,129 | 66,348,103 | (30,533,973) | -46.0% |
| 70 Dividends and similar revenues | 360,547,741 | 528,043,079 | (167,495,338) | -31.7% |
| 80 Trading gains/losses | (135,581,371) | (312,222,257) | 176,640,886 | -56.6% |
| 90 Hedging gains/losses | (24,530) | 86,370 | (110,901) | - |
| 100 Gains (Losses) from disposal or repurchase of: | - | 117,587 | (117,587) | - |
| b) available-for-sale financial assets | - | 117,587 | (117,587) | - |
| 110 Net profit from fair value financial assets and liabilities | 118,800 | 747,662 | (628,862) | -84.1% |
| 120 Earnings margin | 290,120,084 | 337,652,150 | (47,532,066) | -14.1% |
| 130 Net write-downs/reversals for impairment of: | 607,755 | 241,779 | 365,976 | 151.4% |
| a) loans | 1,469,518 | 241,779 | 1,227,739 | 507.8% |
| b) available-for-sale financial assets | (861,763) | - | (861,763) | - |
| 140 Net profit from financial management | 290,727,839 | 337,893,929 | (47,166,090) | -14.0% |
| 150 Administrative costs: | (106,074,758) | (119,372,986) | 13,298,228 | -11.1% |
| a) staff costs | (52,901,868) | (54,766,733) | 1,864,865 | -3.4% |
| b) other administrative expense | (53,172,890) | (64,606,252) | 11,433,363 | -17.7% |
| 160 Net provisions for risks and charges | (1,200,000) | (938,216) | (261,784) | 27.9% |
| 170 Net write-downs/reversals on property, plant and equipment | (597,815) | (624,306) | 26,491 | -4.2% |
| 180 Net write-downs/reversals on intangible assets | (4,326) | (6,338) | 2,012 | -31.7% |
| 190 Other operating income (expense) | 7,297,956 | 15,061,153 | (7,763,197) | -51.5% |
| 200 Operating costs | (100,578,943) | (105,880,694) | 5,301,751 | -5.0% |
| 210 Gains (Losses) on investments | 3,409 | (3,585,208) | 3,588,617 | - |
| 240 Gains (Losses) on investment disposals | 10 | 452 | (442) | -97.8% |
| 250 Profit (Loss) on current operations before tax | 190,152,315 | 228,428,479 | (38,276,163) | -16.8% |
| 260 Income tax for the year for current operations | (53,650,078) | (65,869,572) | 12,219,494 | -18.6% |
| 270 Net profit (loss) on current operations | 136,502,237 | 162,558,907 | (26,056,670) | -16.0% |
| 290 Profit for the year | 136,502,237 | 162,558,907 | (26,056,670) | -16.0% |

STATEMENT OF COMPREHENSIVE INCOME

| <i>Item</i> | 31/12/2010 | 31/12/2009 |
|-------------------------------------------------------------------------------------|--------------------|--------------------|
| 10 Profit (Loss) for the year | 136,502,237 | 162,558,907 |
| Other income items after tax | - | - |
| 20 Available-for-sale financial assets | 988,844 | 1,658,941 |
| 30 Property, plant and equipment | - | - |
| 40 Intangible assets | - | - |
| 50 Foreign investment hedges | - | - |
| 60 Cash flow hedges | - | - |
| 70 Exchange differences | - | - |
| 80 Discontinued operations | - | - |
| 90 Actuarial gains (losses) on defined benefit plans | - | - |
| 100 Portion of valuation reserves relating to investments measured at equity | - | - |
| 110 Total other income items after tax | 988,844 | 1,658,941 |
| 120 Comprehensive income (Items 10+110) | 137,491,081 | 164,217,848 |

2010 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Balance as at 31 12 09 | Changes in opening balance | Balance as at 01 01 10 | Allocation of previous year's results | | Changes during the year | | | | | | Shareholders' equity as at 31 12 10 | | |
|-----------------------------------|---------------------------|----------------------------------|---------------------------|------------------------------------------|---------------------------------------|-------------------------|------------------------|---------------------------|-----------------------------------------------|-------------------------------------|---------------------------------|-------------------------------------------|---------------------------------|--------------------|
| | | | | Reserves | Dividends and other utilisation | Changes in reserves | Equity transactions | | | | | | 2010 Comprehensive income | |
| | | | | | | | Issue of new shares | Purchase of own shares | Extraordinary distribution of dividends | Changes in equity instruments | Derivatives on own shares | | | Stock options |
| Share capital: | | | | | | | | | | | | | | |
| a) ordinary shares | 121,163,539 | - | 121,163,539 | - | - | - | - | - | - | - | - | - | - | 121,163,539 |
| b) other shares | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Share premium reserve | 72,590,205 | - | 72,590,205 | - | - | - | - | - | - | - | - | - | - | 72,590,205 |
| Reserves: | | | | | | | | | | | | | | |
| a) profit | 238,251,287 | - | 238,251,287 | 5,234,157 | - | - | - | - | - | - | - | - | - | 243,485,444 |
| b) other | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Valuation reserves: | | | | | | | | | | | | | | |
| a) available for sale | 1,735,383 | - | 1,735,383 | - | - | - | - | - | - | - | - | - | 988,844 | 2,724,227 |
| b) cash flow hedges | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| c) other | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity instruments | | | | | | | | | | | | | | |
| Own shares | | | | | | | | | | | | | | |
| Profit (Loss) for the year | 162,558,907 | - | 162,558,907 | (5,234,157) | (137,324,750) | - | - | - | - | - | - | - | 136,502,237 | 136,502,237 |
| Shareholders' equity | 596,299,321 | - | 596,299,321 | - | (137,324,750) | - | - | - | - | - | - | - | 137,491,081 | 576,465,652 |

2009 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Balance as at 31 12 08 | Changes in opening balance | Balance as at 01 01 09 | Allocation of previous year's results | | Changes during the year | | | | | | | Shareholders' equity as at 31 12 09 | | |
|-----------------------------------|---------------------------|----------------------------------|---------------------------|------------------------------------------|---------------------------------------|-------------------------|------------------------|---------------------------|-----------------------------------------------|-------------------------------------|---------------------------------|---------------------------------|-------------------------------------------|--------------------|--------------------|
| | | | | Reserves | Dividends and other utilisation | Changes in reserves | Equity transactions | | | | | 2009 Comprehensive income | | | |
| | | | | | | | Issue of new shares | Purchase of own shares | Extraordinary distribution of dividends | Changes in equity instruments | Derivatives on own shares | | | Stock options | |
| Share capital: | | | | | | | | | | | | | | | |
| a) ordinary shares | 121,163,539 | - | 121,163,539 | - | - | - | - | - | - | - | - | - | - | - | 121,163,539 |
| b) other shares | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Share premium reserve | 72,590,205 | - | 72,590,205 | - | - | - | - | - | - | - | - | - | - | - | 72,590,205 |
| Reserves: | | | | | | | | | | | | | | | |
| a) profit | 146,839,820 | - | 146,839,820 | 91,448,689 | - | (37,222) | - | - | - | - | - | - | - | - | 238,251,287 |
| b) other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Valuation reserves: | | | | | | | | | | | | | | | |
| a) available for sale | 76,442 | - | 76,442 | - | - | - | - | - | - | - | - | - | - | 1,658,941 | 1,735,383 |
| b) cash flow hedges | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| c) other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity instruments | | | | | | | | | | | | | | | |
| Own shares | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Profit (Loss) for the year | 91,448,689 | - | 91,448,689 | (91,448,689) | - | (37,222) | - | - | - | - | - | - | - | 162,558,907 | 162,558,907 |
| Shareholders' equity | 432,118,695 | - | 432,118,695 | - | - | (37,222) | - | - | - | - | - | - | - | 164,217,848 | 596,299,321 |

The bank does not possess own shares or shares in parent companies, nor has it purchased or disposed of such shares directly or through third parties during the year.

CASH FLOW STATEMENT (DIRECT METHOD)

| FINANCIAL ASSETS | 31/12/10 | 31/12/09 |
|------------------------------------------------------------------------------|----------------------|-------------------------|
| 1. Management | 304,193,717 | (34,173,017) |
| - interest income received (+) | 121,934,087 | 357,549,335 |
| - interest expense paid (-) | (93,944,494) | (300,901,783) |
| - dividends and similar revenues (+) | 360,318,787 | 527,945,969 |
| - net commissions (+/-) | 36,917,453 | (116,502,947) |
| - staff costs | (56,520,789) | (63,368,495) |
| - other costs (-) | (64,901,583) | (403,643,455) |
| - other revenues (+) | 7,358,101 | 15,671,795 |
| - taxes (-) | (6,967,845) | (50,923,436) |
| - costs/revenues for groups of discontinued assets, net of tax effects (+/-) | - | - |
| 2. Cash flow generated/absorbed by financial assets: | 753,670,067 | 14,894,183,899 |
| - financial assets held for trading | (326,062,350) | (1,660,759,435) |
| - fair value financial assets | 241,060 | (241,021) |
| - available-for-sale financial assets | (258,382) | 1,290,146 |
| - due from customers | (331,293,593) | 853,508,993 |
| - due from banks: on demand | 1,302,798,808 | (1,766,264,035) |
| - due from banks: other receivables | 92,401,428 | 17,015,466,990 |
| - other assets | 15,843,096 | 451,182,261 |
| 3. Cash flow generated/absorbed by financial liabilities: | (900,204,419) | (14,847,074,377) |
| - due to banks: on demand | 362,464,781 | (13,419,062,289) |
| - due to banks: other payables | (189,598,625) | (970,404,419) |
| - due to customers | (531,030,809) | (1,045,380,124) |
| - securities in issue | (34,636,212) | (142,961,177) |
| - financial liabilities held for trading | (304,881,068) | 944,392,484 |
| - fair value financial liabilities | - | - |
| - other liabilities | (202,522,486) | (213,658,852) |
| Net cash flow generated/absorbed by operations | 157,659,365 | 12,936,505 |
| INVESTMENTS | | |
| 1. Cash flow generated by: | 228,954 | 100,520 |
| - disposal of investments | - | - |
| - dividends collected on investments | 228,954 | 97,110 |
| - disposal/redemption of financial assets held to maturity | - | - |
| - disposal of property, plant and equipment | - | 3,410 |
| - disposal of intangible assets | - | - |
| - disposal of business segments | - | - |
| 2. Cash flow absorbed by: | (588,898) | (13,012,667) |
| - acquisition of investments | - | (12,728,382) |
| - acquisition of financial assets held to maturity | - | - |
| - purchase of property, plant and equipment | (588,898) | (284,285) |
| - purchase of intangible assets | - | - |
| - acquisition of business segments | - | - |
| Net cash flow generated/absorbed by investments | (359,944) | (12,912,147) |
| FUNDING | | |
| - issue/purchase of own shares | - | - |
| - issue/purchase of equity instruments | - | - |
| - distribution of dividends and other | (157,324,750) | - |
| Net cash flow generated/absorbed by funding | (157,324,750) | - |
| NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR | (25,329) | 24,358 |
| Balance sheet items | 31/12/10 | 31/12/09 |
| Cash and cash equivalents – opening balance | 49,390 | 25,032 |
| Total net cash flow generated/absorbed during the year | (25,329) | 24,358 |
| Cash and cash equivalents: effect of exchange differences | - | - |
| Cash and cash equivalents – closing balance | 24,061 | 49,390 |





PART A – ACCOUNTING POLICIES

A.1 – GENERAL SECTION

Section 1 - Declaration of compliance with international accounting standards

In accordance with Italian Legislative Decree no. 38 of 28 February 2005, these separate financial statements were prepared according to international accounting standards issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Commission as established in EC Regulation no. 1606 of 19 July 2002.

For the interpretation and application of international accounting standards reference was made to the following documents, albeit not approved by the European Commission:

Systematic framework for the preparation and presentation of financial statements (the “Framework”);

Implementation Guidance, Basis for Conclusions and other appropriate documents prepared by the IASB or the IFRIC to complete the accounting standards issued.

The main accounting standards applied in the preparation of these financial statements were those in force as at 31 December 2010 (including SIC and IFRIC interpretations).

For an overview of the standards approved in 2010 or those approved earlier but applicable from 2010 (or later), reference should be made to “Section 4 - Other aspects” below, which also illustrates the major impacts on the bank.

Section 2 – General preparation principles

The separate financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements, accompanied by the Report on Operations.

In preparing the statements and content of the Notes to the financial statements, the bank applied the Bank of Italy instructions provided in Circular no. 262 of 22 December 2005, “Bank financial statements: presentation formats and rules”, and the update of 18 November 2009. Moreover, the additional information requests and clarifications sent by the Supervisory Authority were considered, in particular the technical notes of 16 February 2011 and 28 February 2011 (the so-called “flyers”)

These financial statements adopted the euro as operating currency.

The amounts indicated in the financial statements are expressed in euro, whilst the figures indicated in the tables to the Notes - unless otherwise indicated - are expressed in thousands of euro.

The financial statements were prepared with a view to clarity and to presenting a fair and truthful picture of the equity, financial and economic position for the year.

Where the information required by international accounting standards and instructions of the aforementioned Circular are considered insufficient to provide a fair and truthful view, supplementary information for this purpose is given in the notes to the financial statements.

If in exceptional circumstances the application of any of the international accounting standards proves incompatible with a fair and truthful view of the equity, financial and economic position, it is not applied. The Notes to the financial statements explain the reasons for any exception, and its impact on the representation of the equity, financial and economic results.

The financial statements were prepared in accordance with the following general principles:

Going concern: the financial statements were prepared with a view to the bank remaining a going concern;

Accrual accounting: the financial statements were prepared according to the accruals principle except for the information on cash flows;

Presentation consistency: the presentation and classification of statement items remains constant from one year to the next unless an accounting standard or interpretation calls for a change in the presentation, or a different presentation or classification would no longer be appropriate under the terms of IAS 8. In this latter case, the Notes to the financial statements provide information regarding any changes compared to the previous year.

Materiality and aggregation: The balance sheet and income statement comprise items (marked with Arabic numerals), sub-items (marked by letters) and additional details (under “of which” in the items and sub-items). The items, sub-items and related details form the accounts of the financial statements. The formats used comply with those defined by the Bank of Italy in Circular no. 262 of 22 December 2005, as updated. New items can be added to these formats if their content cannot

be attributed to any other item already indicated in the statements and only if the amount concerned is material. The sub-items envisaged in the statements can be aggregated if one of the following two conditions is met:

- a) the amount of the sub-items is immaterial;
- b) aggregation lends greater clarity to the statements. In this case the notes to the financial statements provide separate comments on any aggregated sub-items.

The balance sheet and income statement contain no accounts for which no amount was recorded for either the year in question or the previous year.

Predominance of substance over form: transactions and other events are recognised and represented in compliance with their substance and economic effect, and not merely according to their legal form;

Offsetting: assets and liabilities, income and costs are not offset unless offsetting is permitted or required by an international accounting standard or related interpretation, or instructed in the aforementioned Bank of Italy Circular;

Comparative information: For every item in the balance sheet and income statement a comparative figure for the previous year is indicated, unless otherwise required by an accounting standard or interpretation. Where necessary, figures for the previous year may be adjusted as appropriate to ensure their comparability to the current year. Any incomparability, adjustment or any adjustment not possible is marked and commented in the Notes to the financial statements.

The Notes to the financial statements are divided into parts (Accounting policies, Balance sheet data, Income statement data, Comprehensive Income, Information on risks and related hedging policies, Information on capital, Business combinations, Related party transactions, Share-based payments, Operating segments). Each part of the notes is divided into sections, each illustrating a single aspect of operations.

Uncertainties in the use of estimates in preparing the separate financial statements

The application of certain accounting standards necessarily implies recourse to estimates and assumptions that have an impact on the values of assets and liabilities recognised to the balance sheet and on the information provided in relation to potential assets and liabilities.

Assumptions based on estimates take into consideration all the information available as at the date of preparation of the financial statements, together with any scenarios considered reasonable based on past experience and the difficult current situation of the financial markets. In this respect it should be pointed out that the situation brought about by the current economic and financial crisis led to certain assumptions regarding the business outlook marked by significant uncertainty.

Given the uncertainty, it cannot be excluded that the assumptions made, albeit reasonable, may not be confirmed by future scenarios in which the bank is expected to operate. Future results could therefore differ from the estimates used in preparing these financial statements, and it would therefore be necessary to adjust any figures currently not predictable or estimable with respect to book values recognised under assets and liabilities in the statements.

The valuation processes requiring the most use of estimates and assumptions to determine the values recognised to the financial statements are:

- the quantification of financial asset impairment losses, particularly on loans and available-for-sale financial assets;
- the measurement of impairment losses of goodwill and equity investments;
- the fair value measurement of financial assets and liabilities where the value is not directly obtainable on active markets. In this case, the subjective nature of elements lies in the choice of valuation models or in the input parameters that may not be available on the market;
- the quantification of provisions for risks and charges and pension funds, given the uncertainty of the subject matter, contingency timeframes and the current actuarial assumptions used;
- the estimated recoverability of deferred tax assets.

The above list of valuation processes is provided to offer readers of the financial statements a better understanding of the main areas of uncertainty. It is not intended as any implication that alternative assumptions would at present be appropriate. In addition, the financial statements valuations are based on going concern assumptions, as no risks have been identified that could jeopardise the regular continuation of the bank's activities. Information on risks, particularly liquidity risk, is provided in Part E – Information on risks and related hedging policies.

Section 3 – Events after the financial statements date

On 10 February 2011, the Italian Finance Police began a general audit of Banca Aletti for the 2006 through 2009 tax years.

Section 4 – Other aspects

Separate financial statements deadlines for approval and publication

Art. 154-ter of Italian Legislative Decree 59/98 (Consolidated Finance Law) envisages that within 120 days of year end the separate financial statements and the annual report containing the separate financial statements, report on operations and the statement pursuant to article 154-bis, subsection 5 are made available to the public at the registered office, the web site and by other means provided for by Consob regulation.

The draft separate financial statements were approved by the Board of Directors on 10 March 2011 and will be submitted for approval of the Shareholders' Meeting called for 21 April 2011.

Audit

The separate financial statements were audited by Reconta Ernst & Young S.p.A. pursuant to Italian Legislative Decree 58/98, as part of the assignment for the period 2008-2013 approved by the shareholders' meeting of 20 April 2007.

The independent auditors' report will be published with the annual report pursuant to art. 154-ter of Italian Legislative Decree 58/98.

Amendments to international accounting standards approved by the European Commission

During 2010, the application of certain accounting standards or interpretations issued by IASB and approved by the European Commission became either mandatory or optional.

Specifically, the new versions of IFRS 3 - Business combinations and IAS 27 - Consolidated and separate financial statements, and were approved with EC Regulation nos. 494 and 495 of 3 June 2009, applicable to the bank effective 1 January 2010. Consistent with the process of amending these standards, the provisions in IAS 28 for investments in associates and in IAS 31 for interests in joint ventures were modified. As regards the impact on the separate financial statements, the amendments to the aforementioned standards envisage that, if a company no longer exercises control, joint control or significant influence as a result of a partial disposal, the residual interest held must be recognised at fair value and subsequent gains and losses on the book value must be recorded in the income statement. In contrast, the previous version of IAS 27, 28 and 31 envisaged that the recognised value of the residual interest was represented by the book value of the investment at the date on which the company no longer exercised control or significant influence.

The following table lists all the accounting standards approved in 2010 or earlier, the application of which became compulsory from 2010, and for which there were no significant impacts on the preparation of these financial statements.

| Accounting standards and interpretations (*) | Notes | EC approval regulation | Applicable from the year commencing: |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|--------------------------------------|
| Amendments to existing standards | | | |
| IAS 27 – Consolidated and separate financial statements | Allows the recognition of goodwill on minority interests (full goodwill). Acquisition or loss of control requires recognition of the related income and charges to the income statement. In the consolidated financial statements, increases or decreases in minority interests held without loss of control are considered transactions with shareholders and therefore recognised to shareholders' equity | | 1 July 2009 |
| IAS 39 – Elements qualifying for hedge accounting | Establishes the conditions to be met in order to allow inflation risk hedging for a hedged item, and specifies that the hedged risk does not include the time value of an acquired option | EC Reg. no. 839 of 15 September 2009 | 1 July 2009 |
| Improvements to IFRS | Minor changes | EC Reg. no. 70 of 23 January 2009 | 30 June 2009 (for IFRS 5 amendments) |
| | | EC Reg. no. 243 of 23 March 2010 | 1 January 2010 |
| IFRS 2 - Share-based payments | Provides clarifications on the accounting for share-based payment transaction regulated in cash within a Group (annulling IFRIC interpretations 8 and 11) | EC Reg. no. 244 of 23 March 2010 | 1 January 2010 |
| New interpretations | | | |
| IFRIC 12 – Service concession arrangements | Defines the accounting treatment for rights and obligations deriving from concession arrangements based on the characteristics of the agreement concerned | EC Reg. no. 254 of 25 March 2009 | 1 January 2010 |
| IFRIC 15 – Agreements for the construction of real estate | Establishes when real estate construction revenues must be considered as asset disposals (IAS 18) or as construction services (IAS 11) | EC Reg. no. 636 of 22 July 2009 | 1 January 2010 |
| IFRIC 16 – Hedges of a net investment in a foreign operation | Clarifies the application methods for IAS 21 and IAS 39 in cases in which an entity hedges exchange rate risk deriving from its own net investments in foreign operations | EC Reg. no. 460 and 4 June 2009 | 1 July 2009 |
| IFRIC 17 – Distributions of non-cash assets to owners | Establishes that non-cash assets distributed to shareholders are subject to fair value measurement | EC Reg. no. 1142 del 26 November 2009 | 1 November 2009 |
| IFRIC 18 – Transfers of assets from customers | Establishes the accounting treatment of property, plant and equipment received from customers in order to supply them with periodically with goods or services | EC Reg. no. 1164 del 27 November 2009 | 1 November 2009 |
| (*) amendments to IFRS 1 regarding the initial application of IFRS are not included | | | |

To complete the information, the table below illustrates standards which, albeit approved by the European Commission through 31 December 2010, do not apply to the financial statements as at 31 December 2010 and have not been adopted in advance (where permitted) by the bank.

| Accounting standards and interpretations (*) | Notes | Applicable from the year commencing: |
|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| Amendments to existing standards | | |
| IAS 32 – Classification of rights issues | Clarifies how certain rights should be recorded for accounting purposes when the instruments issued are in a currency other than the issuer's operating currency | 9 |
| IAS 24 - Related party disclosures | Simplifies the definition of "related parties", eliminates certain inconsistencies and exempts public entities from certain disclosure requirements for related party transactions | EC Reg. no. 632 of 19 July 2010 |
| IFRS 8 – Operating segments | | 1 February 2010 |
| New interpretations or amendments | | |
| IFRIC 14 - Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | If a defined benefit plan is subject to a minimum contribution provision, the amendment to IFRIC 14 requires that this advance payment is treated as an asset, according to the standard for any other type of advance payment | EC Reg. no. 633 of 19 July 2010 |
| IFRIC 19 - Extinguishing financial liabilities with equity instruments | Provides guidelines for the accounting treatment, by the debtor, of equity-linked instruments issued to fully or partially extinguish a financial liability following the renegotiation of the related terms and conditions | EC Reg. no. 662 of 23 July 2010 |
| | | 1 January 2011 |
| | | 30 June 2010 |
| (*) amendments to IFRS 1 regarding the initial application of IFRS are not included | | |

Representation of the changes to the financial statements for comparison purposes

Following certain clarifications received from Bank of Italy in February 2011, related to the presentation methodology for certain employee benefits, the bank, in order to provide a meaningful comparison, changed the 2009 income statement, reclassifying some expenses that had previously been recognised in sub-item "150 b) Other administrative expenses" into sub-item "150 a) Personnel costs", for a total amount of 756 thousand euro.

A.2 NOTES ON THE MAIN ITEMS OF THE BALANCE SHEET

The balance sheet as at 31 December 2010 was prepared in application of the same accounting standards used for the previous year's balance sheet, with the approved amendments in effect for 2010, as indicated in section "4 – Other aspects", A.1. General Section.

Details are provided below of the accounting standards applied for each item of the balance sheet.

1 - Financial assets held for trading

This category contains only debt securities, equity instruments, UCI units and the positive value of derivatives held for trading, together with derivatives relating to fair value assets/liabilities. The derivatives include those embedded in complex financial instruments subject to separate recognition when:

- their economic and risk characteristics are not strictly linked to the characteristics of the underlying contract;
- the embedded instruments, even if separate, satisfy the definition of derivative;
- the related hybrid instruments are not measured at fair value with related changes recognised to the income statement.

Financial assets are initially recognised as at the settlement date for debt securities and equity instruments, and as at the subscription date for derivatives.

On initial recognition, financial assets held for trading are recorded at fair value, normally corresponding to the price paid, without considering transaction costs or gains directly attributable to the financial instrument, which are instead recognised to the income statement. Any derivatives embedded in complex contracts not strictly linked to the derivatives and with characteristics that satisfy the definition of a derivative, are stripped from the primary contract and measured at fair value, whilst the accounting criterion of reference is applied to the primary contract.

After initial recognition financial assets held for trading are measured at fair value, and any changes recognised to a balancing entry in the income statement.

For the fair value measurement of financial instruments listed on an active market, the market prices are used. In the absence of an active market, valuation model estimates are used that take into consideration all risk factors linked to the instruments and which are based on information available on the market, i.e., methods based on the valuation of listed instruments with similar characteristics, discounted cash flows, models for calculating option prices and values from similar,

recent transactions. For further details reference should be made to paragraph "17 - Other information, Fair value measurement methods for financial instruments".

Equity instruments and related derivatives for which fair value cannot be reliably measured in accordance with the above guidelines, continue to be recognised at cost and written down in the event of impairment. Such impairment cannot be reversed at a later date.

Financial assets are derecognised when the contractual rights to cash flows generated by the assets expire or on disposal of the financial assets with transfer of essentially all related risks/benefits.

Trading gains and losses and capital gains and losses from trading book valuation are recognised to the income statement under item "80 Net trading gains/losses", except those relating to FVO derivatives which are recognised to item "110 Net profit/loss from fair value financial assets and liabilities".

Reclassification to other financial asset categories (loans, AFS financial assets, financial assets held to maturity) is permitted only in rare circumstances or if certain conditions for recognition according to paragraph "17 - Other information, Reclassification of financial asset portfolios (amendment to IAS 39)".

2 - Available-for-sale financial assets

This category includes non-derivative financial assets not otherwise classified as loans, assets held for trading, assets held to maturity or fair value assets.

Specifically, equity investments not held for trading and not qualifying as controlling, associate or common control interests, including private equity investments, and portions of syndicated loans underwritten which, from the outset, are held for disposal and bonds not subject to trading, are recognised to this category.

Financial assets are initially recognised as at the settlement date for debt securities and equity instruments, and as at the disbursement date for other financial assets not classed as receivables.

Initial recognition of the assets is at fair value, normally corresponding to the price paid, including transaction costs or gains directly attributable to the instrument. If recognised after reclassification from Assets held to maturity or Financial assets held for trading, the recognition value is the fair value as at the date of transfer, which represents the new amortised cost for debt securities.

Recognition following reclassification from "Financial assets held for trading" can only occur in rare circumstances and in any event when the asset is no longer held for short-term trading as described in paragraph "17 - Other information, Reclassification of financial asset portfolios (amendment to IAS 39)", to which reference should therefore be made.

After initial recognition, available-for-sale financial assets continue to be measured at fair value, with the interest resulting from application of the amortised cost recognised to the income statement, whilst any profit or loss from changes in fair value are recognised to a specific equity reserve until the financial asset is derecognised or until impairment is recognised with subsequent recognition to the income statement of the entire difference between the book value and the disposal price or fair value.

The fair value is measured according to the criteria illustrated for financial assets held for trading.

Equity instruments and related derivatives for which fair value cannot be reliably measured continue to be recognised at cost and written down in the event of impairment.

Impairment testing is performed at the end of each annual or interim reporting period. For further details of events resulting in impairment, reference should be made to paragraph "17 - Other information, Impairment testing methods for financial assets".

As regards equity instruments, a significant or prolonged reduction in fair value below the original book value is considered evidence of impairment. In particular, the Group has deemed significant to be a loss in fair value of more than 30%, and prolonged to be a reduction in fair value for an uninterrupted period of 24 months. Unless there are exceptional circumstances, if either of the above conditions are met, the impairment on the security is recognised in the income statement.

If neither of the above two conditions are met, qualitative analyses are conducted to verify evidence of impairment:

- for debt securities with a decrease in fair value of more than 20% of the original book value, adjusted by the amortised cost;
- for equity instruments with a decrease in fair value of more than 20% of the original book value or a decrease in fair value lasting more than 12 months.

In the latter two cases, the difference between the fair value and book value is not sufficient evidence per se of impairment. It merely is the first sign of possible impairment, which must be supported by qualitative analysis to identify any negative events that could imply that not all the book value of the asset is recoverable.

Any write-down after impairment testing is recognised to the income statement as a cost for the year. If the reasons for impairment should eventually no longer apply as a result of an event occurring after recognition, a reversal is recognised to the income statement if in reference to a debt security or loan, or to a specific equity reserve if the asset is an equity instrument. For debt securities and loans the aforementioned reversal cannot in any event lead to a book value higher than

the amortised cost had the impairment never been recognised.

Financial assets are derecognised when the contractual rights to cash flows generated by the assets expire or on disposal of the financial assets with transfer of essentially all related risks/benefits.

Available-for-sale financial assets can be reclassified to "Financial assets held to maturity" if:

- the intention changes or there is a change in the capacity to hold the instrument to maturity;
- a reliable fair value measurement is no longer available (rare);
- the period envisaged by the tainting rule has passed and the portfolio of financial assets held to maturity may be rebuilt.

Reclassification to the "Loans" portfolio is also possible if the conditions indicated in paragraph "17 - Other information, Reclassification of financial asset portfolios (amendment to IAS 39)" are met.

3 - Loans

Loans include loans to customers and banks, disbursed directly or acquired from third parties, which envisage fixed or calculable payments, are not listed on an active market and are not classified at source as available-for-sale financial assets. The item also includes trade receivables, receivables from finance lease transactions and securities acquired through private subscription or placement, with fixed or calculable payments, not listed on active markets. Loans acquired without recourse are included under receivables subject to confirmation that no contractual clauses exist that could significantly alter the risk exposure of the transferee company.

Also included are "repurchase agreement" transactions with compulsory repurchase on maturity of the security and "securities lending" transactions involving cash payment as security. These transactions are recognised as loans and do not affect the own shares portfolio.

Initial recognition of a loan is on the date of disbursement or, if in reference to a debt security the settlement date, based on the fair value of the financial instrument. This normally corresponds with the amount disbursed, or subscription price, including costs/income directly attributable to the individual receivable and calculable from the start of the transaction if settled at a later date. Costs which, despite having the aforementioned characteristics, are subject to repayment by the borrower or can be classed as normal internal administrative costs, are excluded.

If recognition to this category is as a result of reclassification from Available-for-sale assets or from Financial assets held for trading, the book value corresponds to the fair value as at the date of the decision to transfer, which becomes the new amortised cost of the asset. For further details reference should be made to paragraph "17 - Other information, Reclassification of financial asset portfolios (amendment to IAS 39)".

For loan transactions concluded at terms other than arm's length conditions, the fair value is calculated using specific valuation techniques. The difference compared to the amount disbursed or to the subscription price is recognised directly to the income statement.

After initial recognition, loans are measured at amortised cost, equal to the initial cost less/plus capital repayments, write-downs/reversals and amortisation - calculated using the effective interest rate method - of the difference between the amount disbursed and that redeemable on maturity, normally attributed to cost/income items assigned directly to each loan. The actual interest rate is identified by calculating the rate equal to the current value of future cash flows on the loan, both capital and interest, on the sum disbursed including costs/income attributable to the loan. The cash flows estimation must take into account all contractual clauses that could affect the amounts and the maturities, without considering expected losses. This accounting method adopting a financial logic allows costs and income to be spread across the estimated residual life of the loan. The amortised cost method is not used for loans for which the short-term residual life renders the effect of time-discounting negligible. These loans are measured at historic cost and the related costs/income are recognised to the income statement on a straight line basis throughout the contractual life of the loan. A similar measurement criterion is adopted for loans without a finite life or cancelled loans.

At each financial statements date or interim reporting date, impairment testing is performed on the loans to identify any post-recognition impairment, as indicated in paragraph "17 - Other information, Impairment testing methods for financial assets". This includes loans attributed with the status of non-performing, problem or restructured, in accordance with Bank of Italy instructions and consistent with IAS standards.

These impaired loans are subjected to an analytical valuation process, and the amount of the write-down for each loan is equal to the difference between the book value or interim reporting position at the time of the assessment (amortised cost) and the current value of future cash flows forecast, calculated by applying the actual original interest rate. The estimated cash flows take into consideration the forecast recovery time, the estimated realisable value of any guarantees and the costs expected to be incurred to recover the credit position. The cash flows for credits forecast for short-term recovery are not discounted. The actual original rate for each loan remains unchanged in the long term unless the position is restructured and involves a change in contractual rate, or if in practice according to the contract the position becomes interest-free.

The amount of the impairment is recognised to the income statement. The original value of the loans is restored over future years to the extent that the reasons for write-down are removed, provided such a valuation is objectively related to an event

occurring after the write-down. The amount of the reversal is recognised to the income statement, and cannot in any event exceed the amortised cost that would have been recorded for the loan had no write-down been made.

Impaired loans also include past due exposures, i.e. loans with continuous unpaid or delayed payments, identified automatically by Group IT procedures in accordance with current Bank of Italy instructions. Write-downs on these loans, provided they are calculated using a lump-sum/statistical method, are recognised as “Specific write-downs” in accordance with instructions in Bank of Italy Circular no. 262.

Loans with no individual objective evidence of impairment, i.e. performing loans, including those to counterparties in countries at risk, are assessed collectively. This valuation is by similar categories of loans in terms of credit risk and related loss percentages are estimated according to time series, based on elements observable at the valuation date that allow the latent loss to be estimated in each loan category. Write-downs determined collectively are recognised to the income statement. At each annual and interim reporting date any additional write-downs or reversals are recalculated as spreads over the entire performing loans portfolio at that date.

Loans are derecognised from assets in the annual or interim financial statements only if their disposal involved the essential transfer of all loan-related risks and benefits. Conversely, if the related risks and benefits of such loans are retained, they continue to be recognised under assets in the annual or interim financial statements until legal ownership of the loan is actually transferred. If the material transfer of risks and benefits cannot be confirmed, the loans are derecognised from the annual or interim financial statements if no form of control over the loans is retained. Otherwise, even part-retention of control requires continued recognition of loans to the annual or interim financial statements, to the extent of the residual involvement, measured by the exposure to changes in value of loans transferred and to changes in their cash flows. Lastly, loans are derecognised from the annual or interim statements if contractual rights to receive the related cash flows are retained, at the same time assuming the obligation to repay those cash flows, and only those cash flows, to third parties.

4 - Fair value financial assets

A financial asset is measured at fair value on initial recognition with valuation results recognised to the income statement only when:

1. a hybrid contract is involved, containing one or more embedded derivatives and the embedded derivative significantly alters the cash flows that would otherwise be envisaged in the contract;
2. fair value measurement and recognition to the income statement offer an improved disclosure as they:
 - i. eliminate or considerably reduce a lack of standardised assessment or recognition that would otherwise result from valuation of the assets or liabilities or recognition of profit and loss on a different basis;
 - ii. a group of financial assets, financial liabilities or both is under management and its performance is measured at fair value in accordance with a documented risk management or investment strategy, and group disclosures are provided internally on such a basis to strategic executives.

These financial assets are measured at fair value from the time of initial recognition, which is based on the settlement date. Initial income and charges are recognised directly to the income statement.

The fair value is measured according to the criteria previously described for financial assets held for trading.

Financial assets are derecognised when the contractual rights to cash flows generated by the assets expire or on disposal of the financial assets with transfer of essentially all related risks/benefits.

5 - Hedging

Asset and liability items include hedging derivatives which, at the annual or interim reporting date have a positive and negative fair value, respectively.

Risk hedging aims to neutralise potential losses on a given financial instrument or group of instruments, attributable to a certain risk, by means of gains seen in a different financial instrument or group of instruments if that particular risk is confirmed.

IAS 39 envisages the following hedge types:

- fair value hedges, which aim to hedge exposure to changes in fair value of an asset or liability in the balance sheet attributable to a certain risk;
- cash flow hedges, which aim to hedge exposure to changes in future cash flows attributable to specific risks associated with balance sheet items;
- foreign investment hedge, which hedges the risks of an investment in a foreign company expressed in foreign currency;
- macrohedging, which aims to reduce fluctuations in fair value attributable to interest rate risk, on a cash sum deriving from a portfolio of financial assets and liabilities (including core deposits). Net amounts deriving from asset-liability mismatching cannot be macrohedged.

A derivative is considered a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument, and if that relationship is effective at the start date of the hedge and, prospectively, throughout its entire life. The effectiveness of the hedge depends on the extent to which changes in fair value of the hedged instruments and related estimated cash flows are offset by fair value changes of the hedging instrument. Effectiveness is therefore recognised by comparing these changes, taking into account the company's intentions at the time hedging was implemented.

Such a hedge is effective (within limits in the range of 80-125%) when changes in fair value (or cash flows) of the hedging instrument almost fully neutralise changes in the hedged instrument for the element of risk concerned. Effectiveness testing is performed at the closing date of every annual or interim financial statement by means of:

- prospective tests that justify the application of hedge accounting in that they demonstrate that effectiveness can be forecast;
- backtesting, which highlights the degree of effectiveness of the hedge achieved in the reference period. In other words backtesting measures the extent to which actual results differ from perfect hedging.

If both prospective testing and backtesting fail to confirm hedge effectiveness, hedge accounting of the hedges as described above is suspended. In such circumstances the hedging derivative is reclassified to trading instruments. The hedged instrument is recognised to its specific category at a value equal to its fair value at the time effectiveness ceased and is assessed according to the criterion for its original asset class.

Hedging derivatives are measured at fair value. Specifically:

- for fair value hedges, the change in fair value of the hedged element is offset by the change in fair value of the hedging instrument. This offsetting is recorded by recognition to the income statement of changes in value for both the hedged element (with regard to changes generated by the underlying risk factor) and the hedging instrument. Any difference, representing the partial ineffectiveness of the hedge, consequently forms the net economic effect. Recognition to the income statement of changes in fair value of the hedged instrument, attributable to the risk hedged, also applies if the hedged instrument is an AFS financial asset. Without hedging, that change would be recognised as a balancing entry in shareholders' equity;
- for cash flow hedges, changes in fair value of the derivative are recognised to shareholders' equity to the extent the hedge is effective, and recognised to the income statement only when in reference to the hedged item there is a change in cash flows to be offset. The portion of gains or losses of the hedging instrument considered ineffective is recognised to the income statement. This portion is equal to any excess fair value accrued by the hedging instrument compared to the fair value accrued for the hedged instrument. In any event, fluctuations in fair value of the hedged item and related hedge must stay within a range of 80-125%;
- foreign investment hedge accounting follows the same method used for cash flow hedges.

Financial asset and liability hedges are derecognised when the contractual rights to cash flows generated by the assets expire or on disposal of the financial assets/liabilities with transfer of essentially all related risks/benefits.

6 – Equity investments

This item includes interests in direct subsidiaries, associates, companies under common control and minority interests in Group subsidiaries and associates.

A subsidiary is a company over which control is exercised. This condition applies when the investor has the power to directly or indirectly make administrative or management decisions of the company in order to achieve the related benefits. This occurs when over 50% of the voting rights or other working control, e.g. appointment by majority vote of the Directors, are held either directly or indirectly.

Associates are companies that are not controlled but over which significant influence is exercised. A company is presumed to have significant influence in all cases in which it holds 20% or more of voting rights and, regardless of the shareholding, if it has power to participate in management and financial decisions of the investee.

Companies under common control are those for which contractual or other agreements exist according to which unanimous consent of all controlling parties is necessary for strategic financial and management decisions to be valid.

The initial recognition of the financial asset is at the date of settlement at the acquisition cost, plus any directly attributable costs.

Thereafter the investments are measured at cost, adjusted for impairment if necessary.

If there is any evidence of impairment in an investment, its recoverable value is estimated, i.e. the higher value between the fair value net of costs to sell and the value in use. The value in use is calculated by discounting future cash flows that the investment is expected to generate, including its final disposal value. If the recovery value proves lower than the book value, the related difference is recognised to the income statement. If the reasons for impairment recognition are eliminated by an event occurring at a later date, a reversal is recognised to the income statement.

Dividends are recorded as revenues from the moment in which the right to receive the dividends arises, i.e. when allocation is approved, regardless of whether the dividends are generated before or after the date of acquisition. The risk that

recognition of dividends to the income statement may result in overvaluation of the investment, if related to profits achieved prior to the acquisition, is mitigated through impairment testing of the investment.

In the event of the loss of control, association or joint control as a result of a partial disposal of the investment, the residual interest held is recognised in the financial statements at fair value and the gains and losses with respect to the previous book value are recorded in the income statement.

Financial assets are derecognised when the contractual rights to cash flows generated by the assets expire or on disposal of the financial assets with transfer of essentially all related risks/benefits.

7 - Property, plant and equipment

Property, plant and equipment include land, instrumental real estate, investment property, technical systems, furniture, fittings and equipments of any type. They are assets held for use in production or in the provisions of goods and services, for rental by third parties or for administrative purposes, and which are expected to be used for more than one financial year. Also included under this item are assets used as part of finance leases provided legal ownership of the assets remains with the lessor. Lastly, the item includes improvements and incremental costs incurred on third party assets, if the assets are identifiable and separable.

Property, plant and equipment are recognised at cost, which in addition to the purchase price includes all accessory charges directly attributable to the purchase and operational start-up of the asset. Extraordinary maintenance costs resulting in an increase in future economic benefits are recognised as an increase in asset value, whilst other routine maintenance costs are recognised to the income statement.

Renovation costs for third party real estate are capitalised in consideration of the fact that for the duration of the rental agreement the user has control over the assets and can achieve future economic benefits. Such costs are amortised over a period not exceeding the duration of the contract.

Property, plant and equipment, including non-instrumental property, are measured at cost, less any depreciation and impairment. These assets are systematically depreciated over their entire useful life, adopting the line-by-line method for depreciation except for:

- land, whether acquired separately or as part of the value of buildings, which is considered to have an infinite life. If the value is incorporated in the building value by application of the components approach, land is considered separable from the building. The value split between land and building is based on independent expert reports;
- artistic heritage, as the useful life of a work of art cannot be estimated and its value is normally expected to increase in the long term.

At each annual or interim reporting date, if there is any sign of asset impairment, the book value of the asset and its recovery value, equal to the higher between the fair value net of costs to sell and the value in use of the asset, i.e. the current value of future cash flows generated by the asset, are compared. Any write-downs are recognised to the income statement. If the reasons for impairment are eliminated, a reversal is recognised that cannot exceed the value that would have been recognised for the asset, net of depreciation, calculated had there been no impairment.

Property, plant and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use or when no future economic benefits can be expected from its disposal.

8 - Intangible assets

Intangible are non-monetary, identifiable and have no physical consistency, and are held for long-term use. Intangible assets are recognised at cost, less any accessory charges, only if it is likely that economic benefits attributable to the asset will be realised and the cost of the asset can be reliably calculated. If not, the cost of the intangible asset is recognised to the income statement in the year in which it is incurred.

Intangible assets include goodwill, or the positive difference between the amount paid for a business combination and the fair value of the purchased, identifiable net assets, as more fully described in paragraph "17 - Other information, Business combinations and goodwill".

Goodwill is not subject to amortisation, but is subjected to impairment testing to confirm the adequacy of its book value. Specifically, any time there is evidence of impairment and, in any event, at least once a year, impairment testing is performed. For this purpose the cash generating unit to which the goodwill should be attributed is identified. The amount of any write-down is calculated on the difference between the recognition value of goodwill and its recovery value, if less. The recovery value is equal to the higher of the fair value of the cash generating unit, net of any costs to sell, and the related value in use. The value in use is the current value of estimated future cash flows from the generating units to which the goodwill is attributed. Any write-downs are recognised to the income statement. Any subsequent reversal must not be recognised.

Other intangible assets are recognised as such if they are identifiable and can be traced back to legal or contractual rights. The cost of finite life intangible assets is amortised on a straight line basis over the related useful life. If the useful life is infinite, the asset is not amortised but merely subject to periodic impairment testing to confirm book value adequacy. At each annual or interim reporting date, if there is any sign of impairment the recoverable value of the asset is estimated. The amount of the impairment loss, recognised to the income statement, is equal to the difference between the book value of the asset and its recoverable value.

An intangible asset is derecognised from the balance sheet on disposal or from the moment in which no future economic benefits are expected.

9 - Current and deferred taxes

These items include current and prepaid tax assets and current and deferred tax liabilities, respectively.

Income taxes, calculated in compliance with current tax regulations, are recognised to the income statement on an accruals basis, consistent with the recognition of costs and revenues generating the taxes. Exceptions are taxes relating to amounts credited or debited directly to shareholders' equity, for which the related taxes are recognised in shareholders' equity for consistency purposes.

Prepaid and deferred taxes are calculated on the temporary differences, without time limits, between the book values and tax values of each asset or liability.

Prepaid tax assets are recognised to the annual or interim financial statements to the extent that their recovery, assessed on the basis of the company capacity (and the Group's capacity if tax consolidation is adopted) to generate taxable income as a going concern in future years, is reasonably certain. Deferred tax liabilities are recognised to the annual or interim financial statements, except with regard to assets recognised for an amount higher than their accepted tax value and withholding tax reserves, for which it is reasonable to believe that no transactions will be implemented that affect their taxation.

Assets and liabilities recognised for prepaid and deferred taxes are systematically measured to take into account any changes in the tax regulations or tax rates.

Current tax assets and liabilities are recorded in the balance sheet as offset balances if settlement is on a net balance basis, as permitted by legal offsetting rights.

Tax liabilities include allocations pursuant to IAS 37 for tax payables that could arise from assessments already communicated or in any event from existing disputes with tax authorities.

10 - Provisions for risks and charges

Provisions for risks and charges refer to liabilities of an uncertain amount or maturity, recognised to the financial statements if:

- there is a current obligation (legal or implicit) deriving from a past event;
- resources are likely to be needed to produce economic benefits to meet that obligation;
- a reliable estimate can be produced regarding probable future outlay.

The item "Provisions for risks and charges" includes provisions for long-term benefits and post-employment benefits covered by IAS 19 and provisions for risks and charges covered by IAS 37.

The item does not include write-downs for impairment of guarantees granted or credit derivatives and similar pursuant to IAS 39, which are instead recognised under "Other liabilities".

The sub-item "Other provisions for risks and charges" includes amounts allocated for expected losses from pending legal action, including revocatory action, estimated outlay for customer complaints regarding securities intermediation, and a reliable estimate of outlay for any other legal or implicit obligation outstanding as at the annual or interim reporting date.

Where the time element is significant, allocations are discounted at current market rates. The effect of time discounting is recognised to the income statement, as is any time-related increase in the provision.

Allocated provisions are reviewed at each reporting date and adjusted to reflect the best current estimate. When the use of resources, intended to produce economic benefits to meet an obligation, becomes improbable, the provision is written off.

In addition, each provision is used only to meet commitments for which it was originally allocated.

The sub-item "Pension funds and similar commitments" includes provisions for defined benefit plans, i.e. pension funds for which there is guaranteed repayment of capital and/or return in favour of the beneficiaries, as reported in paragraph "17 - Other information, Employee severance indemnity and other employee benefits". Benefits to be disbursed in the future are assessed by an external actuary using the "projected unit credit method" as required by IAS 19.

11 – Payables and securities in issue

The items "Due to banks", "Due to customers" and "Securities in issue" include the various forms of interbank funding and customer deposits in the form of certificates of deposit and issued bonds, therefore net of any repurchase commitment. Also included are amounts payable to the lessor under finance leases, repurchase agreements and securities lending with guaranteed cash return.

Initial recognition of these financial liabilities is on receipt of the deposits or issue of the debt securities. The initial recognition is based on the fair value of the liabilities, normally corresponding to the total collected or the issue price, plus any additional costs/income directly attributable to each funding or issue transaction and not reimbursed by the credit counterparty. Internal administrative costs are excluded.

Repurchase agreements are recognised to the financial statements as deposits for the purchase price.

After initial recognition, financial liabilities are measured at amortised costs using the effective interest rate method. Short-term liabilities are the exception, where the time factor is negligible; they remain recognised at the collection value and any costs recognised to the income statement on a straight line basis over the contractual life of the liability. Furthermore, deposit instruments are subject to effective hedging assessed on the basis of rules envisaged for hedge transactions.

For structured instruments, if the requirements of IAS 39 are met, the embedded derivative is separated from the host contract and recognised at fair value as an asset/liability held for trading. In this case the host contract is recognised at amortised cost.

Financial liabilities are derecognised from the annual or interim statements when past due or settled. Derecognition also occurs on repurchase of securities issued previously. The difference between the book value of the liability and the purchase price paid is recognised to the income statement. Market re-placement of own securities after repurchase is considered a new issue, with recognition of the new placement price and no effect on the income statement.

12 - Financial liabilities held for trading

This item includes the negative value of trading derivatives measured at fair value and cash financial liabilities held for trading.

Also included are the negative valuations of derivatives linked to fair value assets and liabilities, embedded derivatives which are separated from the host financial instruments pursuant to IAS 39, and liabilities originating from short positions generated from securities trading.

Initial recognition is based on the fair value of the liability, normally the amount collected, without considering transaction costs or income directly attributable to the instrument, which are instead recognised directly to the income statement.

Gains or losses deriving from changes in fair value and/or disposal of the trading instruments are recognised to the income statement.

Financial liabilities are derecognised from the annual or interim statements when past due or settled.

Trading gains and losses and capital gains and losses from trading book valuation are recognised to the income statement under item "80. Net trading gains/losses", except those relating to FVO derivatives which are recognised to item "110. Net profit/loss from fair value financial assets and liabilities".

13 – Transactions in foreign currency

At the time of initial recognition, transactions in foreign currency are recognised in the operating currency applying the exchange rate as at the date of the transaction.

On each annual or interim reporting date, financial statement items in foreign currency are assessed as follows:

- cash amounts are converted at the period-end exchange rate;
- non-cash amounts assessed at their historic cost are translated at the exchange rate valid for the transaction date;
- non-cash amounts assessed at fair value are translated at the exchange rate valid for the reporting date.

Exchange differences resulting from cash settlement or the translation of cash elements at rates other than the initial exchange rate, or translation from the previous financial statements, are recognised to the income statement in the period in which they arise.

When an exchange gain or loss for a non-cash element is recognised to shareholders' equity, the exchange difference for that element is also recognised to shareholders' equity. Conversely, when a gain or loss is recognised to the income statement, the related exchange difference is also recognised to the income statement.

14 - Other information

a) content of other financial statements items

Cash and cash equivalents

This item includes legal currency, including banknotes and coins in foreign currency and demand deposits with central banks of the home member country or country in which the bank has operating companies or branches.

The item is recognised at face value. For foreign currencies the face value is converted into euro at the exchange rate as at the reporting date.

Value adjustments to financial assets and liabilities subject to macrohedging

This item includes changes in the fair value of financial assets and liabilities, respectively, subject to interest rate risk macrohedging, based on their respective balances, whether positive or negative.

Other assets

This item includes assets not attributable to other balance sheet assets items. For example, it may include:

- a) gold, silver and precious metals;
- b) accrued income other than that to be capitalised on the related financial assets;
- c) any inventories according to IAS 2;
- d) improvements and incremental costs incurred on third party assets other than those attributable to the item "Property, plant and equipment". In particular, assets that cannot be separated from the goods to which they refer, and therefore cannot be used independently, are classified under this item. These costs are recognised under other assets, because, owing to the lease contract, the tenant company has control over the goods and can obtain a future economic benefit from their use.
- e) loans associated with the provision of non-financial goods or services.

Debit balances of floating or suspense items not allocated to the relevant accounts can be included under this item, but only if the amount is immaterial.

Other liabilities

This item includes liabilities that cannot be attributed to other balance sheet liability items.

For example, it may include:

- a) payment agreements that must be classified as payables under IFRS 2;
- b) initial recognition of guarantees granted and related credit derivatives according to IAS 39, and subsequent write-downs for 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 relevant financial liabilities.

Employee severance indemnity and other employee benefits

Following the supplementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for employee termination benefits accrued from 1 January 2007.

Specifically, for accounting purposes, termination benefits accrued from 1 January 2007 are considered a "defined contribution plan" based on IAS 19. The charge is limited to the contribution defined by the Italian Civil Code, without application of actuarial methods.

However, the employee severance indemnity accrued as at 31 December 2006 continues to be treated as a defined benefit plan according to IAS 19. The liability associated with the accrued severance indemnity must be measured according to actuarial methods without applying the pro rata for the service provided as the service to be measured can be considered fully accrued.

Pension plans and liabilities linked to "seniority bonuses" are divided into defined benefit plans and defined contribution plans.

For defined contribution plans, the cost is represented by contributions accrued during the year, since the company is only required to pay the contributions defined by contract to an external fund, and has therefore no legal or implicit obligation to pay other amounts over and above said contributions if the fund does not have sufficient assets to pay all the benefits to employees.

In defined benefit plans, liabilities are measured using the actuarial method envisaged in IAS 19, as the actuarial and investment risk, i.e. 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. Actuarial measurements according to this standard are performed by an external independent actuary.

In particular, where the company has guaranteed capital repayment and/or return in favour of beneficiaries, the plan-related commitments are recognised to "Pension funds and similar commitments", whilst seniority bonuses are recognised to "Provisions for risks and charges - Other".

The actuarial gains and losses on all defined benefit plans are recognised directly to the income statement. These actuarial gains and losses originate from adjustments to previous actuarial assumptions in the light of real effects or due to amendments to such assumptions.

Valuation reserves

This item includes valuation reserves for available-for-sale financial assets, foreign investment hedges, cash flow hedges, translation differences, individual assets and discontinued operations. Also included are valuation reserves for revaluation under special laws, even if subject to tax redemption.

Share capital and own shares

Capital includes the amount of both ordinary and preferred shares issued, net of any capital subscribed but not yet called as at the annual or interim reporting date. The item is recognised gross of any own shares held by the bank. These are instead recognised with a minus sign under "Own shares" in balance sheet liabilities.

The original cost of repurchased own shares and capital gains or losses from their subsequent resale are recognised as changes in shareholders' equity.

Transaction costs for a capital transaction, such as, for example, a share capital increase, are recorded as a reduction to shareholders' equity, net of any associated tax benefit.

b) illustration of other significant accounting treatments

Dividends and revenue recognition

Revenues are recognised when received or, in any event, when future benefits are likely and those benefits can be reliably measured. Specifically:

- default interest, if envisaged in the contract, is recognised to the income statement only on actual collection;
- dividends are recognised to the income statement as of the moment in which the legal right to collection arises, i.e. the moment in which allocation is approved;
- gains and losses from the intermediation of financial instruments held for trading are recognised to the income statement on contractual settlement of the transaction, based on the difference between the amount paid or collected and the fair value recognised for the instrument, measured by means of valuation models that use observable market benchmarks as input that offer the best terms for the bank. The resulting fair value is then adjusted for the risk of recoverability of any positive margins, based on the specific counterparty with which the financial instrument was stipulated (credit risk adjustment);
- gains from the stipulation of financial instruments, for which it is considered that the fair value cannot be measured according to observable market benchmarks, are time-distributed depending on the nature and maturity of the instrument (e.g. guaranteed-capital or protected products);
- revenues from the issue of bond loans, calculated as the difference between the price collected and the fair value of the instrument, are recognised to the income statement as at the issue date if the fair value is based on observable benchmarks or recent transactions recorded on the same market on which the instrument was traded. If these benchmarks are not directly observable on the market, the valuation model used to measure fair value considers the commercial spread as the adjusting factor in time-discounting the cash flows. The resulting fair value corresponds to the amount collected. For all bond issues measured at fair value, to guarantee material representation of the cost of the funding transaction based on costs and revenues, if placement commissions are recognised to the income statement as of the date of issue, on that same date revenue represented by the commercial spread, of an amount up to the cost of placement commission expense, is also recognised. These cost and revenue components are grouped under the income statement item "110 Net profit/loss from fair value financial assets and liabilities".

Share-based payments

These are payments to employees, such as consideration for work activities performed, based on shares representing the capital of the parent company, which consist, for example, in the assignment of:

- rights to subscribe to share capital increases (stock options);
- free-of-charge shares (stock granting).

Given the difficulties in directly estimating the fair value of services received to be compensated by the assignment of shares, it is possible to indirectly measure the value of the services received, using the fair value of equity-linked instruments, at the date of their assignment. The fair value of payments settled through the issue of shares is recognised in "Personnel costs" as a balancing entry to a debit to the parent company.

If the cost is borne by the parent company, the share assignment is recognised as "Personnel costs" as a balancing entry to an increase in "Reserves", in that it substantially involves a value contribution on the part of the shareholder.

Specifically, if the shares are not immediately "available" to the employee, but will be when the employee has completed a specific service period, the company recognises the cost as a payment for services rendered throughout the vesting period.

Securitisations

Upon the first application of international accounting standards, a company may opt to not recognise in the financial statements the underlying assets of securitisation transactions carried out prior to 1 January 2004, that were derecognised based on previous accounting principles. As such, the subscribed securities are represented in the assigning bank's assets.

For transactions completed after the above date, the sold receivables are not derecognised for the financial statements if risks and benefits are substantially maintained, even if they are subject to a formal, non-recourse sale to a vehicle company. This could occur, for example, if the bank subscribes to the tranche of junior securities or similar exposures, in that it bears the risk of first losses, and, equivalently, benefits from the transaction's returns. Consequently, the receivables are shown in the financial statements as "Assets sold but not derecognised", against the loan received from the vehicle company, net of securities issued by the vehicle company and subscribed by the assigning bank. Similar accounting criteria, based on the prevalence of substance over form, are applied in recording accruals.

Reclassification of financial asset portfolios (amendment to IAS 39)

On 13 October 2008 the IASB approved an amendment to IAS 39 and IFRS 7, endorsed through fast-track procedures by the European Commission on 15 October 2008 with the issue of Regulation no. 1004/2008.

Based on this amendment, if certain conditions are met it is possible to reclassify financial instruments recognised on acquisition to "Financial assets held for trading" or "Available-for-sale financial assets" to a different accounting category. Prior to this amendment the general rule was that category transfers were not permitted, except for transfers from "AFS financial assets" to "HTM financial assets".

According to paragraphs 50D and 50E of the new IAS 39, the following can be reclassified:

- non-derivative financial instruments previously classified as held for trading. Reclassification to "Fair value financial assets" is not possible, however, following adoption of the fair value option. The new destination category is "Loans". The condition for reclassification is that, as at the date of transfer, the financial instrument meets the requirements for classification in the "Loans" portfolio and that the company no longer intends to trade the reclassified securities having decided to hold the financial instrument for the foreseeable future or to maturity;
- non-derivative financial instruments classified under "Available-for-sale financial assets" to "Loans" if, as at the reclassification date, the financial instrument complies with the definition of "Loans" and the company now intends and has the capacity to hold the instrument for the foreseeable future or to maturity.

Any other non-derivative debt or equity instrument can be reclassified from "Financial assets held for trading" to "Available-for-sale" or from "Held for trading" to "Held to maturity" (for debt instruments only), if such instruments are no longer held for short-term trading. However, in rare circumstances, this is permitted under paragraph 50B.

The reclassified financial asset is recognised to its new category ("Loans", "Financial assets held to maturity", "Available-for-sale financial assets") at its fair value as at the reclassification date, which represents the new cost or amortised cost.

After transfer the financial instruments follow the measurement and recognition rules for the destination category, unless where otherwise specified. So for assets measured at amortised cost the actual rate of return must be calculated for use as from the reclassification date.

For reclassified assets, any further positive change in expected cash flows is used in calculating the actual interest rate as at the forecast review date and will be recorded on a straight line basis throughout the instrument's residual useful life rather than changing the book value of the asset with a balancing entry in the income statement, as envisaged for assets not reclassified.

Conversely, any subsequent decrease in expected cash flows from the date of reclassification will follow the previous rules, i.e. recognised directly to the income statement if the decrease represents impairment.

Any profit or loss previously suspended in the equity reserve for Available-for-sale financial assets, if referring to an instrument with a pre-established maturity, is amortised over the life of the investment according to the amortised cost criterion. Conversely, if the instrument does not have a fixed maturity (e.g. perpetual instruments), it remains suspended in the reserve until disposal or settlement.

If the financial asset is reclassified and until its settlement, an illustration must be given of the resulting effects and the effects had the asset not been reclassified, as indicated in section "A.3 - Information on fair value".

Business combinations and Goodwill

A business combination consists of the merger of a company or a distinct business activity into one single entity that is obliged to prepare financial statements.

A business combination may give rise to a direct or indirect control relationship between the acquiring parent company and the purchased subsidiary. In that case, the acquiring company applies IFRS 3 in the consolidated financial statements and in the separate financial statements recognises the acquired interest as an investment in a subsidiary applying accounting standard IAS 27 - "Consolidated and separate financial statements".

A business combination may also envisage the purchase of the net assets of another entity, including any goodwill, or the purchase of the share capital of another entity (mergers, transfers, business unit acquisitions). This type of aggregation does not imply a direct or indirect control relationship such as that between parent company and subsidiary and therefore, in this case, accounting standard IFRS 3 applies, including in the separate financial statements of the purchaser.

Business combinations are recognised using the purchase method, based on which the identifiable assets purchased and the identifiable liabilities assumed, including potential liabilities, must be recognised at their respective fair values at the acquisition date.

Any surplus in the amount paid over the fair value of the net identifiable assets is recognised as goodwill and is allocated as at the acquisition date to the individual cash generating units or groups of cash generating units expected to benefit from the combination synergies, regardless of whether other acquirer's assets or liabilities are assigned to the same units or group of units.

If the consideration paid is less than the fair value of the net identifiable assets, the difference is immediately recorded in the income statement as revenue in the item "Other operating income", after having performed an additional analysis to ensure that all the assets acquired and liabilities assumed have been correctly identified.

The consideration paid for a business combination is equivalent to the fair value, at the acquisition date, of the assets transferred, the liabilities incurred and equity instruments issued by the purchaser in exchange for obtaining control of the purchasee. The consideration that the purchaser transfers in exchange for the purchasee includes any assets and liabilities resulting from an agreement on the potential consideration, to be recognised at fair value as at the acquisition date. Changes to the consideration paid are possible if they are the result of additional information on the facts and circumstances that existed as at the acquisition date and are recognised within the measurement period for the business combination (or within twelve months from the acquisition date, as explained below). Any other change that results from events or circumstances subsequent to the acquisition, such as, for example, the amount recognised to the seller for achieving a profit objective, must be recognised in the income statement.

The identification of the fair value of assets and liabilities must be finalised within a maximum period of twelve months from the acquisition date (measurement period).

Costs related to the acquisition, including brokerage commissions, consultancy, legal, accounting and professional fees, as well as general administrative expenses, including costs associated with maintaining an acquisition office, are recognised in the income statement at the moment they are incurred, with the exception of costs for issuing equity and debt securities, which are recognised based on standards IAS 32 and IAS 39.

Reorganisations involving two or more companies or business segments of the Banco Popolare Group are not considered business combinations. International accounting standards do not apply to infragroup transactions which continue to be recognised at acquisition cost in the acquiring company's financial statements, if they do not have a significant impact on future cash flows. This is in accordance with IAS 8 paragraph 10, which, in the absence of a specific standard, calls for the use of discretion in applying an accounting standard in order to provide a significant, reliable, prudent financial disclosure that reflects the transaction's economic content.

Fair value measurement of financial instruments

Fair value is the amount for which an asset can be traded or a liability settled, in a free transaction performed at arm's length between independent and willing parties, at a given measurement date.

The fair value is the price that would be paid in an ordinary transaction, i.e. a transaction involving market operators willing to trade, thereby excluding any kind of forced transaction.

The fair value measurement of financial instruments is based on going concern assumptions regarding the bank, i.e. the assumption that the bank will remain fully operative and will not wind up or significantly reduce its operations or perform transactions at unfavourable terms.

Financial assets and liabilities held for trading, Fair value financial assets, Available-for-sale financial assets, Hedging derivatives

A "fair value policy" is envisaged for financial instruments measured at fair value, that attaches top priority to official prices available on active markets (mark to market) and a lower priority to use of the more discretionary unobservable input data (mark to model).

Mark to Market

To measure fair value, the Bank uses information based on market data obtained from independent sources if possible, as this is considered to be the best evidence of fair value. In this case, the fair value is the market price of the financial instrument under valuation – i.e., without changes or recomposition of the instrument - derived from the prices expressed on an active market. A market is considered to be active when listed prices reflect normal arm's length transactions, are regularly and readily available through the Stock exchanges, pricing services, intermediaries, and when these prices represent actual, regular market transactions.

The following are normally considered active markets:

- regulated securities and derivative markets, except the Luxembourg market;
- multilateral trading systems;
- certain OTC electronic trading systems (i.e. Bloomberg), if certain conditions based on the presence of a given number of contributors with executable offers, characterised by bid-ask spreads – i.e., the difference between the

price at which the counterparty is committed to sell (ask price) and the price at which the buyer is willing to buy (bid-ask) – within a specified tolerance limit;

- the secondary market for UCI units, expressed by the official NAV (Net Asset Value), based on which the issuing asset management company must settle the units in question. The NAV can be adequately adjusted to account for a fund's diminished liquidity, i.e., the time interval between the redemption application date and that of actual redemption, and for any exit commissions.

Mark to Model

When the Mark to Market policy cannot be applied as there are no market prices directly observable on active markets, recourse has to be made to measurement methods that maximise the use of information available on the market, based on the following measurement approaches:

1. Comparable Approach: in this case the instrument's fair value is based on the prices observed in recent transactions in similar instruments on active markets, adequately adjusted to account for differences in the instruments and in the market conditions;
2. Model Valuation: in the absence of observable transaction prices for the instrument measured or similar instruments, a valuation model has to be applied; the model must prove reliable in estimating hypothetical "operating" prices and therefore must be widely accepted by market operators.

Specifically:

- debt securities are measured according to the expected cash flow discounting method, adjusted as necessary for issuer risk;
- derivatives are measured according to a variety of models, depending on the input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) affecting their measurement;
- unlisted equity instruments are measured on direct transactions in the instrument or similar securities observed over an adequate timeframe as compared to the measurement date, using the market multiples method on comparable companies, and subordinately according to financial, income and equity measurement methods.

Based on the "fair value policy" described above, fair value is expressed on three levels, based on the degree to which market benchmarks are observable:

1. Prices observed on active markets (Level 1):

The measurement is based on the market price of the instrument itself, derived from the price quotations expressed by an active market.

2. Measurement methods based on observable market benchmarks (Level 2)

The financial instrument measurement is not based on the market price of the financial instrument concerned, but on observable market prices of similar assets or through measurement methods in which all significant factors – including credit spread and liquidity – derive from observable market data. This level entails a limited level of discretion, as all the benchmarks used are obtained on the market (for the same or similar securities) and the calculation methods offer replication of prices listed on active markets.

3. Measurement methods based on non-observable market benchmarks (Level 3)

In this case the fair value measurements rely on methods largely based on significant input data that cannot be obtained on the market, and therefore call for management estimates and assumptions.

The hierarchy described above is in line with IFRS 7 (revised) "Financial instruments: disclosures", adopted by EC Regulation no. 1165 of 27 November 2009, which calls for fair value disclosure on three levels as illustrated in section "A.3 - Information on fair value".

Fair value financial liabilities and calculation of their credit rating

Fair value financial liabilities are liabilities issued by the bank, for which the fair value option was adopted. In particular, the scope of the fair value option include the following types of issues:

- plain vanilla, fixed rate bond loans;
- structured bond loans whose pay off is linked to equity components (securities or indices) or exchange rates;
- structured bond loans 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 allows the bank to avoid the accounting mismatch that would otherwise occur, valuing the bond issue at amortised cost and the related derivative at fair value.

The Group's decision to use the fair value option, as opposed to hedge accounting, in addition to being motivated by the need to simplify the administrative-accounting process for hedges, is strictly correlated to the effective means with which the Group carries out its hedging policies, managing the exposure to the market in overall terms and not through a single relationship with a security issued.

As opposed to hedge accounting, whose accounting rules envisage that only the changes in fair value attributable to the covered risk are recognised on the covered instrument, the fair value option involves the recognition of all changes in fair value, regardless of the risk factor that generated them, including the credit risk of the issuer.

Beginning in the second half of 2009, the Group decided to use hedge accounting for certain new issues of significant amounts that are hedged with derivative instruments, in order to reduce the volatility in the income statement from fluctuations in its credit rating. Specifically, this change applies to certain institutional issues, in accordance with and to the extent explained below. In order to demonstrate the effective transfer of covered risk outside the Group, and therefore, ensure that effectiveness tests at a consolidated level are met, hedging transactions traceable on the market against individual bond issues were stipulated.

In addition, the Group uses hedge accounting for the hedging relationships for loan issues by the subsidiary Banca Italease, which became part of the Group's scope of consolidation in the second half of 2009, following the IPO.

For its own bond issues, the Group's fair value policy includes a distinction based on the factors deemed relevant by market participants in setting the exchange price for a hypothetical transaction on the secondary market.

Specifically, in calculating fair value, changes in the credit rating that occurred after the issue date are not considered, if that corresponds to standard practices in the reference market. This situation may occur, for example, for retail issues aimed at Group customers that are listed on an organised exchange system on the basis of a pricing policy aimed at confirming the existing credit spread at the issue date. In such a case, the fair value is assumed to be the observed price in the organised exchange system for Group securities, in that it is considered an active market.

Conversely, for bond issues, whose subsequent transactions are affected by changes in the Group's credit spread, the evaluation methodology is based on discounted cash flow model, in which the discount curve is equal to the risk-free, market interest rate, plus the credit rating curve. This policy applies, for example, to emissions aimed at institutional customers for which the observed market price or the applicable price for a hypothetical transaction considers changes in the credit rating subsequent to the issue date as a relevant input factor. As previously discussed, for loans issued after the second half of 2009 that belong to the latter case, the Group applies hedge accounting rather than the fair value option, in order to cancel the economic impact for changes in its credit rating. For previous issues, the fair value option continues to be used, as it is an irrevocable designation.

It should be noted that the issue of the latter type of loan, subject to interest rate risk hedging, is generally reserved for the parent company - Banco Popolare.

The construction of the Group's credit rating curve is calculated by using, to the maximum extent possible, observable and significant market parameters, based on the relative liquidity. Beginning in 2008, the reference market considered to most appropriately represent the credit rating was identified to be the Credit Default Swap (CDS) curve – senior or subordinated – based on the level of subordination of the issue and the maturity date.

Specifically, the reference is the CDS curve of the parent company - Banco Popolare - as the ultimate guarantor, with no corrective elements.

Once the market parameters that reflect the credit rating have been identified, the fair value change attributable to the factor in question, between the issue date and the valuation date, is the difference between the pricing obtained considering all of the loan's risk factors, including credit risks, and the fair value obtained considering the same factors, excluding the change in credit risk that occurred during the period.

Moreover, in discounting the cash flows, the valuation technique includes a spread adjustment to isolate, from the issue date, any profit resulting from the difference between the fair value and the amount received from the customer, net of transaction costs. As discussed in the section "Dividends and recognition of revenue", this spread adjustment is equivalent to the commercial spread implicit in the issue, net of transaction costs directly attributable to the issue, such as placement commissions that are recorded in full in the income statement on the issue date. It follows then, that at the issue date, a profit is recognised for an amount corresponding to placement commission expenses, both of which are recorded under income statement item "110 Net profit/loss from fair value financial assets and liabilities".

Due to/from banks and customers, Securities in issue, Financial assets held to maturity

For other financial instruments recognised at amortised cost and essentially classified as amounts due to banks or customers, securities in issue or financial assets held to maturity, the fair value was measured for the purposes of disclosure in the Notes to the financial statements. Specifically:

- for medium/long-term impaired loans (non-performing or problem), the fair value is measured by discounting the contractual flows, based on a risk-free market rate, net of loss provisions. For medium/long-term performing loans, the fair value is calculated according to a risk aversion approach: the discounting of expected cash flows, adjusted as necessary for expected losses, is performed at a risk-free market rate plus a component expressing risk aversion to take into account factors in addition to the probable loss;
- for assets and liabilities payable on demand or with short-term or infinite maturity, the book value recognised is considered to be a reasonable approximation of fair value;
- for bond loans recognised at amortised cost, essentially floating rate issues, the valuation is conducted by discounting cash flows of the security based on the reference interest rate curve, adjusted for changes in credit rating, where considering a relevant factor by market participants, based on the methodology described for "Fair value financial liabilities";
- for debt securities classified in the portfolio as "Financial assets held to maturity" or "Due from banks or customers", including after portfolio reclassification, the fair value is determined by using prices on active markets or using valuation models, as described previously for fair value assets and financial liabilities.

Impairment testing methods for financial assets

At each reporting date, all financial assets, except FVTPL, are impairment tested for objective evidence of impairment losses that could jeopardise recoverability of the investment.

Specifically, objective evidence of impairment affecting an asset or a group of financial assets can be associated with the following negative events:

- a) significant financial difficulties of the issuer or the borrower;
- b) breach of contract, e.g. default or failure to repay capital or interest;
- c) allowance granted to a beneficiary, considered by the bank primarily for economic or legal reasons linked to the beneficiary's financial difficulties, and which otherwise would not have been granted;
- d) likelihood of the borrower becoming involved in bankruptcy proceedings or other financial restructuring;
- e) disappearance of an active market for the financial asset concerned due to financial difficulties of the issuer. However, the disappearance of an active market due to a company's financial instruments no longer being publicly traded is not evidence of a decrease in fair value;
- f) events implying a significant decrease in the issuer's future cash flows (including the general local or domestic economic scenario in which the issuer operates).

Furthermore, objective evidence of impairment of an equity investment may also be seen in the following negative events:

- g) significant changes negatively affecting the technological, economic or regulatory environment in which the issuer operates, indicating that the investment is no longer recoverable;
- h) a prolonged or significant fair value reduction to below the purchase cost.

If objective evidence of impairment is the result of one or more events occurring after initial recognition of the asset, the impairment loss must be calculated according to rules envisaged for financial instruments carried at amortised cost or fair value financial assets with any changes recognised to shareholders' equity.

With regard to the impairment testing model, reference should be made to the description under "Financial assets held to maturity", "Due from banks and customers" for assets carried at amortised cost and "Available-for-sale financial assets" for fair value assets, with balancing entry in a specific equity reserve.

A.3 – INFORMATION ON FAIR VALUE

A.3.2 Fair value hierarchy

The increasing complexity of financial instruments and turbulence in financial markets have further highlighted the need to focus on providing complete and transparent information on fair value measurement methods, in terms of both quality and quantity.

The information required by IFRS 7, adopted by EC Regulation no. 1165 of 27 November 2009, for financial asset and liability portfolios measured at fair value, based on the triple hierarchy illustrated in the section "Fair value measurement methods for financial instruments" in Part A.2 "Notes on the main items of the balance sheet", is provided below.

A.3.2.1 Accounting portfolios: breakdown by fair value level

| | 31/12/2010 | | | 31/12/2009 | | |
|-------------------------------------------|------------------|------------------|---------------|------------------|------------------|---------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets held for trading | 1,642,120 | 4,837,032 | 9,233 | 1,733,199 | 4,377,163 | 51,961 |
| 2. Fair value financial assets | 17,974 | 76 | 249 | 18,288 | - | 252 |
| 3. Available-for-sale financial assets | 6,687 | 1,376 | 549 | 5,553 | 2,120 | 534 |
| 4. Hedging derivatives | - | - | - | - | - | - |
| Total | 1,666,781 | 4,838,484 | 10,031 | 1,757,040 | 4,379,283 | 52,747 |
| 1. Financial liabilities held for trading | 190,261 | 4,619,058 | 1,685 | 243,371 | 4,868,305 | 4,210 |
| 2. Fair value financial liabilities | - | - | - | - | - | - |
| 3. Hedging derivatives | - | - | - | - | 148 | - |
| Total | 190,261 | 4,619,058 | 1,685 | 243,371 | 4,868,453 | 4,210 |

FINANCIAL ASSETS

Financial instruments valued according to prices taken from active markets (Level 1) or calculated on the basis of market benchmarks (Level 2) represent 99.85% of the total financial assets measured at fair value.

Financial instruments measured largely on the basis of unobservable benchmarks (Level 3) represent a marginal percentage (0.15%) and refer to minority shareholdings valued according to internal models (profitability, equity or combined methods) and to unlisted private equity funds. The remaining positions refer to a limited number of illiquid securities or complex securities, mainly of Italian bank issuers, for which the fair value is mainly taken from information obtained from external contributors, through non-public sources. Such fair values are prudentially classified as Level 3.

The breakdown of the financial assets portfolio on a 3-level fair value basis as at 31 December 2010 was essentially in line with that recorded the previous year.

FINANCIAL LIABILITIES

Financial liabilities held for trading are mainly represented by derivatives, the fair value of which is measured by means of valuation models that make significant use of observable market benchmarks (Level 2). The positions indicated as Level 3 refer to a limited number of contracts regarding sold options linked to secured assets under management.

During 2010 there were no significant transfers between Levels 1 and 2.

A.3.2.2 Annual changes in fair value financial assets (level 3)

| | FINANCIAL ASSETS | | | |
|----------------------------------|------------------|------------|--------------------|-----------|
| | held for trading | fair value | available-for-sale | as hedges |
| 1. Opening balances | 51,961 | 252 | 534 | - |
| 2. Increases | 35,750 | - | 15 | - |
| 2.1. Acquisitions | 34,643 | - | - | - |
| 2.2. Profits recognised to: | 850 | - | 1 | - |
| 2.2.1. Income Statement | 850 | - | - | - |
| - of which capital gains | 336 | - | - | - |
| 2.2.2. Shareholders' equity | - | - | 1 | - |
| 2.3. Transfers from other levels | 42 | - | - | - |
| 2.4. Other increases | 215 | - | 14 | - |
| 3. Decreases | (78,478) | (3) | - | - |
| 3.1. Sales | (69,392) | - | - | - |
| 3.2. Redemptions | - | - | - | - |
| 3.3. Losses recognised to: | (275) | - | - | - |
| 3.3.1. Income Statement | (275) | - | - | - |
| - of which capital losses | (21) | - | - | - |
| 3.3.2. Shareholders' equity | - | - | - | - |
| 3.4. Transfers to other levels | (8,230) | - | - | - |
| 3.5. Other decreases | (581) | (3) | - | - |
| 4. Closing balances | 9,233 | 249 | 549 | - |

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

| | FINANCIAL LIABILITIES | | |
|----------------------------------|-----------------------|------------|-----------|
| | held for trading | fair value | as hedges |
| 1. Opening balances | 4,210 | - | - |
| 2. Increases | 348 | - | - |
| 2.1. Issues | 348 | - | - |
| 2.2. Losses recognised to: | - | - | - |
| 2.2.1. Income Statement | - | - | - |
| - of which capital losses | - | - | - |
| 2.2.2. Shareholders' equity | - | - | - |
| 2.3. Transfers from other levels | - | - | - |
| 2.4. Other increases | - | - | - |
| 3. Decreases | (2,873) | - | - |
| 3.1. Redemptions | - | - | - |
| 3.2. Repurchases | - | - | - |
| 3.3. Profits recognised to: | (2,873) | - | - |
| 3.3.1. Income Statement | (2,873) | - | - |
| - of which capital gains | - | - | - |
| 3.3.2. Shareholders' equity | - | - | - |
| 3.4. Transfers to other levels | - | - | - |
| 3.5. Other decreases | - | - | - |
| 4. Closing balances | 1,685 | - | - |

A.3.3 Information on “day one profit/loss”

Pursuant to IFRS 7 paragraph 28, among the Groups financial instruments, sold options linked to guaranteed-return asset management were identified for which there is a difference between the fair value on initial recognition (transaction price) and the amount calculated at that date using the Day 1 Profit measurement method. Given the type of products concerned, the fact that input parameters cannot be observed on the market and as there are no reference prices for similar products on an active market, this difference was allocated on a "pro rata temporis" basis, as described in “Part A - Accounting policies” under the paragraph on “Dividends and recognition of revenues”. The positive figure recognised to the income statement under “Net trading gains/(losses)” as at 31 December 2010 totals 2.8 million euro and the residual differences still to be recognised amount to 1.7 million euro.

PART B – BALANCE SHEET DATA

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|---------------------------------------|------------|------------|
| a) Cash | 24 | 49 |
| b) Demand deposits with Central Banks | - | - |
| Total | 24 | 49 |

This item includes banknotes and coins held by the Bank's offices.

Section 2 - Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by product

As at 31 December 2010 financial assets totalled 6,488,385 thousand euro. The breakdown of financial assets is illustrated in the table below.

| <i>(in thousands of euro)</i> | 31-12-2010 | | | 31-12-2009 | | |
|-------------------------------------|------------------|------------------|--------------|------------------|------------------|---------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| A Cash assets | | | | | | |
| 1. Debt securities | 1,302,332 | 673,872 | 9,193 | 1,299,187 | 392,488 | 51,950 |
| 1.1 Structured securities | 156,681 | 78,312 | - | - | - | - |
| 1.2 Other debt securities | 1,145,651 | 595,560 | 9,193 | 1,299,187 | 392,488 | 51,950 |
| 2. Equity instruments | 281,437 | - | 40 | 339,991 | - | - |
| 3. UCI units | 6,081 | - | - | 14,032 | - | 11 |
| 4. Loans | - | - | - | - | - | - |
| 4.1 Repo agreements | - | - | - | - | - | - |
| 4.2 Other | - | - | - | - | - | - |
| Total A | 1,589,850 | 673,872 | 9,233 | 1,653,210 | 392,488 | 51,961 |
| B Derivatives | | | | | | |
| 1. Financial derivatives | 52,270 | 4,162,029 | - | 79,989 | 3,984,675 | - |
| 1.1 trading | 52,270 | 4,162,029 | - | 79,989 | 3,984,675 | - |
| 1.2 linked to the fair value option | - | - | - | - | - | - |
| 1.3 other | - | - | - | - | - | - |
| 2. Credit derivatives | - | 1,131 | - | - | - | - |
| 2.1 trading | - | 1,131 | - | - | - | - |
| 2.2 linked to the fair value option | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - |
| Total B | 52,270 | 4,163,160 | - | 79,989 | 3,984,675 | - |
| Total (A+B) | 1,642,120 | 4,837,032 | 9,233 | 1,733,199 | 4,377,163 | 51,961 |

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

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|----------------------------------|------------------|------------------|
| A CASH ASSETS | | |
| 1. Debt securities | 1,985,397 | 1,743,625 |
| a) Governments and central banks | 683,269 | 809,570 |
| b) Other public authorities | - | 4 |
| c) Banks | 1,087,604 | 845,674 |
| d) Other issuers | 214,524 | 88,377 |
| 2. Equity instruments | 281,477 | 339,991 |
| a) Banks | 49,456 | 39,259 |
| b) Other issuers: | 232,021 | 300,732 |
| - insurance companies | 9,986 | 35,548 |
| - finance companies | 9,963 | 11,415 |
| - non-financial companies | 212,072 | 253,769 |
| - other | - | - |
| 3. UCI units | 6,081 | 14,043 |
| 4. Loans | - | - |
| a) Governments and central banks | - | - |
| b) Other public authorities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| Total A | 2,272,955 | 2,097,659 |
| B DERIVATIVES | - | - |
| a) Banks | - | - |
| - fair value | 3,891,062 | 3,834,391 |
| b) Customers | - | - |
| - fair value | 324,368 | 230,273 |
| Total B | 4,215,430 | 4,064,664 |
| Total (A+B) | 6,488,385 | 6,162,323 |

As at 31 December 2010 the composition of UCI units was as follows:

- Shares and Sicavs: 4,826 thousand euro
- Bonds: 902 thousand euro
- Real estate: 353 thousand euro

Item "A.1. d) Debt securities – Other issuers" includes bonds issued by the Lehman Brothers Group classed as non-performing, the value of which was derecognised in 2009. Cumulative write-downs amounted to 918 thousand euro.

2.3 Cash financial assets held for trading: annual changes

| <i>(in thousands of euro)</i> | Debt securities | Equity instruments | UCI units | Loans | Total |
|------------------------------------|---------------------|---------------------|-----------------|-------|---------------------|
| A Opening balances | 1,743,625 | 339,991 | 14,043 | - | 2,097,659 |
| B. Increases | 71,991,701 | 22,238,537 | 8,305 | - | 94,238,543 |
| B1. Acquisitions | 71,870,058 | 21,825,897 | 7,451 | - | 93,703,406 |
| B2. Positive changes in fair value | 4,022 | 10,286 | 65 | - | 14,373 |
| B3. Other changes | 117,621 | 402,354 | 789 | - | 520,764 |
| C. Decreases | (71,749,929) | (22,297,051) | (16,267) | - | (94,063,247) |
| C1. Sales | (71,660,728) | (21,560,892) | (16,086) | - | (93,237,706) |
| C2. Redemptions | - | - | - | - | - |
| C3. Negative changes in fair value | (18,830) | (20,938) | (49) | - | (39,817) |
| C4. Transfers to other portfolios | - | - | - | - | - |
| C5. Other changes | (70,371) | (715,221) | (132) | - | (785,724) |
| D Closing balances | 1,985,397 | 281,477 | 6,081 | - | 2,272,955 |

Section 3 – Fair value financial assets – Item 30

3.1 Fair value financial assets: breakdown

| <i>(in thousands of euro)</i> | 31-12-2010 | | | 31-12-2009 | | |
|-------------------------------|------------|---------|---------|------------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1 Debt securities | - | - | - | - | - | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | - | - | - | - | - | - |
| 2 Equity instruments | - | 76 | - | 118 | - | - |
| 3 UCI units | 17,974 | - | 249 | 18,170 | - | 252 |
| 4 Loans | - | - | - | - | - | - |
| 4.1 Structured securities | - | - | - | - | - | - |
| 4.2 Other debt securities | - | - | - | - | - | - |
| Total | 17,974 | 76 | 249 | 18,288 | - | 252 |
| Cost | 17,867 | 118 | 175 | 17,369 | - | 314 |

UCI units include 17,974 thousand euro in units of Hedge Funds (comprising investments in “other assets”) and 249 thousand euro in Private Equity Funds.

The item Equity Instruments refers to an insurance policy stipulated with an insurance company in relation to a Supplementary Benefit Plan designed to encourage Top Management loyalty.

The hedge fund units included in the Banca Aletti portfolio were acquired with the aim of achieving profit based on long-term performance of the fund and not to generate profits through trading of the units, considered in its strictest sense. Classification among AFVTPL is therefore consistent with the type of transactions developed on such assets compared, for example, to an HFT classification, which presumes fairly frequent purchases or sales of assets and therefore constant movement, or compared to recognition as AFS, as the investment logic is not attributable to assets “available for sale”.

Application of the fair value option to the above asset items meets the need to manage and represent a portfolio consistent with an investment strategy defined in terms of performance objectives.

3.2 Fair value financial assets: breakdown by borrower/issuer

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|----------------------------------|------------|------------|
| 1 Debt securities | - | - |
| a) Governments and central banks | - | - |
| b) Other public authorities | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| 2 Equity instruments | 76 | 118 |
| a) Banks | - | - |
| b) Other issuers: | 76 | 118 |
| - insurance companies | 76 | 118 |
| - finance companies | - | - |
| - non-financial companies | - | - |
| - other | - | - |
| 3 UCI units | 18,223 | 18,422 |
| 4 Loans | - | - |
| a) Governments and central banks | - | - |
| b) Other public authorities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| Total | 18,299 | 18,540 |

3.3 Fair value financial assets: annual changes

| <i>(in thousands of euro)</i> | Debt securities | Equity instruments | UCI units | Loans | Total |
|------------------------------------|-----------------|--------------------|-----------|-------|--------|
| A Opening balances | - | 118 | 18,422 | - | 18,540 |
| B. Increases | - | - | 236 | - | 236 |
| B1. Acquisitions | - | - | - | - | - |
| B2. Positive changes in fair value | - | - | 236 | - | 236 |
| B3. Other changes | - | - | - | - | - |
| C. Decreases | - | (42) | (435) | - | (477) |
| C1. Sales | - | - | - | - | - |
| C2. Redemptions | - | - | (379) | - | (379) |
| C3. Negative changes in fair value | - | (42) | (56) | - | (98) |
| C4. Other changes | - | - | - | - | - |
| D Closing balances | - | 76 | 18,223 | - | 18,299 |

Section 4 – Available-for-sale financial assets – Item 40

4.1 Available-for-sale financial assets: breakdown by product

| <i>(in thousands of euro)</i> | 31-12-2010 | | | 31-12-2009 | | |
|-------------------------------|------------|---------|---------|------------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1 Debt securities | - | - | - | - | - | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | - | - | - | - | - | - |
| 2 Equity instruments | 6,687 | 1,376 | 549 | 5,553 | 2,120 | 534 |
| 2.1 Measured at fair value | 6,687 | 1,376 | 549 | 5,553 | 2,120 | 534 |
| 2.2 Measured at cost | - | - | - | - | - | - |
| 3 UCI units | - | - | - | - | - | - |
| 4 Loans | - | - | - | - | - | - |
| Total | 6,687 | 1,376 | 549 | 5,553 | 2,120 | 534 |

“Equity instruments” comprise investments in the following companies:

- London Stock Exchange (formerly Borsa Italiana S.p.A.) for 6,687 thousand euro (0.246% of the share capital);
- SIA-SSB S.p.A. l’Automazione (formerly SIA S.p.A.) for 1,376 thousand euro (0.416% of the share capital);
- Unica Sim S.p.A. for 535 thousand euro (10% of the share capital);
- Gruppo Operazioni Underwriting Banche Popolari S.r.l. (GROUP Srl) for 14 thousand euro (14.29% of the share capital)

Every quarter, the securities included under the above accounting category were subjected to impairment testing consistent with guidelines adopted at Group level, described in "Part A - Accounting policies" of these Notes to the financial statements, to which reference should therefore be made.

As at 30 September 2010, following impairment testing, an impairment was recognised on SIA-SSB S.p.A. for 1,003 thousand euro. This reduction resulted in the elimination of the gross positive accumulated reserve of 141 thousand euro and the recognition of an impairment in item 130 of the income statement for 862 thousand euro. In addition, in the subsequent quarter, this security increased in value for 258 thousand euro, the entirety of which was recorded as an increase in the positive Valuation Reserve.

As at 31 December 2010, there were no further impairments on these securities.

Moreover, during 2010, the security GROUP srl, previously classified under Assets item 100 “Investments”, was partially disposed for a share of 5.71% to allow the addition of Banca Carige to the holding structure, thereby reducing Banca Aletti’s ownership share from 20% to 14.29%. Having lost the significant influence for which the bank considered this investment as “associate”, as defined in Part A - Accounting policies, it was reclassified from Assets item 100 “Investments” to Assets item 40 “Available-for-sale financial assets”. The partial disposal took place through the transfer of a 4.28% share to Banca dell’Etruria and a 1.43% share to Banca Carige, thereby allowing the seven shareholders to have equal ownership of 14.2857%.

The partial disposal of this security resulted in a gain of 3 thousand euro recognised in item 210 of the income statement.

4.2 Available-for-sale financial assets: breakdown by borrower/issuer

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|----------------------------------|--------------|--------------|
| 1 Debt securities | - | - |
| a) Governments and central banks | - | - |
| b) Other public authorities | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| 2 Equity instruments | 8,612 | 8,207 |
| a) Banks | - | - |
| b) Other issuers: | 8,612 | 8,207 |
| - insurance companies | - | - |
| - finance companies | 535 | 533 |
| - non-financial companies | 8,077 | 7,674 |
| - other | - | - |
| 3 UCI units | - | - |
| 4 Loans | - | - |
| a) Governments and central banks | - | - |
| b) Other public authorities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| Total | 8,612 | 8,207 |

4.3 Available-for-sale financial assets subject to micro-hedging

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|----------------------------------------------------------------|--------------|--------------|
| 1 Financial assets subject to fair value micro hedging: | 6,687 | 5,553 |
| a) interest rate risk | - | - |
| b) price risk | - | - |
| c) exchange rate risk | 6,687 | 5,553 |
| d) credit risk | - | - |
| e) multirisk | - | - |
| 2 Financial assets subject to cash flow micro hedging: | - | - |
| a) interest rate risk | - | - |
| b) exchange rate risk | - | - |
| c) other | - | - |
| Total | 6,687 | 5,553 |

The security fair value micro-hedged for exchange rate risk was the London Stock Exchange share, listed in GB pounds.

4.4 Available-for-sale financial assets: annual changes

| <i>(in thousands of euro)</i> | Debt securities | Equity instruments | UCI units | Loans | Total |
|--------------------------------------|-----------------|--------------------|-----------|-------|---------|
| A Opening balances | - | 8,207 | - | - | 8,207 |
| B. Increases | - | 1,408 | - | - | 1,408 |
| B1. Acquisitions | - | - | - | - | - |
| B2. Positive changes in fair value | - | 1,196 | - | - | 1,196 |
| B3. Reversals | - | - | - | - | - |
| - recognised to the income statement | - | - | - | - | - |
| - recognised to shareholders' equity | - | - | - | - | - |
| B4. Transfers from other portfolios | - | - | - | - | - |
| B5. Other changes | - | 212 | - | - | 212 |
| C. Decreases | - | (1,003) | - | - | (1,003) |
| C1. Sales | - | - | - | - | - |
| C2. Redemptions | - | - | - | - | - |
| C3. Negative changes in fair value | - | - | - | - | - |
| C4. Write-downs for impairment | - | (1,003) | - | - | (1,003) |
| - recognised to the income statement | - | (862) | - | - | (862) |
| - recognised to shareholders' equity | - | (141) | - | - | (141) |
| C5. Transfers to other portfolios | - | - | - | - | - |
| C6. Other changes | - | - | - | - | - |
| D Closing balances | - | 8,612 | - | - | 8,612 |

Item B.2 "Positive changes in fair value" comprises the increase in the London Stock Exchange security of 936 thousand euro, the increase in the third quarter in the SIA-SSB S.p.A security for 258 thousand euro and the increase for the Unicasm SpA security for 2 thousand euro.

The item B.5 "Other changes" includes 14 thousand euro for the transfer of the GROUP Srl security from Asset item 100 "Investments" and, for the remainder, the balancing entry for the positive exchange difference recognised to item 90 of the Income Statement - Hedging gains/(losses), deriving from recording of the exchange risk hedge transaction completed in 2010 according to hedge accounting rules.

Item C.4 "Write-downs for impairments recognised in the income statement" represents the portion of the impairment recorded on 30 September 2010 to the SIA-SSB S.p.A. security recognised in the income statement after the elimination of the positive reserve existing at that date in the subsequent item of the table "Write-downs recognised in shareholders' equity".

Section 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by product

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-----------------------------------------|------------|------------|
| A Due from Central Banks | - | - |
| 1. Term deposits | - | - |
| 2. Compulsory reserve | - | - |
| 3. Repurchase agreements | - | - |
| 4. Other | - | - |
| B Due from banks | 1,780,410 | 3,174,355 |
| 1. Current accounts and demand deposits | 737,771 | 2,124,742 |
| 2. Term deposits | 234,834 | 135,208 |
| 3. Other loans | 807,805 | 914,405 |
| 3.1 Repurchase agreements | 493,704 | 456,729 |
| 3.2 Finance leases | - | - |
| 3.3 Other | 314,101 | 457,676 |
| 4. Debt securities | - | - |
| 4.1 Structured securities | - | - |
| 4.2 Other debt securities | - | - |
| Total (book value) | 1,780,410 | 3,174,355 |
| Total (fair value) | 1,780,561 | 3,174,355 |

This item comprises short-term loans to banks with a book value similar to their fair value.

Item B.2 "Term deposits" consists primarily of:

- deposits as collateral on financial instrument contracts for 207,980 thousand euro;
- deposits from Kaupthing Banki hf for 10,770 thousand euro net of cumulative write-downs of 8,654 thousand euro (at a 20% recovery rate), or 2,116 thousand euro. The cumulative write-downs include the write-down made in 2010 for 539 thousand euro following a reduction in the recovery rate; the recovery used in the prior year was 25%). These assets were classified as non-performing.
- the compulsory reserve deposited with the parent company for 24,634 thousand euro. Note that in 2007 the bank transferred its liability for the Compulsory Reserve deposited with the Bank of Italy to Banco Popolare, which handles such activities at central level for the entire Group.

Item B.3 "Other loans" as at 31 December 2010 includes the following:

- sub-item 3.1 – "Repurchase agreements": repurchase agreement transactions for a countervalue of 449,187 thousand euro (358,274 thousand euro as at 31 December 2009) and securities lending transactions for a countervalue of 44,517 thousand euro (98,453 thousand euro as at 31 December 2009).
- sub-item 3.3 "Other": accruals for securities lending transactions in the form of the loan guaranteed by securities for 303,912 thousand euro (310,457 thousand euro as at 31 December 2009) and operating receivables for 10,189 thousand euro (147,105 thousand euro as at 31 December 2009)

Section 7 – Due from customers – Item 70

7.1 Due from customers: breakdown by product

| <i>(in thousands of euro)</i> | 31-12-2010 | | 31-12-2009 | |
|--------------------------------------------------------|------------------|--------------|------------------|--------------|
| | Performing | Impaired | Performing | Impaired |
| 1 Current accounts | 7,185 | 21 | 8,241 | 13 |
| 2 Repurchase agreements | 1,027,554 | - | 531,953 | - |
| 3 Mortgages | 99,898 | - | 80,018 | - |
| 4 Credit cards, personal loans and salary-backed loans | - | - | - | - |
| 5 Finance leases | - | - | - | - |
| 6 Factoring | - | - | - | - |
| 7 Other transactions | 371,347 | 4,025 | 552,921 | 4,098 |
| 8 Debt securities | - | - | - | 23 |
| 8.1 Structured securities | - | - | - | - |
| 8.2 Other debt securities | - | - | - | 23 |
| Total (book value) | 1,505,984 | 4,046 | 1,173,133 | 4,134 |
| Total (fair value) | 1,505,256 | 4,363 | 1,173,133 | 4,134 |

Item 1 – "Current accounts" mainly comprises overdrafts granted to reliable customers. These assets were collectively written down by approximately 46 thousand euro.

Item 2 – "Repurchase agreements" refers exclusively to securities lending transactions (531,953 thousand euro as at 31 December 2009).

Item 3 – "Mortgages" totalling 99,898 thousand euro consists almost entirely of securities lending transactions completed in the form of mortgages guaranteed by securities.

Item 7 – "Other transactions" (performing) consists mainly refers to liquidity and guarantee deposits released to clearing houses for derivatives settled on Italian and international markets for 259,346 thousand euro, collateral on financial instrument contracts released to finance companies for 96,750 thousand euro and operating receivables for 15,207 thousand euro.

Item 7 – "Other transactions" (impaired) mainly refers to 13,344 thousand euro due from the Lehman Brothers Group, cumulatively written down by 9,391 thousand euro including the 2010 write-down of 49 thousand euro.

Sub-item 8.2 "Other debt securities (impaired)" includes Pillar Securitisation S.a.r.l., with a net value of nil from the restructuring through securitisation of Kaupthing Bank Luxembourg, for which the bank had a guarantee deposit with an original value of 13,966 thousand euro. In 2010, as in the previous year, additional collections were recorded on the percentage of share capital of this security for 2,036 thousand euro, recognised in item 130 of the Income Statement. The gross value as at 31 December of the security was 7,383 thousand euro, which had been written down in full in the previous year.

7.2 Due from customers: breakdown by borrower/issuer

| <i>(in thousands of euro)</i> | 31-12-2010 | | 31-12-2009 | |
|-------------------------------|------------------|--------------|------------------|--------------|
| | Performing | Impaired | Performing | Impaired |
| 1 Debt securities | - | - | - | 23 |
| a) Governments | - | - | - | - |
| b) Other public authorities | - | - | - | - |
| c) Other issuers | - | - | - | 23 |
| - non-financial companies | - | - | - | - |
| - finance companies | - | - | - | 23 |
| - insurance companies | - | - | - | - |
| - other | - | - | - | - |
| 2 Loans to | 1,505,984 | 4,046 | 1,173,133 | 4,111 |
| a) Governments | - | - | - | - |
| b) Other public authorities | - | - | - | - |
| c) Other entities | 1,505,984 | 4,046 | 1,173,133 | 4,111 |
| - non-financial companies | 111 | - | 416 | - |
| - finance companies | 1,485,493 | 3,961 | 1,120,482 | 3,964 |
| - insurance companies | 1,275 | - | 233 | - |
| - other | 19,105 | 85 | 52,002 | 147 |
| Total | 1,505,984 | 4,046 | 1,173,133 | 4,134 |

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by hedge type and hierarchical level

In 2010 the micro hedging of exchange rate risk continued in relation to the London Stock Exchange security classified as Available-for-sale financial assets, with changes recognised in income statement item 90 “Hedging gains (losses)”. As at 31 December 2010, the derivative hedging instrument expired and was renegotiated at the beginning of 2011. As at 31 December 2009, the derivative had a negative fair value. For more information, refer to section 6 of Liabilities in this report.

Section 10 – Equity investments – Item 100

10.1 Equity investments in subsidiaries, companies subject to common control (measured at equity) or subject to significant influence: information on investment relations

| <i>(in thousands of euro)</i> | 31-12-2010 | | | 31-12-2009 | | |
|-----------------------------------------------------------------------------|-------------------|--------------|-----------------------------|-------------------|--------------|-----------------------------|
| | Registered office | Investment % | Percentage of voting rights | Registered office | Investment % | Percentage of voting rights |
| A. 100% subsidiaries | | | | | | |
| 1. Aletti Fiduciaria S.p.A. | Milan | 100% | 100% | Milan | 100% | 100% |
| 2. Nazionale Fiduciaria S.p.A. | -- | -- | -- | Brescia | 100% | 100% |
| 3. Aletti Trust S.p.A. | Milan | 100% | 100% | Milan | 100% | 100% |
| C. Companies subject to significant influence | | | | | | |
| 1. Gruppo Operazioni Underwriting Banche Popolari S.r.l. (GROUP Srl) | -- | -- | -- | Milan | 20.0% | 20.0% |
| 2. HI-MTF S.p.A | Milan | 20% | 20% | Milan | 20% | 20% |
| 3. Società Gestione Servizi - BP Soc. cons. per azioni (SGS) | Verona | 10% | 10% | Verona | 10% | 10% |
| 4. BP Property Management Soc. cons. per azioni (formerly BPVN Immobiliare) | Verona | 1% | 1% | Verona | 1% | 1% |

In reference to the rationalisation of Banco Popolare Group’s trust department, on 31 December 2010, the merger transaction of Aletti Fiduciaria S.p.A. into Nazionale Fiduciaria S.p.A. was completed, which simultaneously changed its name to Aletti Fiduciaria S.p.A. and transferred its registered office from Brescia to Milan. In accounting for the merger, the incorporated company’s transactions were recorded in the financial statements of the merging company from 1 January 2010 for accounting and tax purposes.

The book value of both investments was unchanged, as the merger took place without any share capital increase by the merging company in that the share capital of both companies participating in the merger was entirely owned by Banca Aletti & C. Spa, and the shares of the merged company were cancelled as a result of the merger. The assessed book value of 1,025 thousand euro on the previous investment in Aletti Fiduciaria S.p.A. was cancelled by transferring it to the investment

in Nazionale Fiduciaria, which had previously had a book value of 7,500 thousand euro. The latter, renamed Aletti Fiduciaria S.p.A. has a book value as at 31 December 2010 of 8,525 thousand euro.

As previously described in section 4 “Available-for-sale financial assets”, in 2010, the GROUP Srl security was partially disposed 5.71% to allow the addition of Banca Carige to the holding structure. This disposal reduced the ownership percentage from 20% to 14.29%, and as a result, it is no longer considered an “associate”, as defined in the accounting standards in Part A of these financial statements. This investment, no longer qualified as one of control, association or joint control, was reclassified in Asset item 40 “Available-for-sale financial assets”. The partial disposal took place through the transfer of a 4.28% share to Banca dell’Etruria and a 1.43% share to Banca Carige, thereby allowing the seven shareholders to have equal ownership of 14.2857%. The partial disposal of this investment, for a countervalue of 5 thousand euro, resulted in a gain of 3 thousand euro recognised in item 210 of the Income Statement.

Following the impairment test conducted 31 December 2010, there were further impairments to the investments shown in table 10.1 above.

10.2 Equity investments in subsidiaries, companies subject to common control or subject to significant influence: accounting data

| <i>(in thousands of euro)</i> | Total Assets | Total Revenues | Gains (Losses) | Shareholders' equity | Book Value | Fair value |
|-----------------------------------------------------------------------------|----------------|----------------|-----------------|----------------------|---------------|------------|
| A. 100% subsidiaries | 8,649 | 5,245 | 726 | 5,875 | 9,021 | X |
| 1. Aletti Fiduciaria S.p.A. (following merger) | 7,592 | 4,342 | 729 | 5,340 | 8,525 | X |
| 2. Aletti Trust S.p.A. | 1,057 | 903 | (-3) | 535 | 496 | X |
| C. Companies subject to significant influence | 329,241 | 443,709 | (4,273) | 158,477 | 12,009 | X |
| 2. HI-MTF S.p.A. | 5,005 | 2,633 | 547 | 4,514 | 1,000 | X |
| 3. Società Gestione Servizi - BP Soc. cons. per azioni (SGS) | 253,115 | 337,961 | (-2,853) | 109,334 | 10,519 | X |
| 4. BP Property Management Soc. cons. per azioni (formerly BPVN Immobiliare) | 71,121 | 103,115 | (-1,967) | 44,629 | 490 | X |
| Total | 337,890 | 448,954 | (-3,547) | 164,352 | 21,030 | X |

The accounting data for total assets, total revenues, gains/(losses) and shareholders’ equity were taken from the latest financial statements as at 31 December 2010.

10.3 Equity investments: annual changes

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|-------------------------------|---------------|----------------|
| A. Opening balances | 21,046 | 13,128 |
| B. Increases | 3 | 12,730 |
| B.1 Acquisitions | - | 12,730 |
| B.2 Reversals | - | - |
| B.3 Revaluations | - | - |
| B.4 Other changes | 3 | - |
| C. Decreases | (19) | (4,812) |
| C.1 Disposals | (5) | (2) |
| C.2 Write-downs | - | (3,585) |
| C.3 Other changes | (14) | (1,225) |
| D. Closing balances | 21,030 | 21,046 |
| E. Total revaluations | - | - |
| F. Total write-downs | 9,685 | 9,685 |

Item B.4 “Other changes” includes the gain recorded following the partial disposal of the GROUP Srl security in 2010, as discussed above. The disposal was valued at 5 thousand euro and is recorded in item C.1 “Disposals” in the table above. Item C.3 “Other changes” refers to the transfer of GROUP Srl to Assets item 40 “Available-for-sale financial assets”.

10.4 Commitments relating to investments in subsidiaries

As at 31 December 2010 the Bank had no commitments to subsidiaries.

10.6 Commitments relating to investments in companies subject to significant influence.

As at 31 December 2010 the Bank had no commitments to its investee company.

Section 11 – Property, plant and equipment – Item 110

Property, plant and equipment totalled 1,677 thousand euro, net of related provisions for depreciation.

11.1 Property, plant and equipment: breakdown of assets measured at cost

| <i>(in thousands of euro)</i> | 31/12/2010 | 31/12/2009 |
|-----------------------------------------|--------------|--------------|
| A Assets - for operational use | | |
| 1. Owned | 1,677 | 1,686 |
| a) land | - | - |
| b) buildings | - | - |
| c) furniture and fittings | 886 | 1,007 |
| d) electrical systems | - | - |
| e) other | 791 | 679 |
| 2. Acquired under finance leases | - | - |
| a) land | - | - |
| b) buildings | - | - |
| c) furniture and fittings | - | - |
| d) electrical systems | - | - |
| e) other | - | - |
| Total A | 1,677 | 1,686 |
| B Assets held as investments | | |
| 1. Owned | - | - |
| a) land | - | - |
| b) buildings | - | - |
| 2. Acquired under finance leases | - | - |
| a) land | - | - |
| b) buildings | - | - |
| Total B | - | - |
| Total (A+B) | 1,677 | 1,686 |

11.3 Assets for operational use: annual changes

| <i>(in thousands of euro)</i> | Land | Buildings | Furniture and fittings | Electrical systems | Other | Total |
|------------------------------------------------------------|------|-----------|------------------------|--------------------|---------|---------|
| A. Gross opening balances | - | - | 4,522 | 787 | 2,961 | 8,270 |
| A.1 Total net impairment | - | - | (3,515) | (787) | (2,282) | (6,584) |
| A.2 Net opening balances | - | - | 1,007 | - | 679 | 1,686 |
| B Increases: | - | - | 154 | - | 436 | 590 |
| B.1 Acquisitions | - | - | 154 | - | 436 | 590 |
| B.2 Capitalised improvement costs | - | - | - | - | - | - |
| B.3 Reversals | - | - | - | - | - | - |
| B.4 Positive changes in fair value recognised to | | | | | | |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Transferred from property held for investment purposes | - | - | - | - | - | - |
| B.7 Other changes | - | - | - | - | - | - |
| C Decreases | - | - | (275) | - | (324) | (599) |
| C.1 Disposals | - | - | - | - | (1) | (1) |
| C.2 Depreciation | - | - | (275) | - | (323) | (598) |
| C.3 Write-downs recognised to | | | | | | |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.4 Negative changes in fair value recognised to | | | | | | |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.5 Negative exchange differences | - | - | - | - | - | - |
| C.6 Transferred to: | | | | | | |
| a) property, plant and equipment held as investments | - | - | - | - | - | - |
| b) discontinued operations | - | - | - | - | - | - |
| C.7 Other changes | - | - | - | - | - | - |
| D Net closing balances | - | - | 886 | - | 791 | 1,677 |
| D.1 Total net impairment | - | - | 3,764 | 787 | 2,604 | 7,155 |
| D.2 Gross closing balances | - | - | 4,650 | 787 | 3,395 | 8,832 |
| E Measurement at cost | - | - | - | - | - | - |

Section 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by asset type

Intangible assets totalled 21,080 thousand euro, net of amortisation.

| <i>(in thousands of euro)</i> | 31-12-2010 | | 31-12-2009 | |
|-----------------------------------------|-------------|---------------|-------------|---------------|
| | Finite life | Infinite life | Finite life | Infinite life |
| A.1 Goodwill | X | 21,080 | X | 19,973 |
| A. Other intangible assets | | 4 | | 8 |
| A.2.1 Assets measured at cost | | 4 | | 8 |
| a) Intangible assets generated in-house | | - | | - |
| b) Other assets | | 4 | | 8 |
| A.2.2 Assets measured at fair value: | | - | | - |
| a) Intangible assets generated in-house | | - | | - |
| b) Other assets | | - | | - |
| Total | | 4 | | 8 |
| | | 21,080 | | 19,973 |

The total of 21,080 thousand euro is broken down as follows:

- 19,973 thousand euro is the book value (calculated according to international accounting standards) of goodwill relating to Bipitalia SGR, acquired following the 2007 transfer. The Bipitalia goodwill arose from extraordinary

transactions between 2000 and 2004, and relates to the transfer of asset management businesses from banks of the former BPI group to SGR.

- 1,107 thousand euro for the value attributed to the securities asset management contracts purchased on 10 December 2010 from Banca Popolare di Puglia e Basilicata. For more information on this transaction, refer to the Report on Operations.

The residual values concerned were impairment tested, the results of which showed that these values were lower than the higher value between the fair value and recovery value of the CGU to which the goodwill was recognised.

Consistent with the configuration adopted by the Group following the establishment of Banco Popolare, the CGUs identified were the Legal Entity (i.e. the entire bank) and no longer the bank's intersecting business segments (private, investment and asset management).

Estimation of the recoverable value for impairment testing purposes was performed on the fair value calculation by applying the stock market multiples method, based on an analysis of comparable listed companies or comparable transactions and application of the resulting benchmarks to the bank's values. The multiples obtained were the ratio between valuation of the comparable companies (expressed as the market prices), and the related income, equity and financial amounts deemed significant.

The test in any event showed that the book value of the residual goodwill was much lower than the fair value of the CGU, and therefore no write-down for impairment was recognised.

12.2 Intangible assets: annual changes

The following changes in intangible assets occurred during the year.

| <i>(in thousands of euro)</i> | Goodwill | Other intangible assets: | | | | Total |
|--------------------------------------------|---------------|--------------------------|-----------|------------|-----------|---------------|
| | | Generated in-house | | Other | | |
| | | Limited | Unlimited | Limited | Unlimited | |
| A. Opening balances | 19,973 | - | - | 31 | - | 20,004 |
| A.1 Total net impairment | - | - | - | (23) | - | (23) |
| A.2 Net opening balances | 19,973 | - | - | 8 | - | 19,981 |
| B. Increases: | 1,107 | - | - | - | - | 1,107 |
| B.1 Acquisitions | 1,107 | - | - | - | - | 1,107 |
| B.2 Increases in assets generated in-house | X | - | - | - | - | - |
| B.3 Reversals | X | - | - | - | - | - |
| B.4 Positive changes in fair value: | - | - | - | - | - | - |
| a) shareholders' equity | X | - | - | - | - | - |
| b) income statement | X | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Other changes | - | - | - | - | - | - |
| C. Decreases | - | - | - | (4) | - | (4) |
| C.1 Disposals | - | - | - | - | - | - |
| C.2 Write-downs | - | - | - | (4) | - | (4) |
| - Amortisation | X | - | - | (4) | - | (4) |
| - Write-downs | - | - | - | - | - | - |
| + shareholders' equity | X | - | - | - | - | - |
| + income statement | - | - | - | - | - | - |
| C.3 Negative changes in fair value | - | - | - | - | - | - |
| - to shareholders' equity | X | - | - | - | - | - |
| - to the income statement | X | - | - | - | - | - |
| C.4 Transfer to discontinued operations | - | - | - | - | - | - |
| C.5 Negative exchange differences | - | - | - | - | - | - |
| C.6 Other changes | - | - | - | - | - | - |
| D. Closing balances | 21,080 | - | - | 4 | - | 21,084 |
| D.1 Total net impairment | - | - | - | (4) | - | (4) |
| E. Gross closing balances | 21,080 | - | - | 8 | - | 21,088 |
| F. Measurement at cost | - | - | - | - | - | - |

Section 13 – Tax assets and liabilities – Item 130 Assets and Item 80 Liabilities

Current taxes

As at 31 December 2010 current tax assets amounted to 7,547 thousand euro, corresponding to the IRAP (regional tax) credit from the 2010 declaration net of the tax due for 2010.

Current tax liabilities as at 31 December 2010 totalled 394 thousand euro, corresponding to the third instalment of substitute tax for misalignment redemption of off-balance sheet deductions applied in the Unico 2010 tax return, payable to the Tax Authorities by 16 June 2011.

With regard to IRES (production tax) it should be emphasised that the related credit and debit positions can be found, respectively, under "Other assets" and "Other liabilities". Given the bank's adoption of the consolidated tax regime as a consolidated company (renewed in 2010), Banca Aletti will pay both the balance and prepayment of IRES to the parent company Banco Popolare which, as consolidating company and subject to consolidation of the taxable amounts for all companies included in the consolidation area, will arrange payment to the Tax Authority of any tax debits. As at 31 December 2010, tax liabilities included liabilities to the parent company for IRES for 5,908 thousand euro, equivalent to the estimated 2010 IRES tax, net of prepayments, withholding and tax credit on said amount for that said year.

Deferred taxes

Deferred taxes are recognised by applying the IAS 12 "balance sheet liability method" in compliance with Bank of Italy instructions. In particular, prepaid tax assets and deferred tax liabilities are calculated by applying the tax rates presumed to be in force at the time any differences will be recovered, to the nominal values of all deductible and taxable temporary differences, in accordance with tax regulations valid as at the balance sheet date. The tax rates and IRES and IRAP tax base calculations are adjusted during the tax years to take into account any new reference regulations (for example, changes in tax rates) and the profitability outlook of the company (recording amounts under credits and debits considered consistent with their real recovery capacity).

For 2010 there were no extraordinary events significantly affecting the quantification of tax liabilities for deferred taxes and prepaid tax assets. Specifically, compared to 2009, there were no changes in prospective tax rates or significant changes in the tax treatment of income items with an impact on deferred taxes.

13.1 Prepaid tax assets: breakdown

| <i>(in thousands of euro)</i> | IRES | IRAP | 31-12-2010 | 31-12-2009 |
|-----------------------------------------------------------------------------|---------------|------------|---------------|---------------|
| A) With balancing entry in the income statement | | | | |
| Provisions for risk – non-deductible, standard taxation | 668 | - | 668 | 508 |
| Non-deductible costs relating to more than one tax year | 35 | 6 | 41 | 110 |
| Non-deductible operating asset losses | 25 | 4 | 29 | 39 |
| Deferred tax on personnel costs | 2,770 | - | 2,770 | 3,907 |
| Goodwill impairment | 835 | 146 | 981 | 1,131 |
| Write-downs on amounts due from banks | 4,365 | - | 4,365 | 4,776 |
| Write-downs on amounts due from customers in excess of the deductible limit | 1,689 | - | 1,689 | 1,797 |
| Other | 181 | 532 | 713 | 653 |
| Total A | 10,568 | 688 | 11,256 | 12,921 |
| B) With balancing entry in shareholders' equity | | | | |
| Fair value measurement of AFS financial assets | - | - | - | 43 |
| Other | - | - | - | - |
| Total B | - | - | - | 43 |
| Total (A+B) | 10,568 | 688 | 11,256 | 12,964 |

13.2 Deferred tax assets: breakdown

| <i>(in thousands of euro)</i> | IRES | IRAP | Other taxes | 31-12-2010 | 31-12-2009 |
|----------------------------------------------------------------------------|--------------|------------|-------------|--------------|--------------|
| A) With balancing entry in the income statement | | | | | |
| Capital gains recognised in relation to Italian UCIs | 258 | - | - | 258 | 338 |
| Capital gains on operating assets | - | - | - | - | - |
| Early depreciation of property, plant and equipment | - | - | - | - | - |
| Tax amortisation on goodwill | 2,573 | 368 | - | 2,941 | 2,463 |
| AFS financial asset measurement | 51 | - | - | 51 | 58 |
| Substitute tax for misalignment redemption of off-balance sheet deductions | - | - | - | - | 394 |
| Other | 178 | - | - | 178 | 142 |
| Total A | 3,060 | 368 | - | 3,428 | 3,395 |
| B) With balancing entry in shareholders' equity | | | | | |
| Fair value measurement of AFS financial assets | 38 | 14 | - | 52 | 31 |
| Total B | 38 | 14 | - | 52 | 31 |
| Total (A+B) | 3,098 | 382 | - | 3,480 | 3,426 |

13.3 Changes in prepaid taxes (with balancing entry in the income statement)

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|------------------------------------------------|----------------|----------------|
| 1. Opening balances | 12,921 | 11,536 |
| 2. Increases | 3,259 | 6,264 |
| 2.1 Prepaid taxes recognised during the year | 3,259 | 6,264 |
| a) relating to previous years | - | 1,848 |
| b) due to changes in accounting standards | - | - |
| c) reversals | - | - |
| d) other | 3,259 | 4,417 |
| 2.2 New taxes or tax rate increases | - | - |
| 2.3 Other increases | - | - |
| - of which "business combinations" | - | - |
| 3. Decreases | (4,924) | (4,879) |
| 3.1 Prepaid taxes derecognised during the year | (4,924) | (4,879) |
| a) reversals | (4,924) | (4,879) |
| b) irrecoverable write-downs | - | - |
| c) changes in accounting standards | - | - |
| 3.2 Tax rate decreases | - | - |
| 3.3 Other decreases | - | - |
| 4. Amount Finale | 11,256 | 12,921 |

In calculating the prepaid tax credit the bank considered it reasonable to assume that sufficient profits will be generated in future years to allow recovery of the amounts recognised to the financial statements.

13.4 Changes in deferred taxes (with balancing entry in the income statement)

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-------------------------------------------------|--------------|--------------|
| 1. Opening balances | 3,395 | 3,331 |
| 2. Increases | 594 | 768 |
| 2.1 Deferred taxes recognised during the year | 594 | 768 |
| a) relating to previous years | - | 67 |
| b) due to changes in accounting standards | - | - |
| c) other | 594 | 701 |
| 2.2 New taxes or tax rate increases | - | - |
| 2.3 Other increases | - | - |
| - of which "business combinations" | - | - |
| 3. Decreases | (561) | (704) |
| 3.1 Deferred taxes derecognised during the year | (561) | (704) |
| a) reversals | (561) | (704) |
| b) due to changes in accounting standards | - | - |
| c) other | - | - |
| 3.2 Tax rate decreases | - | - |
| 3.3 Other decreases | - | - |
| 4. Closing balance | 3,428 | 3,395 |

13.5 Changes in prepaid taxes (with balancing entry in shareholders' equity)

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-------------------------------------------------|-------------|-------------|
| 1. Opening balances | 43 | 8 |
| 2. Increases | - | 120 |
| 2.1 Deferred taxes recognised during the year | - | 120 |
| a) relating to previous years | - | 120 |
| b) due to changes in accounting standards | - | - |
| c) other | - | - |
| 2.2 New taxes or tax rate increases | - | - |
| 2.3 Other increases | - | - |
| - of which "business combinations" | - | - |
| 3. Decreases | (43) | (85) |
| 3.1 Deferred taxes derecognised during the year | (43) | (85) |
| a) reversals | (43) | (85) |
| b) due to changes in accounting standards | - | - |
| c) other | - | - |
| 3.2 Tax rate decreases | - | - |
| 3.3 Other decreases | - | - |
| 4. Closing balance | - | 43 |

13.6 Changes in deferred taxes (with balancing entry in shareholders' equity)

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-------------------------------------------------|------------|------------|
| 1. Opening balances | 31 | 16 |
| 2. Increases | 21 | 22 |
| 2.1 Deferred taxes recognised during the year | 21 | 22 |
| a) relating to previous years | - | - |
| b) due to changes in accounting standards | - | - |
| c) other | 21 | 22 |
| 2.2 New taxes or tax rate increases | - | - |
| 2.3 Other increases | - | - |
| 3. Decreases | - | (7) |
| 3.1 Deferred taxes derecognised during the year | - | (7) |
| a) reversals | - | (7) |
| b) due to changes in accounting standards | - | - |
| c) other | - | - |
| 3.2 Tax rate decreases | - | - |
| 3.3 Other decreases | - | - |
| 4. Closing balance | 52 | 31 |

Section 15 – Other Assets – Item 150**15.1 Other assets: breakdown**

Details of certain items of "Other Assets" are provided below.

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-----------------------------------------|---------------|---------------|
| A. Loans | 61,640 | 66,162 |
| 1. Tax credits | 49,379 | 48,981 |
| 2. Other income receivable | 12,261 | 17,181 |
| B. Other items | 9,993 | 19,760 |
| 1. In progress | 1,888 | 6,193 |
| 2. Securities and coupons to be settled | 6,462 | 11,421 |
| 3. Other transactions to be settled | - | - |
| 4. Other items | 1,643 | 2,146 |
| Total | 71,633 | 85,922 |

"Tax credits" consists primarily of:

- 46,178 thousand euro for tax credits on foreign dividends for which reimbursement has been requested in the respective countries, based on conventional agreements against double taxation, of which 45,141 thousand euro are attributable to credits with Swiss tax authorities for withholding on dividends received in the 2006 through 2010 tax years;
- 750 thousand euro in amounts due from the parent company following the claim for reimbursement submitted by the parent company (under the terms of the tax consolidation) regarding the deductibility of 10% IRAP for IRES tax purposes.

Specifically, in reference to the tax credits in Switzerland, note the following.

For tax credits related to the 2006 through 2008 tax years, amounting to 14,498 thousand euro, the bank received a communication from the Federal Contributions Administration rejecting the reimbursement claim.

Having the support of specific, independent legal and tax opinions, including in Switzerland, the bank believes that the Swiss tax credits are fully reimbursable, in that, the aforementioned rejection letter was unfounded, based on Swiss tax regulation.

From a procedural standpoint, as the rejection does not constitute a formal refusal and is subject to appeal, the communication in question is not considered final.

Therefore, the bank requested the Swiss tax authorities to issue a final decision (which has not as yet been received), and intends to pursue its rights with the competent Swiss tax judicial bodies based on the aforementioned grounds. Finally, the bank's valuation of the recoverability of these tax credits is further supported by the fact that the Bank has not had any

difficulty in receiving reimbursement for tax credits with other foreign Tax Authorities other than Switzerland for similar types of transactions.

In reference to the remaining tax credits with the Swiss tax authorities (relating to the 2009 and 2010 tax years), equivalent to 30,643 thousand euro, and for which the Bank has not received any challenge, the bank has no reason to believe that they will not be fully recovered.

The item "Other income receivable" includes income from expense recoveries predominantly from Group banks for which the bank is awaiting collection.

"In progress" includes transactions for adjustments to transit accounts for bank procedures and unsettled accounts for the bank's units that were closed after the balance sheet date.

"Securities and coupons to be settled" refer to securities transactions performed on the bank's own account and on behalf of third parties in the last few days of 2010 which were settled in the first few days of the new year. This item is linked to amounts to be settled recorded under the corresponding item "Other liabilities" under Liabilities.

"Other items – other" comprises 684 thousand euro for settlement transactions on various accounts completed at the beginning of 2011 and 959 thousand euro in improvements to third party assets not attributable to property, plant and equipment.

LIABILITIES**Section 1 – Due to banks – Item 10****1.1 Due to banks: breakdown by product**

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|------------------------------------------------------|------------------|------------------|
| 1. Due to central banks | - | - |
| 2. Due to banks | 3,303,363 | 3,130,497 |
| 2.1 Current accounts and demand deposits | 1,432,824 | 1,093,998 |
| 2.2 Term deposits | 849,180 | 921,798 |
| 2.3 Loans | 1,005,210 | 1,093,315 |
| 2.3.1 Reverse repurchase agreements | 1,005,210 | 1,093,315 |
| 2.3.2 Other | - | - |
| 2.4 Commitments to repurchase own equity instruments | - | - |
| 2.5 Other payables | 16,149 | 21,386 |
| Total | 3,303,363 | 3,130,497 |
| Fair value | 3,303,363 | 3,130,497 |

Item 2.2 “Term deposits” includes 848,860 thousand euro (908,740 thousand euro as at 31 December 2009) in deposits as collateral on financial instrument contracts.

Item 2.3 “Loans” consists of:

- repurchase transactions for a countervalue of 96,050 thousand euro (661,234 thousand euro as at 31 December 2009);
- securities lending transactions for a countervalue of 909,159 thousand euro (432,081 thousand euro as at 31 December 2009).

Item 2.5 “Other payables” comprises operating payables.

Section 2 – Due to customers – Item 20**2.1 Due to customers: breakdown by product**

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-----------------------------------------------------|------------------|------------------|
| 1. Current accounts and demand deposits | 557,660 | 936,588 |
| 2. Term deposits | 45,176 | - |
| 3. Loans | 548,153 | 757,463 |
| 3.1 Reverse repurchase agreements | 548,153 | 240,204 |
| 3.2 Other | - | 517,259 |
| 4. Commitments to repurchase own equity instruments | - | - |
| 5. Other payables | 13,411 | 1,380 |
| Total | 1,164,400 | 1,695,431 |
| Fair value | 1,164,400 | 1,695,431 |

Item 2. “Term deposits” is made up entirely of deposits as collateral on financial instrument contracts with financial companies.

Item 3. “Loans” consists of:

- repurchase transactions for a countervalue of 431,755 thousand euro (103,995 thousand euro as at 31 December 2009);
- securities lending transactions for a countervalue of 116,398 thousand euro (136,208 thousand euro as at 31 December 2009).

Item 5 “Other payables” comprises operating payables.

Section 3 – Securities in issue – Item 30

3.1 Securities in issue: breakdown by product

| Security type/Values | Total 2010 | | | | Total 2009 | | | |
|----------------------|------------|------------|---------|---------|---------------|------------|---------------|---------|
| | Book value | Fair value | | | Book value | Fair value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| A. Securities | | | | | | | | |
| 1. Bonds | - | - | - | - | - | - | - | - |
| 1.1 Structured | - | - | - | - | - | - | - | - |
| 1.2 Other | - | - | - | - | - | - | - | - |
| 2. Other securities | - | - | - | - | 34,636 | - | 34,636 | - |
| 2.1 Structured | - | - | - | - | - | - | - | - |
| 2.2 Other | - | - | - | - | 34,636 | - | 34,636 | - |
| Total | - | - | - | - | 34,636 | - | 34,636 | - |

The item for 2009 refers to short-term certificates of deposit only. At the end of 2010 there were no transactions of this nature.

Section 4 – Financial liabilities held for trading – Item 40

4.1 - Financial liabilities held for trading: breakdown by product

As at 31 December 2010 financial liabilities held for trading totalled 4,811,004 thousand euro. The breakdown of financial assets is illustrated in the table below.

| Security type/Values | Total 2010 | | | | | Total 2009 | | | | |
|-------------------------------------|---------------|----------------|------------------|--------------|---------------|---------------|----------------|------------------|--------------|---------------|
| | NV | FV | | | FV* | NV | FV | | | FV* |
| | | L 1 | L 2 | L 3 | | | L 1 | L 2 | L 3 | |
| A. Cash liabilities | | | | | | | | | | |
| 1. Due to banks | 266 | 266 | - | - | 266 | 142 | 146 | - | - | 146 |
| 2. Due to customers | 10,628 | 10,973 | - | - | 10,973 | 34,013 | 34,386 | - | - | 34,386 |
| 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 | 10,894 | 11,239 | - | - | 11,239 | 34,155 | 34,532 | - | - | 34,532 |
| B. Derivatives | | | | | | | | | | |
| 1. Financial derivatives | - | 179,022 | 4,618,522 | 1,685 | - | - | 208,839 | 4,864,248 | 4,210 | - |
| 1.1 Trading | X | 179,022 | 4,618,522 | 1,685 | X | X | 208,839 | 4,864,248 | 4,210 | X |
| 1.2 Linked to the fair value option | - | - | - | - | - | - | - | - | - | - |
| 1.3 Other | X | - | - | - | X | X | - | - | - | X |
| 2. Credit derivatives | X | - | 536 | - | X | X | - | 4,057 | - | X |
| 2.1 Trading | - | - | 536 | - | - | - | - | 4,057 | - | - |
| 2.2 Linked to the fair value option | X | - | - | - | X | X | - | - | - | X |
| 2.3 Other | X | - | - | - | X | X | - | - | - | X |
| Total B | X | 179,022 | 4,619,058 | 1,685 | X | X | 208,839 | 4,868,305 | 4,210 | X |
| Total (A+B) | X | 190,261 | 4,619,058 | 1,685 | X | X | 243,371 | 4,868,305 | 4,210 | X |

FV = Fair value

FV* = Fair value measured by excluding value differences due to changes in the issuer credit rating since the issue date

NV = Nominal or notional value

L 1 = Level 1

L 2 = Level 2

L 3 = Level 3

“Due to banks” refers to uncovered short positions on listed shares issued by banks.

“Due to customers” refers to uncovered short positions on listed shares issued by non-banking entities.

Section 6 – Hedging derivatives – Item 60

6.1. Hedging derivatives: breakdown by hedge type and by hierarchical level

| <i>(in thousands of euro)</i> | Fair value 2010 | | | NV 2010 | Fair value 2009 | | | NV 2009 |
|---------------------------------|-----------------|-----|-----|---------|-----------------|-----|-----|---------|
| | L 1 | L 2 | L 3 | | L 1 | L 2 | L 3 | |
| A) Financial derivatives | - | - | - | - | - | 148 | - | 5,743 |
| 1) fair value | - | - | - | - | - | 148 | - | 5,743 |
| 2) cash flow | - | - | - | - | - | - | - | - |
| 3) foreign investments | - | - | - | - | - | - | - | - |
| B) Credit derivatives | - | - | - | - | - | - | - | - |
| 1) fair value | - | - | - | - | - | - | - | - |
| 2) cash flow | - | - | - | - | - | - | - | - |
| Total | - | - | - | - | - | 148 | - | 5,743 |

In 2010 the micro hedging of exchange rate risk continued in relation to the London Stock Exchange security classified as available-for-sale financial assets.

As at 31 December 2010 the hedges had expired. The new hedges were negotiated in at the beginning of 2011. The balancing entry of this valuation in the income statement was recognised to item 90 "Hedging gains/(losses)". The exchange difference on the transaction as at the hedging date was recognised to the same income statement item.

Section 8 – Tax liabilities – Item 80

See section 13 under Assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-----------------------------------------------------------------------|---------------|---------------|
| A. Payables | 52,667 | 55,201 |
| Due to group companies for tax consolidation | 5,908 | 5,715 |
| Due to tax authorities for amounts payable on behalf of third parties | 2,611 | 3,232 |
| Due to personnel | 2,167 | 1,474 |
| Payables to social security authorities | 1,604 | 1,330 |
| Trade payables | 40,377 | 43,450 |
| B. Other items | 12,926 | 41,100 |
| Securities and coupons to be settled | 5,927 | 39,565 |
| Bank transfers for clearance | 5,303 | 1,525 |
| Other items | 1,696 | 10 |
| Total | 65,593 | 96,301 |

Details of certain items of "Other liabilities" are provided below.

Amounts "due to Group companies for tax consolidation" refer to the IRES tax debit of 5,908 thousand euro with Banco Popolare, the only entity with tax obligations following adoption of the Tax Consolidation option.

Amounts "due to tax authorities for amounts payable on behalf of third parties" mainly refer to 189 thousand euro capital gains payable to the tax authority as a result of asset management, withholdings on interest paid to customers for 454 thousand euro, 80 thousand euro VAT payable and IRPEF withholding tax for 1,877 thousand euro.

Amounts "due to personnel" mainly regard payables due for leave not taken and bonus salaries.

Amounts "due to social security authorities" consists solely of 1,604 thousand euro for social security contributions paid to INPS at the beginning of the subsequent year.

The "trade payables" refer to amounts due on invoices received but not yet paid and amounts allocated for invoices to be received.

“Securities and coupons to be settled” refer to securities transactions performed on the bank’s own account and on behalf of third parties in the last few days of 2010 which were settled in the first few days of the new year. This item is linked to amounts to be settled recorded under the corresponding item “Other assets” under Assets.

The amount indicated for “bank transfers for clearance” refer to bank transfers performed on the bank’s own account and on behalf of third parties in the last few days of 2010 which were settled in the first few days of the new year.

“Other items” consists primarily of 1,575 thousand euro for the liability for contributions to the Group’s Pension Fund paid in the first days of the following year and, for the remainder, amounts due on customer accounts that were settled during the following year.

Section 11 - Employee termination indemnity – Item 110

11.1 Employee termination indemnity: annual change

The balance of the employee termination indemnity as at 31 December 2010 was determined in accordance with IAS 19 and totals 2,817 thousand euro. The table below provides details of changes during the year compared to those of the previous year.

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-------------------------------|--------------|--------------|
| A. Opening balances | 2,703 | 2,645 |
| B. Increases | 459 | 391 |
| B.1 Allocations for the year | 118 | 118 |
| B.2 Other changes | 341 | 273 |
| C. Decreases | (345) | (333) |
| C.1 Settlements | (187) | (110) |
| C.2 Other changes | (158) | (223) |
| D. Closing balances | 2,817 | 2,703 |
| Total | 2,817 | 2,703 |

Changes during the year

The amount recorded under sub-item B.1 “Allocations for the year” includes 118 thousand euro (118 thousand euro as at 31 December 2009) in financial charges (interest cost) for liabilities as at 31 December 2009 (calculated on residual liabilities from the previous year net of utilisation and according to the nominal discounting rate of 4.30%).

Sub-item B.2 “Other changes” refers to employee severance indemnity for personnel terminating their detachment to Group companies during the year and re-employed directly by Banca Aletti. The item also includes the annual portion of legal revaluation net of 11% substitute tax which totalled 55 thousand euro, and the positive impact of actuarial discounting of the provision for 151 thousand euro and the effect of the exchange rate in discounting that occurred in 2010 for a total of 20 thousand euro.

Sub-item C.1 “Settlements” represents the amount of employee severance indemnity paid to employees during the year following termination of their employment with Banca Aletti.

The amount indicated under sub-item C.2 “Other changes” includes employee severance indemnity for personnel who terminated their secondment with Banca Aletti and were re-employed directly by the Group banks.

Accounting treatment

The methods for managing liabilities for the employee severance indemnity were dramatically overhauled by Finance law 296/2006, which introduced the requirements, from 1 January 2007, for all employees of private companies with more than 50 people in the workforce, to pay the employee severance indemnity accrued from said date to external social security funds or a specific fund established with INPS.

Without prejudice to the fact that the employee severance indemnity is considered a “post employment benefit” for IAS purposes, in that it is owed regardless of the reasons for the employment termination, the aforementioned provisions changed the nature of the employee severance benefits depending on whether they accrued before or after the regulatory change.

Specifically, the benefits that accrued up to 31 December 2006 are considered a defined benefit plan, as the company is obliged, under the cases envisaged by law, to pay the employee the established amount pursuant to art. 2120 of the Italian Civil Code. The actuarial assumptions used to estimate the liability are included in the subsequent section “Valuation model for employee severance benefits accrued through 31 December 2006”.

However, the benefits accrued starting from 1 January 2007 are considered a defined contribution plan, as the company's obligation to the employee ceases when the accrued benefits are paid into either the supplementary social security funds or the treasury fund managed by INPS. For these types of benefits, it is not necessary to make actuarial assumptions nor discount the obligation to the social security fund or INPS, as the payment is due in less than 12 months.

The benefits accrued for 2010 were treated as a defined benefit plan; the charge to the income statement was calculated based on the rules in the Italian Civil Code and then payment to supplementary social security funds or INPS.

11.2 Other information

As described in Part A - Accounting policies, following the reform of supplementary pension reform, the employee severance indemnity recognised in this item of the financial statements refers only to benefits accrued through 31 December 2006.

The provision does not include the include benefits that, as a result of said reform, have been paid into supplementary social security fund or in the INPS Treasury Fund. In this case, the employee severance indemnity accrued after 1 January 2007 are considered a "defined benefit plan" and are recognised in personnel costs, under the sub-item "employee severance indemnity", based on the contributions owed, without actuarial calculations, as a balancing entry to the balance sheet item "Other liabilities" or for the outflow of cash.

The actuarial valuation of the employee severance indemnity, calculated using the "accrued benefits" methodology with the "Projected Unit Credit" criterion as provided by IAS 19, are based on the following demographic, economic and financial assumptions:

| Key demographic and actuarial assumptions for the employee severance indemnity valuation as at 31 December 2010 | |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Employee mortality rate | RG48 survivorship table used by the State General Accounting Office |
| Frequency and amount of employee severance indemnity advances | Calculated based on historical data broken down by years of service: in reference to advances after the initial payment, it is expected that 10% of employees that requested the first advance will request a second, 6 years after the first; the amount of the advance was assumed to be 70% for the first request and 45% for the second |
| Turnover rate | Calculated based on historical data divided by age and gender |
| Retirement probability | Upon reaching the first pension qualifying condition, based on the provisions of Compulsory General Insurance |
| Annual discount rate | 4.30% equal to the Iboxx Corporate AA index, with the duration corresponding to the average duration of all benefits recognised for employees of Group companies (social security, supplementary benefits plan, employee severance indemnity and seniority bonuses). |
| Annual inflation rate | 2.00%. The resulting annual revaluation rate of the employee severance indemnity is 3%, or 75% of the inflation rate plus 1.5 percentage points. |

The demographic and current assumptions listed above are essentially in line with those used last year. However, the annual discount rate for the actuarial valuation as at 31 December 2009 was 4.4%. There was no change in the annual average inflation rate and the resulting annual revaluation rate of the employee severance indemnity.

Section 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

| (in thousands of euro) | 31-12-2010 | 31-12-2009 |
|--------------------------------------------------|---------------|---------------|
| 1. Company pension funds | - | - |
| 2. Other provisions for risks and charges | 12,471 | 16,007 |
| 2.1 legal disputes | - | - |
| 2.2 personnel costs | 10,259 | 14,120 |
| 2.3 other | 2,212 | 1,887 |
| Total | 12,471 | 16,007 |

The total provisions for risks and charges of 12,471 thousand euro can be broken down as follows:

- 10,259 thousand euro liabilities regarding provisions for future personnel costs, 600 thousand euro provisions for renewal of the supplementary company agreement and 216 thousand euro costs to be incurred by the bank over the next year for employees who during the previous year subscribed to the "Solidarity fund for income, employment and professional reconversion and requalification support of finance company personnel pursuant to art. 7 of the Ministerial Decree 158/2000 trade union agreement signed by the Banco Popolare Group on 30 June 2007.
- 2,212 thousand euro for limited and specific disputes or potential reimbursement of sales to customers as at year end, settlement of which was partially defined during the first few months of 2011.

12.2 Provisions for risks and charges: annual changes

| <i>(in thousands of euro)</i> | Pension funds | Other Funds | Total |
|------------------------------------------------|---------------|-----------------|-----------------|
| A. Opening balances | - | 16,007 | 16,007 |
| B. Increases | - | 11,065 | 11,065 |
| B.1 Allocations for the year | - | 11,058 | 11,058 |
| B.2 Time-related changes | - | 7 | 7 |
| B.3 Changes due to discounting rate amendments | - | - | - |
| B.4 Other changes | - | - | - |
| C. Decreases | - | (14,601) | (14,601) |
| C.1 Utilisation during the year | - | (13,866) | (13,866) |
| C.2 Changes due to discounting rate amendments | - | - | - |
| C.3 Other changes | - | (735) | (735) |
| D. Closing balances | - | 12,471 | 12,471 |

Sub-items B.1 and B.2 form the total impact on the income statement of changes in provisions for risks and charges in 2010. The entire amount comprises 9,857 thousand euro provisions for personnel costs recognised to item 150 a) "Personnel costs" of the income statement and 1,200 thousand euro provisions as described above for customer claims.

Item C.1 "Utilisation during the year" mainly refers to the utilisation of provisions following the conclusion of transactions with customers as a result of the claims for 874 thousand euro and 12,992 thousand euro in payments relating to personnel costs.

Item C.3 "Other Changes" refers to the residual surplus of the provision after utilisations for the payment of personnel costs recognised in the income statement.

12.3 Defined benefit company retirement plans

Banca Aletti has no internal pension funds but, in accordance with Group policy, is obliged to contribute to funds established within the Group with annual payment of 3.25% of the gross remuneration paid to employees subscribing to such funds.

The amount paid in 2010 totalled 1,051 thousand euro, recognised to item 150 a) of the income statement in relation to personnel costs (in particular, see section 9, table 9.1, point 1) g) of the income statement).

12.4 Provisions for risks and charges – other provisions

As the Solidarity Fund described in section 12.1 will affect income in the next 3 years, arrangements were made for discounting pursuant to international accounting standards, using the swap rate curve for the same time horizon.

Section 14.1 Capital and reserves - Items 130, 150, 160, 170, 180, 190 and 200

14.1 Capital and reserves: breakdown

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|-------------------------------|----------------|----------------|
| 1. Capital | 121,164 | 121,164 |
| 2. Share premium reserve | 72,590 | 72,590 |
| 3. Reserves | 243,486 | 238,252 |
| 4. (Own shares) | - | - |
| 5. Valuation reserves | 2,724 | 1,735 |
| 6. Equity instruments | - | - |
| 7. Profit (Loss) for the year | 136,502 | 162,559 |
| Total | 576,466 | 596,300 |

As at 31 December 2010 the share capital remained unchanged compared to the previous year and therefore comprises 23,481,306 ordinary shares with a par value of 5.16 euro, for a countervalue of 121,163,538.96 euro.

14.2 Share capital – Number of shares: annual changes

| <i>(in units)</i> | Ordinary | Other |
|----------------------------------------------|-------------------|-------|
| A. Opening balance of shares in issue | 23,481,306 | - |
| - fully called | 23,481,306 | - |
| - not fully called | - | - |
| A.1 Own shares (-) | - | - |
| A.2 Shares in issue: opening balances | 23,481,306 | - |
| B. Increases | - | - |
| B.1 New issues | - | - |
| - against payment: | - | - |
| - business combinations | - | - |
| - bond conversion | - | - |
| - warrant exercise | - | - |
| - other | - | - |
| - free of charge: | - | - |
| - in favour of employees | - | - |
| - in favour of directors | - | - |
| - other | - | - |
| B.2 Disposal of own shares | - | - |
| B.3 Other changes | - | - |
| C. Decreases | - | - |
| C.1 Cancellation | - | - |
| C.2 Purchase of own shares | - | - |
| C.3 Business disposals | - | - |
| C.4 Other decreases | - | - |
| D. Shares in issue: closing balances | 23,481,306 | - |
| D.1 Own shares (+) | - | - |
| D.2 Closing balance of shares in issue | 23,481,306 | - |
| - fully called | 23,481,306 | - |
| - not fully called | - | - |

14.3 Capital – Other information

All shares were fully paid-up, have no restrictions or privileges and each share offers the same dividend collection and capital repayment rights.

The Bank does not possess own shares or shares in parent companies, nor has it purchased or disposed of such shares directly or through third parties during the year.

14.4 Profit reserves: other information

The breakdown of profit reserves as at 31 December 2010 was as follows:

- Legal reserve: 24,233 thousand euro
- Other reserves: 219,253 thousand euro

Pursuant to art. 2427, subsection 7-bis of the Italian Civil Code, the table below provides a breakdown of items of shareholders' equity, specifying the utilisation options and any utilisation in the last three years.

| Breakdown of "Shareholders' equity" | Amount | Utilisation options (*) | Available portion | Summary utilisation in the last three years | |
|-------------------------------------|----------------|-------------------------|-------------------|---------------------------------------------|---------------|
| | | | | as loss coverage | other reasons |
| Share Capital | 121,164 | - | - | - | - |
| Capital Reserves: | | | | | |
| share premium reserve | 72,590 | A, B, C (1) | 72,590 | - | - |
| Profit reserves: | | | | | |
| a) legal | 24,233 | B | - | - | - |
| b) other | 219,253 | A, B, C | 219,253 | - | - |
| Other reserves: | | | | | |
| Valuation reserves | 2,724 | (2) | - | - | - |
| Comprehensive total | 439,964 | | 291,843 | - | - |
| Non distributable share | - | | 2,724 | - | - |
| Distributable residual share | 439,964 | | 289,119 | - | - |

(*) A = for share capital increases, B = as loss cover, C = for distribution to investors, D = non-distributable
(1) = according to art. 2431 of the Italian Civil Code, the share premium reserve is freely distributable as the legal reserve has reached the limit established in art. 2430, Italian Civil Code.
(2) = reserve with non-distributable restrictions pursuant to art. 6, Italian Legislative Decree no. 38/05

Other information

1. Guarantees granted and commitments

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|------------------------------------------------------------------------------------|----------------|------------------|
| 1) Financial guarantees granted | 724 | 814 |
| a) Banks | 724 | 814 |
| b) Customers | - | - |
| 2) Commercial guarantees granted | - | - |
| a) Banks | - | - |
| b) Customers | - | - |
| 3) Irrevocable commitments to disburse funds | 265,535 | 201,600 |
| a) Banks | 193,154 | 184,023 |
| i) certain use | 193,154 | 184,023 |
| ii) uncertain use | - | - |
| b) Customers | 72,381 | 17,577 |
| i) certain use | 72,381 | 17,577 |
| ii) uncertain use | - | - |
| 4) Commitments on underlying assets of credit derivatives: protection sales | - | - |
| 5) Assets pledged as security for third party obligations | - | - |
| 6) Other commitments | 641,124 | 875,777 |
| Total | 907,383 | 1,078,191 |

The guarantees granted comprise the amount committed to the Interbank Fund for Protection and Deposits for 724 thousand euro.

Irrevocable commitments to disburse funds for certain use refer to the acquisition of securities not yet settled.

"Other commitments" include put options sold by the bank on guaranteed-return capital and put options sold on regulated markets involving the physical exchange of underlying assets.

2. Assets pledged on own liabilities and commitments

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|----------------------------------------|-------------------|-------------------|
| 1. Financial assets held for trading | 98,805 | 420,109 |
| 2. Fair value financial assets | - | - |
| 3. Available-for-sale financial assets | - | - |
| 4. Financial assets held to maturity | - | - |
| 5. Due from banks | 207,980 | 77,480 |
| 6. Due from customers | 96,751 | 136,810 |
| 7. Property, plant and equipment | - | - |
| Total | 403,536 | 634,399 |

Financial assets pledged on own liabilities refer to own securities pledged on repurchase agreements and securities lending for 98,805 thousand euro.

Amounts due to banks and customers refer to collateral given on financial instrument contracts.

4. Management and intermediation on behalf of third parties

| <i>(in thousands of euro)</i> | 31-12-2010 | 31-12-2009 |
|--------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 1. Execution of customer orders | 8,671,638 | 7,040,444 |
| a) Purchases | 4,468,056 | 3,561,781 |
| 1. Regulated | 4,202,521 | 3,329,498 |
| 2. Unregulated | 265,535 | 232,283 |
| b) Sales | 4,203,582 | 3,478,663 |
| 1. Regulated | 4,184,949 | 3,346,223 |
| 2. Unregulated | 18,633 | 132,440 |
| 2. Asset management | 13,510,183 | 11,643,403 |
| a) individual | 13,510,183 | 11,643,403 |
| b) collective | - | - |
| 3. Securities custody and administration | | |
| a) securities deposited by third parties: relating to custodian bank activities (excluding asset management) | - | - |
| 1. Securities issued by the bank preparing the financial statements | - | - |
| 2. Other securities | - | - |
| b) other securities deposited by third parties (excluding asset management): - other | 65,259,784 | 61,444,395 |
| 1. Securities issued by the bank preparing the financial statements | - | - |
| 2. Other securities | 65,259,784 | 61,444,395 |
| c) third-party securities deposited with third parties | 65,068,044 | 61,263,285 |
| d) own securities deposited with third parties | 2,110,309 | 1,833,567 |
| 4. Other transactions | - | - |

The balance for Asset Management includes 397,647 thousand euro in secured asset management.

PART C – INCOME STATEMENT DATA

Section 1 – Interest – Items 10 and 20

1.1. Interest income and similar revenues: breakdown

| <i>(in thousands of euro)</i> | Debt securities | Loans | Other transactions | 2010 | 2009 |
|----------------------------------------|-----------------|---------------|--------------------|----------------|----------------|
| 1. Financial assets held for trading | 44,551 | - | - | 44,551 | 34,648 |
| 2. Available-for-sale financial assets | - | - | - | - | - |
| 3. Financial assets held to maturity | - | - | - | - | - |
| 4. Due from banks | - | 38,165 | - | 38,165 | 240,864 |
| 5. Due from customers | - | 38,273 | - | 38,273 | 48,032 |
| 6. Fair value financial assets | - | - | - | - | - |
| 7. Hedging derivatives | X | X | - | - | - |
| 8. Other assets | X | X | - | - | - |
| Total | 44,551 | 76,438 | - | 120,989 | 323,544 |

There was no accrued interest on impaired assets during the year.

1.3.1 Interest income on financial assets in foreign currency

Interest income on financial assets in foreign currency totalled 944 thousand euro (6,541 thousand euro as at 31 December 2009) and refer to current accounts and deposits in other currencies.

1.4 Interest expense and similar charges: breakdown

| Item/Type | Payables | Securities | Other liabilities | 2010 | 2009 |
|-------------------------------------------|---------------|------------|-------------------|---------------|----------------|
| 1. Due to central banks | - | X | - | - | - |
| 2. Due to banks | 49,691 | X | - | 49,691 | 202,336 |
| 3. Due to customers | 42,042 | X | - | 42,042 | 66,473 |
| 4. Securities in issue | X | 6 | - | 6 | 33 |
| 5. Financial liabilities held for trading | 5 | - | - | 5 | 170 |
| 6. Fair value financial liabilities | - | - | - | - | - |
| 7. Other liabilities and provisions | X | X | - | - | - |
| 8. Hedging derivatives | X | X | - | - | - |
| Total | 91,738 | 6 | - | 91,744 | 269,012 |

The declining trend in interest expense resulting from the transfer of treasury assets to the parent company began in 2009.

1.6.1 Interest expense on liabilities in foreign currency

Interest expense on financial liabilities in foreign currency totalled 13,190 thousand euro (12,053 thousand euro as at 31 December 2009) and refer to current accounts and deposits in other currencies.

Section 2 – Commissions – Items 40 and 50

2.1 Commission income: breakdown

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|-------------------------------------------------------------|----------------|----------------|
| a) Guarantees granted | - | - |
| b) Credit derivatives | - | - |
| c) Management, intermediation and advisory services: | 155,364 | 134,374 |
| 1. Financial instrument trading | 9,437 | 10,473 |
| 2. Foreign currency trading | 101 | 58 |
| 3. Portfolio management | 53,665 | 52,013 |
| 3.1 individual | 53,665 | 52,013 |
| 3.2 collective | - | - |
| 4. Securities custody and administration | 1,514 | 1,397 |
| 5. Custodian bank activities | - | - |
| 6. Securities placement | 85,106 | 66,791 |
| 7. Order receipt and transmission | 1,856 | 1,491 |
| 8. Advisory services | 1,142 | 538 |
| 8.1 on investments | 1,142 | 538 |
| 8.2 on financial structuring | - | - |
| 9. Third party service distribution | 2,543 | 1,613 |
| 9.1 portfolio management | - | - |
| 9.1.1 individual | - | - |
| 9.1.2 collective | - | - |
| 9.2 insurance products | 1,659 | 781 |
| 9.3 other products | 884 | 832 |
| d) Collection and payment services | 84 | 51 |
| e) Securitisation servicing | - | - |
| f) Factoring services | - | - |
| g) Tax authority/agency collection services | - | - |
| h) Multilateral trading system operations | - | - |
| i) Current account record-keeping and management | 265 | 199 |
| j) Other services | 473 | 25,416 |
| Total | 156,186 | 160,040 |

The breakdown of “Commission income – Securities placement” is as follows:

- commission income for debt security placement of 68,114 thousand euro;
- commission income for placement of funds and other financial products of 14,909 thousand euro;
- commission income for equity instrument placement of 733 thousand euro;
- commission income for certificates placement of 562 thousand euro;
- commission income for takeover bids/share capital increases of 788 thousand euro;

The “Other services” item mainly includes support services for low-liquidity securities for 398 thousand euro and 46 thousand euro for the Credit Availability Commission.

The 2009 data includes 23,907 thousand euro for commissions received for acting in the role of arranger in structuring index-linked policies issued by insurance companies that were not continued in 2010.

2.2 Commission income: product and service distribution channels

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|----------------------------------------|----------------|----------------|
| a) At own branches: | 141,314 | 119,617 |
| portfolio management | 53,665 | 52,013 |
| securities placement | 85,106 | 66,791 |
| third party products and services | 2,543 | 813 |
| b) Off-premises sales: | - | - |
| portfolio management | - | - |
| securities placement | - | - |
| third party products and services | - | - |
| c) Other distribution channels: | - | - |
| portfolio management | - | - |
| securities placement | - | - |
| third party products and services | - | - |

2.3 Commission expense: breakdown

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|----------------------------------------------------------------------|----------------|---------------|
| a) Guarantees received | 21 | 23 |
| b) Credit derivatives | - | - |
| c) Management and intermediation services: | 119,356 | 90,662 |
| 1. Financial instrument trading | 5,156 | 5,298 |
| 2. Foreign currency trading | - | - |
| 3. Asset management: | - | - |
| 3.1 own assets | - | - |
| 3.2 third party assets | - | - |
| 4. Securities custody and administration | 3,029 | 3,840 |
| 5. Financial instrument placement | 89,158 | 59,257 |
| 6. Off-premises sale of financial instruments, products and services | - | - |
| d) Collection and payment services | 17 | 21 |
| e) Other services | 978 | 2,986 |
| Total | 120,372 | 93,692 |

“Commission expense” mainly refers to commissions paid to Banco Popolare Group banks for AUM, debt security and equity instrument placements.

Section 3 – Dividends and similar revenues – Item 70

3.1 Dividends and similar revenues: breakdown

| <i>(in thousands of euro)</i> | 2010 | | 2009 | |
|----------------------------------------|----------------|-----------------------|----------------|-----------------------|
| | Dividends | Income from UCI units | Dividends | Income from UCI units |
| A. Financial assets held for trading | 360,314 | 5 | 527,733 | - |
| B. Available-for-sale financial assets | 229 | - | 310 | - |
| C. Fair value financial assets | - | - | - | - |
| D. Investments | - | X | - | X |
| Total | 360,543 | 5 | 528,043 | - |

Dividends on financial assets held for trading are primarily the result of trading on the Italian and international equity hare markets and related market making on derivatives listed on regulated markets.

The dividends on available-for-sale financial assets relate to the London Stock Exchange S.p.A. security for 229 thousand euro.

Section 4 – Trading gains/losses – Item 80

4.1 Trading gains/losses: breakdown

| <i>(in thousands of euro)</i> | Capital gains | Trading gains | Capital losses | Trading losses | Net gains/(losses) |
|------------------------------------------------------------------------|------------------|------------------|--------------------|--------------------|--------------------|
| | (A) | (B) | (C) | (D) | (A+B)-(C+D) |
| 1. Financial assets held for trading | 17,420 | 429,561 | (42,359) | (665,841) | (261,219) |
| 1.1 Debt securities | 7,075 | 49,178 | (21,754) | (13,186) | 21,313 |
| 1.2 Equity instruments | 10,280 | 379,664 | (20,556) | (652,540) | (283,152) |
| 1.3 UCI units | 65 | 719 | (49) | (115) | 620 |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | - | - | - | - |
| 2. Financial liabilities held for trading | 6 | 1,998 | (383) | (38,169) | (36,548) |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Borrowings | 6 | 1,998 | (383) | (38,169) | (36,548) |
| 2.3 Other | - | - | - | - | - |
| 3. Other financial assets and liabilities: exchange differences | X | X | X | X | 16,108 |
| 4. Derivatives | 904,581 | 4,456,577 | (650,583) | (4,569,590) | 146,078 |
| 4.1 Financial derivatives | 903,056 | 4,449,102 | (650,583) | (4,562,939) | 143,729 |
| - On debt securities and interest rates | 730,610 | 3,971,199 | (608,530) | (3,907,444) | 185,835 |
| - On equity instruments and share indices | 172,356 | 477,903 | (42,053) | (655,495) | (47,289) |
| - On currencies and gold | X | X | X | X | 5,093 |
| - Other | 90 | - | - | - | 90 |
| 4.2 Credit derivatives | 1,525 | 7,475 | - | (6,651) | 2,349 |
| Total as at 31/12/2010 | 922,007 | 4,888,136 | (693,325) | (5,273,600) | (135,581) |
| Total as at 31/12/2009 | 2,647,168 | 5,304,584 | (1,913,637) | (6,342,746) | (312,222) |

The negative balances in "Net trading losses" is linked to item 30 – "Dividends" following growth in intermediation business on Italian and international equity markets and related market making on derivatives listed on regulated markets.

Pursuant to IFRS 7 paragraph 28, among the Bank's financial instruments sold options linked to guaranteed-return asset management were identified for which there is a difference between the fair value on initial recognition (transaction price) and the amount calculated at that date using the Day 1 Profit measurement method. Given the type of products concerned, the fact that input parameters cannot be observed on the market and as there are no reference prices for similar products on an active market, this difference was allocated on a "pro rata temporis" basis, as described in "Part A - Accounting policies" under the paragraph on "Dividends and recognition of revenues". The positive figure recognised to the income statement under "Net trading gains/(losses)" as at 31 December 2010 totals 2,873 thousand euro and the residual differences still to be recognised amount to 1,685 thousand euro.

Section 5 – Hedging gains/losses – Item 90

5.1 Hedging gains/losses: breakdown

| Income items/Values | 2010 | 2009 |
|--------------------------------------------------|--------------|--------------|
| A. Income relating to: | | |
| A.1 Fair value hedging derivatives | - | - |
| A.2 Fair value hedging of financial assets | 198 | 294 |
| A.3 Fair value hedging of financial liabilities | - | - |
| A.4 Cash flow hedging derivatives | - | - |
| A.5 Assets and liabilities in foreign currencies | - | - |
| Total hedging gains (A) | 198 | 294 |
| B. Charges relating to: | | |
| B.1 Fair value hedging derivatives | (223) | (208) |
| B.2 Fair value hedging of financial assets | - | - |
| B.3 Fair value hedging of financial liabilities | - | - |
| B.4 Cash flow hedging derivatives | - | - |
| B.5 Assets and liabilities in foreign currencies | - | - |
| Total hedging losses (B) | (223) | (208) |
| C. Net hedging gains/losses (A-B) | (25) | 86 |

Micro hedging continued in 2010 of the credit risk relating to the London Stock Exchange security classed as Available-for-sale financial assets, through a currency repurchase agreement (a fixed-rate GBP-Euro repo) calculated on the total in currency as at the merger recognition date.

This item includes the net gains from fair value hedging derivatives of 223 thousand euro and the positive exchange differences on the security of 198 thousand euro from the hedging date to the end of the year.

Section 6 – Gains (Losses) from disposals/repurchases – Item 100

6.1 Gains (Losses) from disposals/repurchases: breakdown

| <i>(in thousands of euro)</i> | 31/12/2010 | | | 31/12/2009 | | |
|----------------------------------------|------------|----------|------------------------|------------|----------|------------------------|
| | Gains | Losses | Net gains/ (losses) | Gains | Losses | Net gains/ (losses) |
| Financial assets | | | | | | |
| 1. Due from banks | - | - | - | - | - | - |
| 2. Due from customers | - | - | - | - | - | - |
| 3. Available-for-sale financial assets | - | - | - | 117 | - | 117 |
| 3.1 Debt securities | - | - | - | - | - | - |
| 3.2 Equity instruments | - | - | - | 117 | - | 117 |
| 3.3 UCI units | - | - | - | - | - | - |
| 3.4 Loans | - | - | - | - | - | - |
| 4. Financial assets held to maturity | - | - | - | - | - | - |
| Total assets | - | - | - | 117 | - | 117 |
| Financial liabilities | | | | | | |
| 1. Due to banks | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - |
| 3. Securities in issue | - | - | - | - | - | - |
| Total liabilities | - | - | - | - | - | - |

The 2009 data is related to the partial disposal of the SIA-SSB SpA security that generated a gain of 117 thousand euro.

Section 7 - Net profit/loss from fair value financial assets and liabilities - Item 110

7.1 - Net profit/loss from fair value financial assets and liabilities: breakdown

| <i>(in thousands of euro)</i> | Capital gains | Realised gains | Capital losses | Realised losses | Net gains/(losses) |
|------------------------------------------------------------------------------|---------------|----------------|----------------|-----------------|--------------------|
| | (A) | (B) | (C) | (D) | (A+B)-(C+D) |
| 1. Financial assets | 236 | - | (117) | - | 119 |
| 1.1 Debt securities | - | - | - | - | - |
| 1.2 Equity instruments | - | - | (61) | - | (61) |
| 1.3 UCI units | 236 | - | (56) | - | 180 |
| 1.4 Loans | - | - | - | - | - |
| 2. Financial liabilities | - | - | - | - | - |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Due to banks | - | - | - | - | - |
| 2.3 Due to customers | - | - | - | - | - |
| 3. Assets and liabilities in foreign currencies: exchange differences | X | X | X | X | - |
| 4. Credit and financial derivatives | - | - | - | - | - |
| Total as at 31-12-2010 | 236 | - | (117) | - | 119 |
| Total as at 31-12-2009 | 865 | - | (117) | - | 748 |

Section 8 – Net write-downs/reversals for impairment – Item 130

8.1 Net write-downs/reversals for impairment of loans: breakdown

| <i>(in thousands of euro)</i> | Write-downs | | | Reversals | | | | 2010 | 2009 |
|-------------------------------|----------------|-------|-----------|-----------|-------|-----------|----|-------|-------|
| | Specific | | Portfolio | Specific | | Portfolio | | | |
| | Derecognitions | Other | | A | B | A | B | | |
| A. Due from banks | - | (539) | - | - | - | - | - | (539) | (450) |
| - Loans | - | (539) | - | - | - | - | - | (539) | (450) |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| B. Due from customers | - | (49) | - | - | 2,037 | - | 21 | 2,009 | 691 |
| - Loans | - | (49) | - | - | 2,037 | - | 21 | 2,009 | 691 |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| C. Total | - | (588) | - | - | 2,037 | - | 21 | 1,470 | 241 |

A = Due to interest
B = Other reversals

The write-down under item A – Due from banks refers to the adjustment to the write-down of Kaupthing Banki Hf positions using a 20% recovery rate instead of the 25% rate used in the previous year.

The write-down under item B – Due from customers refers to the adjustment to the write-down on capitalised legal expenses for the year related to Lehman Brothers Group positions.

The reversal recognised to item B – Due from customers refers to the higher recovery value following partial repayment on the Pillar Securitisation Sarl security in 2010 resulting from the securitisation of the Banca Aletti loan to Kaupthing Bank Luxembourg in the previous year.

The portfolio reversal relates to the adjustment on the collective write-down made during the year.

8.2 Net write-downs for impairment of AFS financial assets: breakdown

| <i>(in thousands of euro)</i> | Specific write-downs | | Specific reversals | | 2010 | 2009 |
|-------------------------------|----------------------|--------------|--------------------|---|--------------|------|
| | Derecognitions | Other | A | B | | |
| A. Debt securities | - | - | - | - | - | - |
| B. Equity instruments | - | (862) | X | X | (862) | - |
| C. UCI units | - | - | X | - | - | - |
| D. Loans to banks | - | - | - | - | - | - |
| E. Loans to customers | - | - | - | - | - | - |
| F. Total | - | (862) | - | - | (862) | - |

A = Due to interest
B = Other reversals

As previously described in Section 4 of Assets in the Part B of this report, on 30 September 2010, following appropriate testing, an impairment was recognised on SIA-SSB S.p.A., eliminating the positive reserve and resulting in an entry to the income statement for 862 thousand euro.

Section 9 - Administrative Costs - Item 150

9.1 Staff costs: breakdown

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|---------------------------------------------------------------------|----------------|----------------|
| 1) Employees | 48,262 | 47,509 |
| a) wages and salaries | 34,614 | 33,085 |
| b) social security costs | 9,004 | 9,839 |
| c) employee termination indemnity | 1,567 | 1,682 |
| d) welfare costs | - | - |
| e) provisions for employee severance indemnity | 118 | 118 |
| f) provisions for pension funds and similar commitments: | - | - |
| - defined contribution plans | - | - |
| - defined benefit plans | - | - |
| g) payments to external supplementary benefit plans: | 1,052 | 950 |
| - defined contribution plans | 1,052 | 950 |
| - defined benefit plans | - | - |
| h) costs deriving from share-based payments | - | - |
| i) other employee benefits | 1,907 | 1,835 |
| 2) Other personnel in service | 1,902 | 1,901 |
| 3) Directors and Auditors | 709 | 861 |
| 4) Staff laid off | - | - |
| 5) Cost recoveries for employees seconded to other companies | (3,463) | (2,728) |
| 6) Reimbursements for employees seconded to the company | 5,492 | 7,224 |
| Total | 52,902 | 54,767 |

Item c) "employee severance indemnity" comprises the cost accrued for employee severance indemnity and paid into external pension funds.

Item e) "provisions for employee severance indemnity" refer to interest expense on residual liabilities net of utilisation for contract termination of 118 thousand euro (118 thousand euro as at 31 December 2009).

Item g) "payments to external supplementary benefit plans" refers to the amount of contributions due and paid by the Bank.

After receiving clarifications from Bank of Italy at the beginning of 2011, expenses similar to employee benefits (e.g., lunch vouchers and insurance premiums) that were previously recognised in item 150 "Administrative expenses" are now included under item i). This reclassification amounted to 858 thousand euro for 2010. Accordingly, for presentation consistency, the 2009 data of 756 thousand euro was reclassified.

9.2 Average workforce by grade

| | 2010 | 2009 |
|----------------------------|------------|------------|
| Employees | 435 | 467 |
| a) executives | 22 | 23 |
| b) total management grades | 305 | 322 |
| - grades 3 and 4 | 196 | 204 |
| c) other employees | 108 | 122 |
| Other personnel | 29 | 40 |
| Total | 464 | 507 |

9.4 Other employee benefits

As reported last year, there is a S.I.Pre. Supplementary Benefits Plan which through deferred supplementary welfare treatment is designed as a Top Management loyalty programme.

9.5 Other administrative expense: breakdown

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|-------------------------------------------------------------|---------------|---------------|
| a) Real estate expense: | 4,994 | 6,619 |
| - property rents and maintenance | 4,536 | 6,035 |
| - cleaning costs | 181 | 462 |
| - electricity, water and heating | 277 | 122 |
| b) indirect taxes and duties | 756 | 720 |
| c) postal, telephone, printing and other office costs | 1,030 | 1,273 |
| d) furniture, machine and system maintenance and repayments | 220 | 510 |
| e) fees to professionals | 3,264 | 2,744 |
| f) costs for searches and information | 78 | 171 |
| g) surveillance and security transport | 46 | 148 |
| h) third party provision of services | 39,765 | 48,282 |
| i) advertising, entertainment and gift costs | 2,110 | 2,809 |
| l) insurance premiums | 113 | 397 |
| m) transport, vehicle rental and travel expenses | 634 | 530 |
| n) Other costs and expense | 163 | 403 |
| Total | 53,173 | 64,606 |

Through the creation of consortium centres in Banco Popolare Group, Banca Aletti, and the other consortium companies, has been able to obtain a marked cost reduction and expert, specialised services.

Specifically, all technology and applications development services, information and physical security management and administrative services for the Banco Popolare Group were centralised in Società Gestione Servizi BP S.C.p.A., while all real estate services were centralised in BP Property Management S.C.p.A. Recently, Banca Aletti has taken advantage of various services performed by the parent company (Risk Management, Audit, Administration and Financial Statements, Legal, Organisation, etc.), however not in the form of a consortium.

This centralisation will provide obvious advantages: efficiency optimisation, improvement in efficiency and quality of services provided to Group companies and the rationalisation of costs and resources.

Outsourced services are governed by contracts envisaging the application of arm's length conditions or are based on cost spreading criteria that make use of consumption- or volume-based chargeback models.

section 10 – Net provisions for risks and charges – Item 160

10.1 Net provisions for risks and charges: breakdown

| <i>(in thousands of euro)</i> | Allocations | Reallocation of surplus | 2010 | 2009 |
|---------------------------------------------------|----------------|-------------------------|----------------|--------------|
| 1. Retirement fund provisions | - | X | - | - |
| 2. Provisions for other risks and charges: | (1,200) | - | (1,200) | (938) |
| a) legal disputes | - | - | - | - |
| b) personnel costs | - | - | - | - |
| c) other | (1,200) | - | (1,200) | (938) |
| Total | (1,200) | - | (1,200) | (938) |

1,200 thousand euro in provisions for risks and charges were recognised to the income statement in 2010 for specific disputes and potential reimbursement of sales to customers as at year end, settlement of which was partially defined during the first few months of 2011.

Section 11 - Net write-downs/reversals on property, plant and equipment – Item 170

11.1 Net write-downs/reversals on property, plant and equipment: breakdown

| <i>(in thousands of euro)</i> | Depreciation | Write-downs for impairment | Reversals | Net gains/(losses) |
|-----------------------------------------|--------------|----------------------------|-----------|--------------------|
| | (a) | (b) | (c) | (a+b-c) |
| A. Property, plant and equipment | | | | |
| A.1 Owned | (598) | - | - | (598) |
| - for operational use | (598) | - | - | (598) |
| - as investments | - | - | - | - |
| A.2 Acquired under finance leases | - | - | - | - |
| - for operational use | - | - | - | - |
| - as investments | - | - | - | - |
| Total as at 31/12/2010 | (598) | - | - | (598) |
| Total as at 31/12/2009 | (624) | - | - | (624) |

Section 12 - Net write-downs/reversals on intangible assets – Item 180

12.1 Net write-downs/reversals on intangible assets: breakdown

| <i>(in thousands of euro)</i> | Amortisation | Write-downs for impairment | Reversals | Net gains/(losses) |
|-----------------------------------|--------------|----------------------------|-----------|--------------------|
| | (a) | (b) | (c) | (a+b-c) |
| A. Intangible assets | | | | |
| A.1 Owned | (4) | - | - | (4) |
| - generated in-house | - | - | - | - |
| - other | (4) | - | - | (4) |
| A.2 Acquired under finance leases | - | - | - | - |
| Total as at 31-12-2010 | (4) | - | - | (4) |
| Total as at 31-12-2009 | (6) | - | - | (6) |

Section 13 – Other operating income and expense – Item 190

13.1 Other operating expense: breakdown

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|-------------------------------------------------------|--------------|--------------|
| a) Depreciation of improvements to third party assets | (525) | (463) |
| b) Other | (84) | (153) |
| Total | (609) | (616) |

13.2 Other operating income: breakdown

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|-----------------------------------------|--------------|---------------|
| a) Tax recoveries | 606 | 679 |
| b) Cost recoveries | 436 | 206 |
| c) Services provided to Group companies | 6,612 | 14,336 |
| d) Other | 253 | 456 |
| Total | 7,907 | 15,677 |

Item c) "Services provided to group companies" totalling 6,612 thousand euro refers to income from the provision of financial instrument trading services performed by Banca Aletti on behalf of Group Banks.

Section 14 – Gains (Losses) on investments – Item 210

| Income items/Values | 2010 | 2009 |
|----------------------------------|-------------|----------------|
| A. Income | 3 | - |
| 1. Revaluations | - | - |
| 2. Disposal gains | 3 | - |
| 3. Reversals | - | - |
| 4. Other income | - | - |
| B. Charges | - | (3,585) |
| 1. Write-downs | - | - |
| 2. Write-downs for impairment | - | (3,585) |
| 3. Disposal losses | - | - |
| 4. Other charges | - | - |
| Net write-downs/reversals | 3 | (3,585) |

As previously discussed in the Investments section of Part B of this report, during 2010 the bank recognised a gain of 3 thousand euro following the partial disposal of the security in GROUP Srl. The figure for the previous year refers exclusively to the impairment write-down on the security Nazionale Fiduciaria. As previously noted, there were no impairments recorded in the income statement prior to the end of 2010.

Section 16 – Write-down of goodwill – Item 230

Based on impairment testing performed on goodwill recognised to item 120 "Intangible assets" under balance sheet assets, as reported in Section 12 on assets in Part B - Balance sheet data, no write-down was necessary and therefore no entry was made as at 31 December 2010.

Section 17 – Gains (Losses) in investment disposals – Item 240

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|-------------------------------|-------------|-------------|
| A. Real estate | - | - |
| - Disposal gains | - | - |
| - Disposal losses | - | - |
| B. Other assets | - | 1 |
| - Disposal gains | - | 2 |
| - Disposal losses | - | (1) |
| Net gains/(losses) | - | 1 |

Section 18 – Income tax for the year on current operations – Item 260

18.1 Income tax for the year on current operations: breakdown

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|------------------------------------------------------|----------|----------|
| 1. Current taxes (-) | (54,958) | (70,061) |
| 2. Change in current taxes for previous years (+/-) | 3,006 | 2,870 |
| 3. Reduction in current taxes for this year (+) | - | - |
| 4. Change in prepaid taxes (+/-) | (1,665) | 1,385 |
| 5. Change in deferred taxes (+/-) | (33) | (64) |
| 6. Taxes for the year (-) (-1 +/- 2 + 3 +/- 4 +/- 5) | (53,650) | (65,870) |

18.2 Reconciliation between theoretical and actual balance sheet tax charges

| IRES | | 2010 | 2009 |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------------|---------------|---------------|
| <i>(in thousands of euro)</i> | | | |
| Profit/(loss) on current operations before tax | (i) | 190,152 | 228,428 |
| Negative income statement items not fully significant (+) | (ii) | 7,832 | 13,762 |
| > non-deductible interest expense | | 3,474 | 5,248 |
| > capital losses from realisation/valuation of investments | | 841 | 3,585 |
| > other (telephone costs, entertainment costs, transport costs, sundry costs, non-deductible contingency liabilities, etc.) | | 3,517 | 4,929 |
| Positive income statement items not fully significant (-) | (iii) | (1,682) | (1,720) |
| > non-significant portion of capital gains from realisation/valuation of investments (95% unless transitional provisions apply) | | (2) | (391) |
| > non-significant portion of dividends | | (218) | (294) |
| > other (non-taxable contingent assets, etc.) | | (1,462) | (1,035) |
| Increases in taxable amounts not linked to income statement items | (iv) | 289 | 44 |
| > other (mainly the tax effect on Italian UCIs) | | 289 | 44 |
| Decreases in taxable amounts not linked to income statement items | (v) | (702) | (845) |
| > other (mainly the tax effect on Italian UCIs) | | (702) | (845) |
| IRES taxable amount | (i)+(ii)+(iii)+(iv)+(v) | 195,889 | 239,669 |
| IRES tax rate | | 27.50% | 27.50% |
| Total IRES | (A) | 53,869 | 65,909 |
| Actual tax rate | | 28.33% | 28.85% |

| IRAP | | 2010 | 2009 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|--------------|--------------|
| <i>(in thousands of euro)</i> | | | |
| Profit/(loss) on current operations before tax | (i) | 190,152 | 228,428 |
| Negative income statement items not fully significant (+) | (vi) | 49,434 | 65,526 |
| > non-deductible interest expense | | 3,670 | 10,761 |
| > non-deductible portion of depreciation of operating assets (10%) | | 60 | 63 |
| > other administrative costs not fully deductible (ICI tax, etc.) | | 85 | 199 |
| > non-deductible portion of residual administrative costs (10%) | | 5,315 | 6,461 |
| > staff costs net of permitted deductions (wedge reductions, invalidity, introductory contracts, etc.)* | | 39,104 | 39,575 |
| > write-down of loans net of reversals | | - | (242) |
| > net provisions for risks and charges | | 1,200 | 938 |
| > losses on investments (item 210, income statement, banks) | | - | 3,585 |
| > other | | - | 4,186 |
| Positive income statement items not fully significant (-) | (vii) | (183,358) | (264,022) |
| > gains on investments (item 210, income statement, banks) | | - | - |
| > non-significant portion of dividends (50%) | | (180,270) | (264,022) |
| > other operating income (item 190, income statement, banks) | | (1,614) | - |
| > other | | (1,474) | - |
| Increases in taxable amounts not linked to income statement items | (viii) | 1,498 | - |
| > other (mainly the effect of misalignment reabsorption between the book value and tax value as at 31 December 2007 on share trading and on Italian UCIs) | | 1,498 | - |
| Decreases in taxable amounts not linked to income statement items | (ix) | - | - |
| > other (mainly the effect of misalignment reabsorption between the book value and tax value as at 31 December 2007 on share trading and on Italian UCIs) | | - | - |
| IRAP taxable amount | (i)+(vi)+(vii)+(viii)+(ix) | 57,726 | 29,932 |
| IRAP tax rate | | 4.82% | 4.82% |
| Total IRAP | (B) | 2,782 | 1,443 |
| Actual tax rate | | 1.46% | 0.63% |

| NON-CURRENT IRES AND IRAP AND OTHER TAXES | | 2010 | 2009 |
|------------------------------------------------------------------------|--------------------------|----------------|----------------|
| <i>(in thousands of euro)</i> | | | |
| IRES – Current, prepaid and deferred taxes from previous years | | (2,531) | (1,013) |
| IRAP – Current, prepaid and deferred taxes from previous years | | (472) | (490) |
| Effect of misalignment redemption of off-balance sheet deductions | | - | - |
| Other | | 1 | 21 |
| Total | (C) | (3,002) | (1,482) |
| TOTAL TAXES ON PROFIT/(LOSS) FROM CURRENT OPERATIONS BEFORE TAX | (A)+(B)+(C) | 53,650 | 65,870 |
| TAX RATE | ((A)+(B)+(C))/(i) | 28.21% | 28.84% |

Section 21 – Earnings per share

| <i>Earnings per Share</i> | 2010 | 2009 |
|---------------------------------------|-------------|-------------|
| Profit for the year (in <i>euro</i>) | 136,502,237 | 162,558,907 |
| Weighted average of shares in issue | 23,481,306 | 23,481,306 |
| Basic EPS for the year | 5.81 | 6.92 |

EPS (Earnings per Share) is a measurement of performance that indicates the participation of ordinary shareholders in the company's results.

21.1 Average number of ordinary shares at diluted capital

There was no change in the number of ordinary shares during the year.

21.2 Other information

IAS/IFRS require that earnings per share (EPS) figures are provided in two forms: basic EPS and diluted EPS.

Basic EPS is calculated by dividing net profit attributable to ordinary shareholders by the weighted average of ordinary shares in issue.

Diluted EPS is instead calculated by dividing net profit attributable to ordinary shareholders by the weighted average of ordinary shares potentially in issue following the issue of shares deriving from financial instruments (stock options, convertible subordinated liabilities, option rights on new shares, convertible preferred shares) or other contracts. As the bank does not possess such instruments the diluted EPS was not calculated.

PART D – COMPREHENSIVE INCOME

Analytical statement of comprehensive income

| Item | 31/12/2010 | | | 31/12/2009 | | |
|-------------------------------------------------------------|--------------|------------|----------------|--------------|------------|----------------|
| | Before tax | Income tax | After tax | Before tax | Income tax | After tax |
| 10 Profit (Loss) for the year | | | 136,502 | | | 162,559 |
| Other income items | - | - | - | - | - | - |
| 20 Available-for-sale financial assets | 1,056 | -67 | 989 | 1,638 | 21 | 1,659 |
| a) changes in fair value | 1,197 | -75 | 1,122 | 1,756 | 21 | 1,777 |
| b) reversal to the income statement | -141 | 8 | -133 | -118 | - | -118 |
| - write-downs for impairment | -141 | 8 | -133 | - | - | - |
| - realised gains/losses | - | - | - | -118 | - | -118 |
| c) other changes | - | - | - | - | - | - |
| 30 Property, plant and equipment | - | - | - | - | - | - |
| 40 Intangible assets | - | - | - | - | - | - |
| 50 Foreign investment hedges: | - | - | - | - | - | - |
| a) changes in fair value | - | - | - | - | - | - |
| b) reversal to the income statement | - | - | - | - | - | - |
| c) other changes | - | - | - | - | - | - |
| 60 Cash flow hedges: | - | - | - | - | - | - |
| a) changes in fair value | - | - | - | - | - | - |
| b) reversal to the income statement | - | - | - | - | - | - |
| c) other changes | - | - | - | - | - | - |
| 70 Exchange differences: | - | - | - | - | - | - |
| a) changes in value | - | - | - | - | - | - |
| b) reversal to the income statement | - | - | - | - | - | - |
| c) other changes | - | - | - | - | - | - |
| 80 Discontinued operations: | - | - | - | - | - | - |
| a) changes in fair value | - | - | - | - | - | - |
| b) reversal to the income statement | - | - | - | - | - | - |
| c) other changes | - | - | - | - | - | - |
| 90 Actuarial gains (losses) on defined benefit plans | - | - | - | - | - | - |
| 100 Portion of valuation reserves | - | - | - | - | - | - |
| from investments measured at equity: | - | - | - | - | - | - |
| a) changes in fair value | - | - | - | - | - | - |
| b) reversal to the income statement | - | - | - | - | - | - |
| - write-downs for impairment | - | - | - | - | - | - |
| - realised gains/losses | - | - | - | - | - | - |
| c) other changes | - | - | - | - | - | - |
| 110 Total other income items | 1,056 | -67 | 989 | 1,638 | 21 | 1,659 |
| 120 Comprehensive income (Items 10+110) | | | 137,491 | | | 164,218 |

The breakdown of the change in fair value before tax is as follows:

- London Stock Exchange for 936 thousand euro;
- SIA-SSB SpA for 259 thousand euro;
- UNICASIM SpA for 2 thousand euro.

The reversal to the income statement refers to gains from the sale of an equity investment in SIA-SSB.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Section 1

Credit Risk

QUALITATIVE INFORMATION

1. General aspects

The Banco Popolare Group pursues credit policy objectives with a view to:

- supporting business development in its operating area, focusing on support and development of relations with SMEs and households;
- portfolio diversification, limiting the concentration of exposures on individual counterparties/groups, individual business sectors or geographic areas;
- applying a single standard credit management model based on rules, methodologies, processes, IT procedures and internal regulations, standardised for all the local banks.

Credit portfolio monitoring – performed by the parent company's Credit Department, focuses on analysing the risk profile performance of the business sectors, geographic areas, customer segments and loan types agreed, and other levels of analysis that allow central definition of any corrective action required. The reports produced are submitted each month to the Management Board, and each quarter to the Boards of Directors of the various local banks.

2. Credit risk management policies

2.1 Organisational aspects

In providing its characteristic credit intermediation services, the Group is exposed to the risk that credit disbursed is not fully or partially repaid by borrowers on the due date. This risk is sensitive to national and international economy performance, structural and technological changes to the business of corporate borrowers, changes in competitive position of the counterparties, macroeconomic factors and other external factors such as legal and regulatory requirements.

The Group's organisational model for credit-related matters complies with the following principles:

- the parent company guarantees centralised governance, guidance, coordination and control of the credit process and related risks for both the network banks and the product companies, defining policies, methodologies and processes, valuation criteria, suitable organisational, management, informative and training tools and verifies their adoption by Group companies;
- the Group's operating banks and companies assess and resolve independently on credit disbursed, retaining ownership of the related accounts, income items and risks;
- the operating banks and companies also cooperate with the parent company in optimising credit regulations, methodologies and tools, contributing the range of skills and experience gained from direct supervision of local customers and credit.

In pursuing the objective of optimising credit quality and minimising the overall cost of credit risk for the Group and the individual companies, the organisational model assigns the role of credit business development and credit policy guidance for the Group's banks and companies to the parent company's Credit Department.

For the full and consolidated implementation of the Group credit model, the banks and subsidiaries take action to:

- adopt the criteria, credit rating analysis tools and procedures and the loan valuation methodology in accordance with instructions received from the parent company;
- ensure constant compliance with the global and individual limits allocated for the acceptance and management of "large risks" at both individual business unit and Group level;
- define the responsibilities and powers of decision-making bodies and internal delegation mechanisms in compliance with parent company instructions;
- ensure performance monitoring of assigned and other accounts with first level liability and control implementation, as ordered by the parent company.

With regard to the credit rating valuation process, decision-making and management of the positions, each company providing lending services adopts its own decision-making structure and has the option to authorise delegates, based on guidelines provided by the parent company.

The levels of independence assigned to the decision-making bodies are defined according to the risk category concerned. Up to pre-established amounts, the rating determines the level of decision-making required.

At Group level rules of conduct have been established in relation to the assumption of credit risk, so as to avoid excessive concentration, limit potential losses and guarantee credit quality. Specifically, at credit granting stage the parent company exercises the role of Group guidance, governance and support through:

- credit rules governing the methods used for assuming credit risk in relation to customers;
- the reliability ceiling, i.e. the maximum limit of loans that can be agreed by Group companies in the major risk categories;
- advance opinions issued on the maximum amount of loans that can be granted to an individual customer or group of customers allocated by the Banco Popolare Group.

2.2 Management, measurement and control systems

The Banco Popolare Group makes use of a well-defined set of tools to monitor the quality performance of the credit portfolio. An important element is the internal ratings that are calculated using differentiated models, estimated specifically for each customer segment (large corporate, mid corporate, small business, private and banks).

The rating plays a central role in the disbursement, performance monitoring and management processes. In certain cases the Rating Desk is called upon to examine these positions and assess whether the rating can be changed (the override process).

The rating is used by the relevant bodies in decisions regarding loans, affects application of the automatic renewal mechanism for cancelled loan positions and helps to steer the decision of account managers in classifying position performance. In addition, it represents one of the elements that contribute to the outcome processed by credit rating valuation systems for private and SME customers, in support of credit decisions made by the decision-making bodies.

In 2010 the performance monitoring and management system was fully reviewed. Assuming that account managers are responsible for management of the open credit positions, following a line of conduct appropriate for a constant, correct recording of facts in order to identify events that could compromise the success of loans, new and updated process have been implemented to monitor risk. Procedures were put in place that, through a thorough customer monitoring process, identify signals of potential issues in the relationship, at the moment in which they become evident. In reference to private customers a new management process has been adopted which, helped by a new IT procedure, envisages precise action with well-defined timing to bring the position back into line and to recover the unpaid amount.

With regard to Banco Popolare Group internal limits on the disbursement of credit, in addition to observance of regulatory risk concentration limits, for key customers exceeding pre-established credit limits, the setting of maximum limits at Group Credit Department level or the opinion of relevant bodies of the parent company are envisaged.

Country classification and maximum Group exposure limits for each country are also established at parent company level.

During 2010, the model to evaluate the credit ratings of new customers (Acceptance PD) and the "Exposure at Default" (EAD) model were adjusted and changes were made so that these models could be used in the credit process for a more complete credit rating evaluation.

Management reporting uses LGD (Loss Given Default) and EAD estimates, both deriving from models developed internally.

Credit risk monitoring at portfolio level is performed through a default model applied monthly, mainly for credit exposures of the Banco Popolare Group's commercial banks, on performing, cash and unsecured loans to ordinary and other customers resident in Italy. The model used allows estimation of the working capital compared to credit risk, taking into account the portfolio concentration and the probability of joint insolvency of the counterparties, in a pre-established context of significant macroeconomic variables. The confidence interval used is 99.96% and the reference time horizon is one year. Specifically, the working capital absorbed by the counterparties is determined by a "MonteCarlo" approach, which simulates a sufficiently high number of scenarios to provide a good conjectural approximation of theoretical credit portfolio losses.

In 2009 a project was launched to create an analysis, definition, implementation and monitoring system for the Group's strategic credit policy guidelines; the project was completed in 2010. These development and credit portfolio redefinition guidelines aim to optimise the risk-return ratio consistent with the target risk profile defined by the corporate bodies, available capital and planned income-equity growth objectives.

2.3 Credit risk mitigation techniques

The Group has always been careful to acquire tools that protect credit, or has used tools and techniques that reduce credit risk. For this purpose, when considered necessary, typical bank business guarantees were obtained, i.e. mainly property mortgages, collateral and personal guarantees issued by surety guarantors.

In general, the decision to obtain a guarantee is based on the customer credit rating assessment and on the characteristics of the transaction. Such analysis may suggest obtaining additional guarantees to mitigate risk, taking into consideration the estimated recovery value offered by the guarantee.

The calculation system for real estate assets used as guarantees is now consolidated, amongst other things offering periodic revaluation of the assets.

The value of financial collateral is subject to constant, automatic monitoring that allows comparison of the current value of the guarantee against its initial value, thereby allowing the manager to take prompt action if there should be a significant drop in guarantee value.

With regard to the use of hedging with market counterparties, the preferred entities are those with active collateral provision agreements, with particular reference to the ISDA - Credit Support Annex, in order to significantly reduce credit risk.

2.4 Impaired financial assets

For the management of impaired credit the Group has special business units that apply pre-established management and recovery methods, differentiated by amount and risk according to the credit type concerned.

Problem loan classifications follow specific prudent criteria based on objective risk parameters.

In general, the problem loan classification includes loans with severely anomalous performance in relation to Group banks, serious irregularities in reports sent to the National Risk Database, worrying financial statements, the occurrence of negative events that could restrict the credit rating of the position and reduce the value of guarantees, or, in any event, could compromise the loans.

Write-downs, analytically assessed on each individual position, reflect prudent criteria in relation to the real possibility of recovery, also linked to the existence of additional guarantees and subject to periodic checks.

Specifically, all non-performing and problem positions exceeding the pre-established usage limits are managed by a dedicated company, a 100% subsidiary of the Group, which acts as problem loan servicer with management process specialisation in relation to the credit characteristics, with a view to increasing recovery potential and optimising the cost-percentage collection ratio. This activity therefore aims for an economic result, where possible preferring out-of-court settlements and focusing on fast, well-timed recovery.

This company uses peripheral structures, special IT and performance control tools and a systematic reporting system.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Impaired and performing exposures: amounts, write-downs, performance, economic and geographic breakdown

A.1.1 Breakdown of credit exposures by portfolio and by credit quality (book values)

| <i>(in thousands of euro)</i> | Non performing | Problem | Restructured exposures | Past due exposures | Other assets | Total |
|----------------------------------------|----------------|------------|------------------------|--------------------|-------------------|-------------------|
| 1. Financial assets held for trading | - | 39 | - | - | 6,200,788 | 6,200,827 |
| 2. Available-for-sale financial assets | - | - | - | - | - | - |
| 3. Financial assets held to maturity | - | - | - | - | - | - |
| 4. Due from banks | 2,117 | - | - | - | 1,778,293 | 1,780,410 |
| 5. Due from customers | 4,025 | 9 | - | 12 | 1,505,984 | 1,510,030 |
| 6. Fair value financial assets | - | - | - | - | - | - |
| 7. Discontinued financial assets | - | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | - | - |
| Total as at 31-12-2010 | 6,142 | 48 | - | 12 | 9,485,065 | 9,491,267 |
| Total as at 31-12-2009 | 6,614 | 133 | 23 | 14 | 10,153,126 | 10,159,910 |

A.1.2 Breakdown of credit exposures by portfolio and by credit quality (gross and net values)

| <i>(in thousands of euro)</i> | Impaired assets | | | Performing assets | | | Total |
|----------------------------------------|-----------------|----------------------|--------------|-------------------|----------------------|-------------------|-------------------|
| | Gross exposure | Specific write-downs | Net exposure | Gross exposure | Specific write-downs | Net exposure | |
| 1. Financial assets held for trading | 964 | (925) | 39 | X | X | 6,200,788 | 6,200,827 |
| 2. Available-for-sale financial assets | - | - | - | - | - | - | - |
| 3. Financial assets held to maturity | - | - | - | - | - | - | - |
| 4. Due from banks | 10,770 | (8,653) | 2,117 | 1,778,293 | - | 1,778,293 | 1,780,410 |
| 5. Due from customers | 21,140 | (17,094) | 4,046 | 1,506,030 | (46) | 1,505,984 | 1,510,030 |
| 6. Fair value financial assets | - | - | - | X | X | - | - |
| 7. Discontinued financial assets | - | - | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | X | X | - | - |
| Total as at 31-12-2010 | 32,874 | (26,672) | 6,202 | 3,284,323 | (46) | 9,485,065 | 9,491,267 |
| Total as at 31-12-2009 | 34,899 | (28,115) | 6,784 | 4,344,904 | (67) | 10,153,125 | 10,159,909 |

The detailed disclosure required by Bank of Italy on 16 February 2011 is provided below, providing certain useful clarifications that will allow a fuller understanding of said disclosure.

Specifically, the Supervisory Authority requires that detail is provided of performing assets by portfolio, distinguishing between assets being renegotiated as part of collective agreements and other assets, and providing, for both categories, an analysis of the aging of maturities, based on IFRS 7 "Financial instruments: disclosures".

Renegotiated performing assets

As regards the required information on renegotiated assets, the perimeter corresponds to all agreements whose terms and conditions are regulated by law, memorandums of understanding or agreements stipulated by trade associations or federations, to which Banco Popolare Group has subscribed, and that envisage a suspension of instalments (capital payment and/or interest), for which the deferment is still in effect as at 31 December 2010.

The scope does not include renegotiations carried out based on voluntary initiatives undertaken by the Group or those agreements that envisage an instalment restructuring (e.g., the ABI-MEF Agreement of 19 June 2008 in which the differences between the contractual instalment and the reduced instalment is accumulated in an accessory loan account).

Below is a list of the collective agreements under renegotiation, as specified above, to which Banco Popolare Group has subscribed:

- "Banco Popolare Protocol of Intent – MEF" pursuant to art. 12, subsection 2, of Italian Law Decree no. 185/2008 and the "ABI-MEF Framework Agreement" of 25 March 2009, containing provisions on subscription to "Tremonti bonds";
- ABI "Household Plan", designed to enhance the sustainability of the retail credit market: the agreement of 18 December 2009 between ABI and the consumer association to suspend repayment of mortgages for nuclear families in difficulty as a result of the crisis,
- "ABI Household Plan – Abruzzo" - adjustment to the ABI Household Plan for earthquake victims in Abruzzo;
- "Solidarity fund for mortgage loans to purchase a first home" established under Law 244 of 24 December 2007;
- "ABI, MEF Agreement and business representations" of 3 August 2009, to enhance the flow of credit for the manufacturing system;
- "BI MEF Agreement and business representations (ABI Executive Committee of 23 June 2010)" for residents of Abruzzo.

The renegotiated exposures listed above refer to the total exposure of the relationships, regardless of the renegotiated amount (for example, a certain number of instalments).

Past-due performing assets

IFRS 7 provides that for each financial asset that is not impaired, the bank must provide an aging report for past-due balances when the counterparty misses a payment on the asset on the contractually agreed date. The decision on how to spread out the aging was left to management's discretion, who must choose the most appropriate method to ensure the information's relevance and meaningfulness.

Based on the definition of past-due exposures provided by the standard, the bank provides an analysis of the aging of exposures for which customers have missed a payment of contractually agreed instalment. These exposures are made up of mortgages. Therefore, they were no subject to reporting as unpaid exposures, such as, for example, those resulting when then current account has exceeded the agreed credit line, as they are not included in the definition of past-due pursuant to IFRS 7.

Additionally, the amount indicated in the table refers to the comprehensive exposure, regardless of the past-due instalment, that may represent an insignificant portion of the loan.

In reference to renegotiated exposures, the instructions provided by Bank of Italy envisage that the renegotiation results in a calculation of the days for which the status is past-due for the effective period of the deferment.

| Distribution of past-due assets (in thousands of euro) | 31/12/2010 | | | | | Total |
|-----------------------------------------------------------|------------------|---------------------------|------------------------|------------------------|-----------------------------|-----------|
| | Not past due | 1 day to 1 month past due | 1 to 3 months past due | 3 to 6 months past due | More than 6 months past due | |
| Performing assets under renegotiation | | | | | | |
| 1. Financial assets held for trading | - | - | - | - | - | - |
| 2. Available-for-sale financial assets | - | - | - | - | - | - |
| 3. Financial assets held to maturity | - | - | - | - | - | - |
| 4. Due from banks | - | - | - | - | - | - |
| 5. Due from customers | - | - | - | - | - | - |
| 6. Fair value financial assets | - | - | - | - | - | - |
| 7. Discontinued financial assets | - | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | - | - |
| Total performing assets under renegotiation | - | - | - | - | - | - |
| Other performing assets | | | | | | |
| 1. Financial assets held for trading | - | - | - | - | - | - |
| 2. Available-for-sale financial assets | - | - | - | - | - | - |
| 3. Financial assets held to maturity | - | - | - | - | - | - |
| 4. Due from banks | - | - | - | - | - | - |
| 5. Due from customers | 1,505,984 | - | - | - | - | 1,505,984 |
| 6. Fair value financial assets | - | - | - | - | - | - |
| 7. Discontinued financial assets | - | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | - | - |
| Total other performing assets | 1,505,984 | - | - | - | - | - |

Based on the above, as at 31 December 2010 there were no past-due positions to report.

A.1.3 Cash and off-balance sheet credit exposures to banks: gross and net values

2010

| (in thousands of euro) | Gross exposure | Specific write-downs | Portfolio write-downs | Net exposure |
|---------------------------------------|------------------|----------------------|-----------------------|------------------|
| A. CASH EXPOSURES | | | | |
| a) Non performing | 10,770 | (8,653) | X | 2,117 |
| b) Problem | - | - | X | - |
| c) Restructured exposures | - | - | X | - |
| d) Past due exposures | - | - | X | - |
| e) Other assets | 2,865,897 | X | - | 2,865,897 |
| Total A | 2,876,667 | (8,653) | - | 2,868,014 |
| B. OFF-BALANCE SHEET EXPOSURES | | | | |
| a) Impaired | 46 | (7) | X | 39 |
| b) Other | 2,323,726 | X | - | 2,323,726 |
| Total B | 2,323,772 | (7) | - | 2,323,765 |

2009

| <i>(in thousands of euro)</i> | Net exposure | Specific write-downs | Portfolio write-downs | Net exposure |
|---------------------------------------|------------------|----------------------|-----------------------|------------------|
| A. CASH EXPOSURES | | | | |
| a) Non performing | 10,764 | (8,115) | X | 2,649 |
| b) Problem | - | - | X | - |
| c) Restructured exposures | - | - | X | - |
| d) Past due exposures | - | - | X | - |
| e) Other assets | 4,017,380 | - | - | 4,017,380 |
| Total A | 4,028,144 | (8,115) | - | 4,020,029 |
| B. OFF-BALANCE SHEET EXPOSURES | | | | |
| a) Impaired | - | - | X | - |
| b) Other | 2,458,135 | - | - | 2,458,135 |
| Total B | 2,458,135 | - | - | 2,458,135 |

A.1.4 Cash credit exposures to banks: performance of gross impaired exposures

| <i>(in thousands of euro)</i> | Non performing | Problem | Restructured exposures | Past due exposures |
|--------------------------------------------------------|----------------|---------|------------------------|--------------------|
| A. Gross exposure – opening balance | 10,764 | - | - | - |
| - of which: exposures transferred but not derecognised | - | - | - | - |
| B. Increases | 6 | - | - | - |
| B.1 Amounts collected on performing exposures | 6 | - | - | - |
| B.2 Transfer from other impaired exposure categories | - | - | - | - |
| B.3 Other increases | - | - | - | - |
| C. Decreases | - | - | - | - |
| C.1 Amounts paid on performing exposures | - | - | - | - |
| C.2 Derecognitions | - | - | - | - |
| C.3 Amounts collected | - | - | - | - |
| C.4 Gains from disposals | - | - | - | - |
| C.5 Transfer to other impaired exposure categories | - | - | - | - |
| C.6 Other decreases | - | - | - | - |
| D. Gross exposure – closing balance | 10,770 | - | - | - |
| - of which: exposures transferred but not derecognised | - | - | - | - |

A.1.5 Cash credit exposures to banks: performance of total write-downs

| <i>(in thousands of euro)</i> | Non performing | Problem | Restructured exposures | Past due exposures |
|--------------------------------------------------------|----------------|---------|------------------------|--------------------|
| A. Total write-downs – opening balance | 8,115 | - | - | - |
| - of which: exposures transferred but not derecognised | - | - | - | - |
| B. Increases | 538 | - | - | - |
| B.1 write-downs | 538 | - | - | - |
| B.2 transfer from other impaired exposure categories | - | - | - | - |
| B.3 other increases | - | - | - | - |
| C. Decreases | - | - | - | - |
| C.1 reversals due to valuation | - | - | - | - |
| C.2 reversals due to amounts collected | - | - | - | - |
| C.3 derecognitions | - | - | - | - |
| C.4 transfer to other impaired exposure categories | - | - | - | - |
| C.5 other decreases | - | - | - | - |
| D. Total write-downs – closing balance | 8,653 | - | - | - |
| - of which: exposures transferred but not derecognised | - | - | - | - |

A.1.6 Cash and off-balance sheet credit exposures to customers: gross and net values

2010

| <i>(in thousands of euro)</i> | Gross exposure | Specific write-downs | Portfolio write-downs | Net exposure |
|---------------------------------------|------------------|----------------------|-----------------------|------------------|
| A. CASH EXPOSURES | | | | |
| a) Non performing | 22,037 | (18,012) | X | 4,025 |
| b) Problem | 9 | - | X | 9 |
| c) Restructured exposures | - | - | X | - |
| d) Past due exposures | 12 | - | X | 12 |
| g) Other assets | 2,403,823 | X | (46) | 2,403,777 |
| Total A | 2,425,881 | (18,012) | (46) | 2,407,823 |
| B. OFF-BALANCE SHEET EXPOSURES | | | | |
| a) Impaired | - | - | - | - |
| b) Other | 363,055 | X | - | 363,055 |
| Total B | 363,055 | - | - | 363,055 |

2009

| <i>(in thousands of euro)</i> | Gross exposure | Specific write-downs | Portfolio write-downs | Net exposure |
|---------------------------------------|------------------|----------------------|-----------------------|------------------|
| A. CASH EXPOSURES | | | | |
| a) Non performing | 14,224 | (10,260) | X | 3,964 |
| b) Problem | 453 | (320) | X | 133 |
| c) Restructured exposures | 9,443 | (9,420) | X | 23 |
| d) Past due exposures | 14 | - | X | 14 |
| g) Other assets | 2,071,150 | X | (66) | 2,071,084 |
| Total A | 2,095,284 | (20,000) | (66) | 2,075,218 |
| B. OFF-BALANCE SHEET EXPOSURES | | | | |
| a) Impaired | - | - | - | - |
| b) Other | 245,692 | X | - | 245,692 |
| Total B | 245,692 | - | - | 245,692 |

A.1.7 Cash credit exposures to customers: performance of gross impaired exposures

| <i>(in thousands of euro)</i> | Non performing | Problem | Restructured exposures | Past due exposures |
|--------------------------------------------------------|----------------|--------------|------------------------|--------------------|
| A. Gross exposure – opening balance | 14,224 | 453 | 9,443 | 14 |
| - of which: exposures transferred but not derecognised | - | - | - | - |
| B. Increases | 9,941 | 9 | - | 12 |
| B.1 Amounts collected on performing loans | - | 9 | - | 12 |
| B.2 Transfer from other impaired exposure categories | 9,896 | - | - | - |
| B.3 Other increases | 45 | - | - | - |
| C. Decreases | (2,128) | (453) | (9,443) | (14) |
| C.1 Amounts paid on performing loans | - | - | - | (14) |
| C.2 Derecognitions | - | - | - | - |
| C.3 Amounts collected | (2,101) | - | - | - |
| C.4 Gains from disposals | - | - | - | - |
| C.5 Transfer to other impaired exposure categories | - | (453) | (9,443) | - |
| C.6 Other decreases | (27) | - | - | - |
| D. Gross exposure – closing balance | 22,037 | 9 | - | 12 |
| - of which: exposures transferred but not derecognised | - | - | - | - |

A.1.8 Cash credit exposures to customers: performance of total write-downs

| <i>(in thousands of euro)</i> | Non performing | Problem | Restructured exposures | Past due exposures |
|--------------------------------------------------------|----------------|--------------|------------------------|--------------------|
| A. Total write-downs – opening balance | 10,260 | 320 | 9,420 | - |
| - of which: exposures transferred but not derecognised | - | - | - | - |
| B. Increases | 9,792 | - | - | - |
| B.1 write-downs | 52 | - | - | - |
| B.2 transfer from other impaired exposure categories | 9,740 | - | - | - |
| B.3 other increases | - | - | - | - |
| C. Decreases | (2,040) | (320) | (9,420) | - |
| C.1 reversals due to valuation | - | - | - | - |
| C.2 reversals due to amounts collected | (2,037) | - | - | - |
| C.3 derecognitions | - | - | - | - |
| C.4 transfer to other impaired exposure categories | - | (320) | (9,420) | - |
| C.5 other decreases | (3) | - | - | - |
| D. Total write-downs – closing balance | 18,012 | - | - | - |
| - of which: exposures transferred but not derecognised | - | - | - | - |

A.2 Exposure classification based on internal and external ratings

A.2.1 Breakdown of cash and off-balance sheet credit exposures by external rating class

2010

| <i>(in thousands of euro)</i> | External rating classes | | | | | | Unrated | Total |
|-----------------------------------------|-------------------------|------------------|---------------|-------------|-------|------------------|------------------|------------------|
| | AAA/ AA- | A+/A- | BBB+/ BBB- | BB+/ BB- | B+/B- | Lower than B- | | |
| A. Cash exposures | 95,004 | 4,421,652 | - | 99 | - | 4 | 759,078 | 5,275,837 |
| B. Derivatives | 319,486 | 1,914,825 | 3,390 | - | - | - | 188,865 | 2,426,566 |
| B.1 Financial derivatives | 319,486 | 1,914,825 | 3,390 | - | - | - | 188,865 | 2,426,566 |
| B.2 Credit derivatives | - | - | - | - | - | - | - | - |
| C. Guarantees granted | - | - | - | - | - | - | 724 | 724 |
| D. Commitments to disburse funds | 66,271 | 58,831 | - | - | - | - | 134,427 | 259,529 |
| Total | 480,761 | 6,395,308 | 3,390 | 99 | - | 4 | 1,083,094 | 7,962,656 |

2009

| <i>(in thousands of euro)</i> | External rating classes | | | | | | Unrated | Total |
|-----------------------------------------|-------------------------|------------------|---------------|-------------|-------|------------------|------------------|------------------|
| | AAA/ AA- | A+/A- | BBB+/ BBB- | BB+/ BB- | B+/B- | Lower than B- | | |
| A. Cash exposures | 129,539 | 4,959,639 | 780 | - | - | 2,654 | 1,002,635 | 6,095,247 |
| B. Derivatives | 418,651 | 1,992,058 | 5,276 | - | - | - | 92,182 | 2,508,167 |
| B.1 Financial derivatives | 418,651 | 1,992,058 | 5,276 | - | - | - | 92,182 | 2,508,167 |
| B.2 Credit derivatives | - | - | - | - | - | - | - | - |
| C. Guarantees granted | - | - | - | - | - | - | 814 | 814 |
| D. Commitments to disburse funds | 55,121 | 33,877 | - | - | - | - | 105,848 | 194,846 |
| Total | 603,311 | 6,985,574 | 6,056 | - | - | 2,654 | 1,201,479 | 8,799,074 |

A.2.2 Breakdown of cash and off-balance sheet credit exposures by internal rating class

2010

| (in thousands of euro) | Internal rating classes | | | | | | | Unrated | Total |
|-----------------------------------------|-------------------------|---------|---------|---------|-------|---|-----|-----------|-----------|
| | AAA | AA | A | BBB | BB | B | CCC | | |
| A. Cash exposures | - | 26,034 | 371,616 | 204,606 | 413 | - | - | 2,263,228 | 2,865,897 |
| B. Derivatives | - | 94,110 | 582,642 | 231,810 | 6,344 | - | - | 1,373,654 | 2,288,560 |
| B.1 Financial derivatives | - | 94,110 | 582,642 | 231,810 | 6,344 | - | - | 1,373,654 | 2,288,560 |
| B.2 Credit derivatives | - | - | - | - | - | - | - | - | - |
| C. Guarantees granted | - | - | - | - | - | - | - | 724 | 724 |
| D. Commitments to disburse funds | - | 354 | 683 | 271 | - | - | - | 33,133 | 34,441 |
| Total | - | 120,498 | 954,941 | 436,687 | 6,757 | - | - | 3,670,739 | 5,189,622 |

2009

| (in thousands of euro) | Internal rating classes | | | | | | Unrated | Total |
|-----------------------------------------|-------------------------|---------|---------|---------|-------|----|-----------|-----------|
| | AAA | AA | A | BBB | BB | B | | |
| A. Cash exposures | - | 100,003 | 384,715 | 112,376 | 810 | - | 3,419,474 | 4,017,378 |
| B. Derivatives | - | 308,421 | 471,101 | 219,507 | 6,434 | 65 | 1,426,989 | 2,432,517 |
| B.1 Financial derivatives | - | 308,421 | 471,101 | 219,507 | 6,434 | 65 | 1,426,989 | 2,432,517 |
| B.2 Credit derivatives | - | - | - | - | - | - | - | - |
| C. Guarantees granted | - | - | - | - | - | - | 814 | 814 |
| D. Commitments to disburse funds | - | 793 | 2,134 | 298 | - | - | 21,579 | 24,804 |
| Total | - | 409,217 | 857,950 | 332,181 | 7,244 | 65 | 4,868,856 | 6,475,513 |

A.3 Breakdown of secured credit exposures by guarantee type

A.3.1 Secured credit exposures to banks

| (in thousands of euro) | Net exposure value | Collateral (1) | | | | Personal guarantees (2) | | | | | | | | Total (1)+(2) 31/12/2010 | Total (1)+(2) 31/12/2009 | |
|-------------------------------------------------------|--------------------|----------------|----------------|----------------|-----|--------------------------|-------|----------------|-------------|--------------------------|-------|----------------|-------------|-----------------------------|-----------------------------|------------------|
| | | Real estate | Securities | Other assets | CLN | Credit derivatives | | | | Unsecured loans | | | | | | |
| | | | | | | Other public authorities | Banks | Other entities | Governments | Other public authorities | Banks | Other entities | Governments | | | |
| 1. Secured cash credit exposures: | 797,616 | - | 752,997 | 44,619 | - | - | - | - | - | - | - | - | - | - | 797,616 | 456,729 |
| 1.1. fully secured | 797,616 | - | 752,997 | 44,619 | - | - | - | - | - | - | - | - | - | - | 797,616 | 456,729 |
| - of which impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.2. part-secured | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - of which impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Secured off-balance sheet credit exposures: | 921,599 | - | - | 890,710 | - | - | - | - | - | - | - | - | - | - | 890,710 | 892,140 |
| 2.1. fully secured | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - of which impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2. part-secured | 921,599 | - | - | 890,710 | - | - | - | - | - | - | - | - | - | - | 890,710 | 892,140 |
| - of which impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 1,719,215 | - | 752,997 | 935,329 | - | - | - | - | - | - | - | - | - | - | 1,688,326 | 1,348,869 |

A.3.2 Secured credit exposures to customers

| (in thousands of euro) | Net exposure value | Collateral (1) | | | Personal guarantees (2) | | | | | | | Total (1)+(2) 31/12/2010 | Total (1)+(2) 31/12/2009 | | | |
|-------------------------------------------------------|--------------------|----------------|----------------|------------------|-------------------------|--------------------|--------------------------|-------|----------------|-----------------|--------------------------|-----------------------------|-----------------------------|-------|------------------|----------------|
| | | Real estate | Securities | Other assets | CLN | Credit derivatives | | | | Unsecured loans | | | | | | |
| | | | | | | Governments | Other public authorities | Banks | Other entities | Governments | Other public authorities | | | Banks | Other entities | |
| 1. Secured cash credit exposures: | 1,127,452 | - | 116,796 | 1,010,656 | - | - | - | - | - | - | - | - | - | - | 1,127,452 | 931,953 |
| 1.1. fully secured | 1,127,452 | - | 116,796 | 1,010,656 | - | - | - | - | - | - | - | - | - | - | 1,127,452 | 931,953 |
| - of which impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.2. part-secured | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - of which impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Secured off-balance sheet credit exposures: | 3,390 | - | - | 3,060 | - | - | - | - | - | - | - | - | - | - | 3,060 | 41,700 |
| 2.1. fully secured | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - of which impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2. part-secured | 3,390 | - | - | 3,060 | - | - | - | - | - | - | - | - | - | - | 3,060 | 41,700 |
| - of which impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 1,130,842 | - | 116,796 | 1,013,716 | - | - | - | - | - | - | - | - | - | - | 1,130,512 | 973,653 |

B. Breakdown and concentration of credit exposures

B.1 Breakdown of cash and off-balance sheet credit exposures to customers by segment (book values)

| (in thousands of euro) | Governments and central banks | | | Other public authorities | | | Finance companies | | | Insurance companies | | | Non-financial companies | | | Other entities | | | Total 31/12/2010 | Total 31/12/2009 | | | |
|---------------------------------------|-------------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------------------|-------------------|----------------------|-----------------------|---------------------|----------------------|-----------------------|-------------------------|----------------------|-----------------------|----------------|----------------------|-----------------------|---------------------|---------------------|---|-------|-------|
| | Net exposure | Specific write-downs | Portfolio write-downs | Net exposure | Specific write-downs | Portfolio write-downs | Net exposure | Specific write-downs | Portfolio write-downs | Net exposure | Specific write-downs | Portfolio write-downs | Net exposure | Specific write-downs | Portfolio write-downs | Net exposure | Specific write-downs | Portfolio write-downs | | | | | |
| A. Cash exposures | | | | | | | | | | | | | | | | | | | | | | | |
| A.1 Non performing | - | - | X | - | - | X | 3,953 | 17,692 | X | - | - | X | - | - | - | 72 | 320 | X | - | - | X | 4,025 | 3,964 |
| A.2 Problem | - | - | X | - | - | X | 7 | - | X | - | - | X | - | - | - | 2 | - | X | - | - | X | 9 | 133 |
| A.3 Restructured exposures | - | - | X | - | - | X | - | - | X | - | - | X | - | - | - | - | - | X | - | - | X | - | 23 |
| A.4 Past due exposures | - | - | X | - | - | X | - | - | X | - | - | X | - | - | - | 1.2 | - | X | - | - | X | 12 | 14 |
| A.5 Other exposures | 683,266 | X | - | 3 | X | - | 1,632,968 | X | 6 | 15,765 | X | - | 53,356 | X | 1 | 18,419 | X | 39 | 2,403,777 | 2,071,083 | | | |
| Total A | 683,266 | - | - | 3 | - | - | 1,636,928 | 17,692 | 6 | 15,765 | - | - | 53,356 | - | - | 18,505 | 320 | 39 | 2,407,823 | 2,075,218 | | | |
| B. Off-balance sheet exposures | | | | | | | | | | | | | | | | | | | | | | | |
| B.1 Non performing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Problem | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.4 Other exposures | 223,125 | X | - | 358 | X | - | 133,317 | X | - | - | X | - | 264 | X | - | 5,990 | X | - | 363,054 | 245,692 | | | |
| Total B | 223,125 | - | - | 358 | - | - | 133,317 | - | - | 264 | - | - | 264 | - | - | 5,990 | - | - | 363,054 | 245,692 | | | |
| Total 31/12/2010 | 906,391 | - | - | 361 | - | - | 1,770,245 | 17,692 | 6 | 15,765 | - | - | 53,620 | - | - | 24,495 | 320 | 39 | 2,770,877 | - | | | |
| Total 31/12/2009 | 975,321 | - | - | 617 | - | - | 1,247,073 | 19,680 | - | 15,504 | - | - | 26,960 | - | - | 55,435 | 320 | 66 | - | 2,320,909 | | | |

B.2 Geographical breakdown of cash and off-balance sheet credit exposures to customers (book values)

| (in thousands of euro) | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICA | | ASIA | | REST OF THE WORLD | | TOTAL 31/12/2010 |
|---------------------------------------|------------------|-------------------|--------------------------|-------------------|----------------|-------------------|--------------|-------------------|-------------------|-------------------|---------------------|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | |
| A. Cash exposures | | | | | | | | | | | |
| A.1 Non performing | 72 | 320 | 2,722 | 14,269 | 1,231 | 3,423 | - | - | - | - | 4,025 |
| A.2 Problem | 3 | - | 6 | - | - | - | - | - | - | - | 9 |
| A.3 Restructured exposures | - | - | - | - | - | - | - | - | - | - | - |
| A.4 Past due exposures | 12 | - | - | - | - | - | - | - | - | - | 12 |
| A.5 Other exposures | 1,865,654 | 45 | 376,214 | 1 | 145,365 | - | - | - | 16,544 | - | 2,403,777 |
| Total A | 1,865,741 | 365 | 378,942 | 14,270 | 146,596 | 3,423 | - | - | 16,544 | - | 2,407,823 |
| B. Off-balance sheet exposures | | | | | | | | | | | |
| B.1 Non performing | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Problem | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - | - |
| B.4 Other exposures | 239,763 | - | 122,229 | - | 836 | - | - | - | 226 | - | 363,054 |
| Total B | 239,763 | - | 122,229 | - | 836 | - | - | - | 226 | - | 363,054 |
| Total 31/12/2010 | 2,105,504 | 365 | 501,171 | 14,270 | 147,432 | 3,423 | - | - | 16,770 | - | 2,770,877 |
| Total 31/12/2009 | 1,638,576 | 387 | 514,970 | 16,276 | 152,188 | 3,403 | - | - | 15,175 | - | 2,320,909 |

B.3 Geographical breakdown of cash and off-balance sheet credit exposures to banks (book values)

| (in thousands of euro) | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICA | | ASIA | | REST OF THE WORLD | | TOTAL 31/12/2010 |
|---------------------------------------|------------------|-------------------|--------------------------|-------------------|---------------|-------------------|--------------|-------------------|-------------------|-------------------|---------------------|
| | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | Net exposure | Total write-downs | |
| A. Cash exposures | | | | | | | | | | | |
| A.1 Non performing | - | - | 2,117 | 8,653 | - | - | - | - | - | - | 2,117 |
| A.2 Problem | - | - | - | - | - | - | - | - | - | - | - |
| A.3 Restructured exposures | - | - | - | - | - | - | - | - | - | - | - |
| A.4 Past due exposures | - | - | - | - | - | - | - | - | - | - | - |
| A.5 Other exposures | 2,087,684 | (1) | 726,869 | - | 51,344 | 1 | - | - | - | - | 2,865,897 |
| Total A | 2,087,684 | (1) | 728,986 | 8,653 | 51,344 | 1 | - | - | - | - | 2,868,014 |
| B. Off-balance sheet exposures | | | | | | | | | | | |
| B.1 Non performing | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Problem | 39 | 7 | - | - | - | - | - | - | - | - | 39 |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - | - |
| B.4 Other exposures | 1,534,881 | - | 767,800 | - | 19,505 | - | - | - | 1,539 | - | 2,323,725 |
| Total B | 1,534,920 | 7 | 767,800 | - | 19,505 | - | - | - | 1,539 | - | 2,323,764 |
| Total 31/12/2010 | 3,622,604 | 6 | 1,496,786 | 8,653 | 70,849 | 1 | - | - | 1,539 | - | 5,191,778 |
| Total 31/12/2009 | 4,898,574 | - | 1,514,869 | (8,115) | 41,539 | - | 3,180 | - | 20,002 | - | 6,478,164 |

B.4 Large risks

With the 6th update of Circular no. 263 “New provisions for prudential supervision of banks” of 27 December 2010, prudential oversight in relation to risk concentration was revised to align it with Directive 2009/111/EC. Specifically, based on the new regulation, “large risks” are determined in reference to the book value of the “exposures”, rather than the weighted counterparty risk. Furthermore, the separate financial statements must now consider intragroup exposures in determining large risks (which were previously weighted at 0%). In consideration of the amendment, and to include a more precise view of the level of credit concentration in financial statements, Bank of Italy envisaged that the amount of the “risk positions” that constitutes a “large risk” is provided in the Notes to the financial statements, making reference to both the book value and the weighted value (see table below). It should also be noted that until 2009 the total amount, if greater than 10% of regulatory capital, that determines large risks was the weighted amount, however now the total amount consists of the overall exposure (including intragroup). This has necessarily led to a sharp increase in the number, and as a result, in the total numbers reported in the table below. Therefore, there has not been an increase in “large risks”, but in their definition. If large risks had been calculated under the regulation in effect last year, there would have been 14 large risks, with book values totalling 2,595,328 thousand euro and a weighted risk position of 1,000,476 thousand euro as at 31 December 2010.

| <i>(in thousands of euro)</i> | 31/12/2010 | 31/12/2009 |
|--------------------------------------|------------|------------|
| Number (in units) | 24 | 3 |
| Exposure (in thousands of euro) | 8,887,568 | 803,824 |
| Risk position (in thousands of euro) | 1,154,837 | 195,648 |

C. Securitisations and Asset disposals

C.1 Securitisations

QUALITATIVE INFORMATION

Banca Aletti’s trading book contains investments in securities originating from Banco Popolare Group securitisations for a total nominal value of 8,899 million euro.

All such securities are represented by senior tranches with AAA ratings and with 100% performing assets backed by collateral at a level significantly higher than the nominal value of the securities issued.

QUANTITATIVE INFORMATION

C.1.1 Securitisation-related exposures with breakdown by underlying asset quality

| Underlying asset quality / Exposures (in thousands of euro) | CASH EXPOSURES | | | | | | GUARANTEES GRANTED | | | | | | CREDIT FACILITIES | | | | | |
|-------------------------------------------------------------------|----------------|---------------|----------------|--------------|----------------|--------------|--------------------|--------------|----------------|--------------|----------------|--------------|-------------------|--------------|----------------|--------------|----------------|--------------|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure | Gross exposure | Net exposure |
| A. With own underlying assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| a) impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| b) other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B. With 3rd party underlying assets | 34,793 | 27,410 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| a) impaired | 7,383 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| b) other | 27,410 | 27,410 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

C.1.3 Exposure originating from the main third-party securitisations with breakdown by underlying asset type and exposure type

| ISIN code | (in thousands of euro) | CASH EXPOSURES | | | | | | GUARANTEES GRANTED | | | | | | CREDIT FACILITIES | | | | | |
|--------------|------------------------------------------------------------------------------|----------------|-------------------------|------------|-------------------------|------------|-------------------------|--------------------|-------------------------|--------------|-------------------------|--------------|-------------------------|-------------------|-------------------------|--------------|-------------------------|--------------|---|
| | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | | Book value | Write-downs / reversals | Book value | Write-downs / reversals | Book value | Write-downs / reversals | Net exposure | Write-downs / reversals | Net exposure | Write-downs / reversals | Net exposure | Write-downs / reversals | Net exposure | Write-downs / reversals | Net exposure | Write-downs / reversals | Net exposure | |
| IT0004215320 | BP MORTGAGES 07/20.04.43 CL A2 TV CALL SENIOR Residential mortgages | 3,094 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IT0004239353 | BP MORTGAGES 07/20.07.44 CL A2 SENIOR Residential mortgages | 5,805 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IT0003953384 | S.C.C. INPS TV 2019 Loans PILLAR SECURITISATION | 18,511 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| LU0447905216 | S.A.R.L. 10.7.09/PERP.TV- TRANCHE B IB Other assets | - | 7,383 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

C.2.2. Financial liabilities from financial assets sold but not derecognised

| <i>(in thousands of euro)</i> | Financial assets held for trading | Fair value financial assets | Available-for-sale financial assets | Financial assets held to maturity | Due from banks | Due from customers | Total 31/12/2010 | Total 31/12/2009 |
|-------------------------------------|-----------------------------------|-----------------------------|-------------------------------------|-----------------------------------|----------------|--------------------|------------------|------------------|
| A. Due to customers | - | - | - | - | - | - | - | 32,893 |
| a) from fully recognised assets | - | - | - | - | - | - | - | 32,893 |
| b) from partially recognised assets | - | - | - | - | - | - | - | - |
| B. Due to banks | - | - | - | - | - | - | - | 433,030 |
| a) from fully recognised assets | - | - | - | - | - | - | - | 433,030 |
| b) from partially recognised assets | - | - | - | - | - | - | - | - |
| Total 31/12/2010 | - | - | - | - | - | - | - | - |
| Total 31/12/2009 | 465,923 | - | - | - | - | - | - | 465,923 |

D. Credit risk measurement models

For loans portfolio risk measurement the Risk Management Departments uses an econometric model fed with an extensive dataset and risk variables.

Through Credit-VaR metrics the model allows definition of the loss probability breakdown for the loans portfolio, limited to performing, cash and unsecured exposures of ordinary and financial customers based in Italy. This breakdown is used to measure the potential maximum loss over a 1-year time horizon with a specific confidence level.

Specifically, to determine the breakdown the model's calculation engine uses a "MonteCarlo" simulation approach, which simulates a sufficiently high number of scenarios to provide a good conjectural approximation of theoretical loans portfolio losses.

Calculation of the maximum potential loss, broken down into the classic Expected Loss and Unexpected Loss measurements (Economic Capital), is respectively affected by concentration risk (deriving from high levels of exposure to individual counterparties - name concentration - or other counterparty types, similar geographic areas and/or business sectors, the credit rating of which depends on one or more systematic factors – industry concentration) and systematic risk (deriving from the impact of unexpected changes in macroeconomic factors on the likelihood of insolvency of individual counterparties).

In addition to the level of loans portfolio concentration, the impact of these components on credit risk also depends on the correlation matrix structure of probability of default (PD), in turn estimated by a quantitative stress testing model (developed and updated internally), that can link the rate of deterioration of counterparties similar in terms of business sector and geographic area to a set of "first level" (national and international) and "second level" (regional) economic and financial factors.

Lastly, the portfolio model is periodically subject to stress testing to assess credit risk sensitivity of the Group portfolio to changes, both moderate and extreme (albeit plausible), to one (sensitivity analysis) or more (scenario analysis) economic and financial factors.

Section 2

Market risk

2.1 Interest rate risk and price risk – Regulatory trading book

QUALITATIVE INFORMATION

A. General aspects

The organisational model adopted by the Banco Popolare Group for trading books subject to interest rate risk and price risk envisages centralisation:

- of Treasury positions into the Group Finance Division, which arranges coordinated management of the Group's interest rate, short-term liquidity and exchange rate risks, management of the own assets portfolio with the aim of optimising the overall risk-return profile, and diversifying the risks between different asset classes of financial instruments;
- of risk and operating cash flow positions relating to securities, currency, OTC derivative and other financial asset trading, in the subsidiary Banca Aletti. Added to these are the main interest rate risk exposures of the Banca Aletti trading book, attributable to cash market transactions and related listed or plain vanilla derivatives monitored by the Trading & Brokerage Department, and on the OTC derivative and structured product and listed derivative markets covered by the Structured Products Department.

Excluded from the model are the subsidiary Efibanca and former Banca Italease Group companies as at present they have no significant positions with an impact on market risk.

Certain positions, completely residual compared to the aforementioned portfolios and not centralised at parent company level, are retained by the local banks, held for specific needs and purposes of the individual banks or directly linked to commercial activities. These portfolios are monitored by Banca Aletti if they derive from commercial network trading, and are represented by tranches of securities that cannot be placed or readily liquidated on the market.

Also assigned to the parent company Finance Department are other positions relating to government bonds deposited as collateral and residual positions deriving from trading that cannot be transferred immediately to Banca Aletti given their failure to meet the minimum amount requirements envisaged by the payment systems. Lastly, certain other positions are considered investment trading for management purposes, but are included in the banking book as a result of their accounting classification.

Banca Aletti trading book, held as part of its activities as an investment bank

As the Group's investment bank, Banca Aletti holds a trading book whose main exposures are attributable to cash market transactions and related listed or plain vanilla derivatives monitored by the Fixed Income Department, and on the OTC derivative and structured product and listed derivative markets covered by the Structured Products Department.

Specifically:

- bond investment portfolios and related listed derivatives, held by the Fixed Income Department, are characterised by prudent interest rate risk management. Specifically, in reference to year-end positions, the nominal amount of the portfolio is approximately 1.2 billion euro, mainly in government securities (61% of the total) and the remainder in financial securities (33%) and corporate securities (6%). The resulting overall risk exposure totals around 35 thousand euro, assuming that any changes is in line with the 1 b.p. interest rate curve. This portfolio includes positions deriving from Group activities on the Securities Market, the management system for secondary market management of unstructured securities issued by the Group for approximately 140 million euro, and securities positions deriving from Group bank securitisations for just over 20 million euro. For the latter, the bank securitisations reduce the liabilities recorded for loans transferred but not derecognised for accounting purposes at the consolidated level. The credit spread risk exposure totals 55 thousand euro, considering a 1 b.p. shock, and is primarily allocated to financial securities;
- transactions in structured instruments and listed and unlisted derivatives, also including secondary market trading of structure products issued or placed by Group banks, represent a second transaction type. The deconstructing of complex transactions based on underlying assets allows centralised interest rate, exchange rate and share price risk management by sections of the Bank's specific Structured Products Department, which make use of sophisticated position-keeping systems. In particular, the sensitivity (delta) to overall interest rate risk at year end, net of long and short positions on the various currencies and rate curve nodes, is approximately -0.36 million euro, assuming a parallel change in the rate curve of 1 b.p.. This exposure also depends on the structured bond securities portfolio, of 380 million euro, including those resulting from Group Securities Market activities for 215 million euro.

The main exposures to share price risk trace back to transactions on the cash and related listed or plain vanilla derivatives markets, monitored by the Equity Proprietary Trading Department, and on OTC derivative and structured products and listed derivative markets covered by the Equity Structured Product Department.

Specifically:

- share portfolios and related listed derivatives, held for trading by the Equity Proprietary Trading Department for market making transactions on individual Stock Futures and related specialist services, are characterised by limited net overnight exposures. With regard to proprietary portfolio activities, basket trading on the Spanish share index Ibex 35 is of particular note. This portfolio comprises futures sales on the index against the cash positions on individual securities.
- transactions in structured instruments and listed and unlisted derivatives are organised by the Equity Structured Products Department. As mentioned previously, the deconstructing of complex transactions according to their underlying assets allows the centralised management of interest rate, exchange rate and share price risk management by specific sections of this Department, which for this purpose use a specialist position-keeping system for both interest rate and share price/exchange rate risks. The system is also integrated with in-house pricing and risk calculation models certified by a specific Model Validation Team with support from leading representatives of the academic sphere, coordinated by the parent company Risk Management Department. The year-end overall exposure to share price risk of the derivatives portfolio managed by the Structured Products Department was the equivalent to a short position countervalue of around 2.4 million euro, net of derivative and cash flow hedges.

The aforementioned Banca Aletti exposure to risk is monitored daily to confirm compliance with the operating limits established by the Board of Directors for the entire portfolio and individual underlying assets.

The Internal Regulation on Risk Positions establishes operating limits in relation to stock, sensitivity to interest rate risk, asset allocation in terms of issuer type and credit ratings, and in relation to individual company concentration risk and related rating scales. These maximum limits are monitored daily by the Market Risk Department of the parent company. The daily and periodic reports indicate the assets held and related exposures.

To complete the framework illustrated above, reference should be made to the next paragraph on risk management and measurement procedures.

B. Management procedures and measurement methods for interest rate risk and price risk

Financial risk management control procedures to identify the various types of risk, define risk measurement methods and control strategic limits and their consistency with operations, with allocated risk-return targets, is centrally managed by the parent company Market Risk Department for all Group Banks, with the exception of Efibanca and Banca Italease.

For the specific identification, measurement, management and operating control of the risk positions of Group Banks, the parent company Finance Division and Banca Aletti make use of a sophisticated position-keeping and risk control system that offers constant monitoring of exposure levels and prompt confirmation of compliance with the operating limits defined by the Management and Supervisory Boards of the parent company and the Boards of Directors of Group banks.

With regard to trading in unlisted derivatives and structured products, risk control is centralised on an application to manage interest rate, exchange rate and share indexed derivatives.

For particularly complex and innovative structures, it is envisaged that they are integrated with in-house pricing and sensitivity calculation models and certified by the parent company Risk Management Department.

The aforementioned position-keeping system, to which data is automatically uploaded from the market platform and sales networks for cash and listed derivative transactions, is constantly aligned to accounting procedures, guarantees ongoing identification and control of position, sensitivity and operating profit indicators and is also strictly integrated with the VaR control systems developed by the Market Risk Department.

Financial risk monitoring is performed on a daily basis and makes use of deterministic (sensitivity to market risk factors) and probability (VaR) indicators.

Specifically, these indicators are considered the most suitable tools to guarantee effective and precise measurement and control of market risk deriving from complex derivative exposures, also in regulatory terms.

Value at Risk (VaR) represents a synthetic risk measurement and expresses the maximum potential loss from market movements under normal conditions. The VaR calculation method used is one of the historic VaR simulation models. The values produced are calculated with a confidence level of 99% and a 1-day time horizon. The observation period is 250 days. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of the trading book's values.

In 2010 the Group continued its efforts to continuously improve market risk management, from both a technological and a methodological point of view.

Along with the increase in risks associated with governments that was seen in 2010, the credit spread component implicit in government and non-government bonds was added to the VaR risk measure. This monitoring, which began with its application to positions in the trading book, was then extended to positions in the banking book.

Furthermore, the VaR simulation methodology was refined by giving greater weight to all the scenarios over the last year and more recent historical data, if the volatility of risk parameters should increase.

Hence two methodology modifications were introduced:

- change in the lambda run-off factor from 0.98 to 0.99 and calculation of risks as the maximum value between equally-weighted VaR and VaR with the run-off factor.
- introduction of the credit spread risk factor implicit in bond positions, with the calculation of a separate VaR risk measurement.

The model currently in use includes generic risks, with interest rate, exchange rate and share price risk factors, and the specific risk of both debt securities (indicated as specific VaR) as well as equity instruments (including the equity VaR estimate in the generic component).

A VaR report is produced that allows monitoring at Group, individual bank, business unit and trading book levels.

Such reports are transmitted to the Senior Management of the Banks, to Finance Division and to Internal Audit.

During the year, analyses were conducted to verify the economic impacts from extreme changes in market risk factors, both historical and potential (stress test).

Additional impact analyses were conducted with regard to the new rules for calculating capital absorption, which will become effective from 31 December 2011.

The internal VaR model is not currently being used to calculate capital requirements. However, analyses on the use of the internal model for regulatory purposes are underway, as changes in supervisory regulations by the Basel Committee (July 2009) tend to significantly reduce the convenience of using the internal mode for capital requirements.

QUANTITATIVE INFORMATION

1. Regulatory trading book: breakdown by residual life (repricing date) of cash financial assets and liabilities and financial derivatives.**Denomination currency: Positions in euro**

| Type/Residual life | On demand | Up to 3 months | 3 - 6 months | 6 months – 1 year | 1 – 5 years | 5 – 10 years | Over 10 years | Infinite life |
|---------------------------------|------------|----------------|--------------|-------------------|-------------|--------------|---------------|---------------|
| | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO |
| 1. Cash assets | | | | | | | | |
| 1.1. Debt securities | 96 | 1,126,723 | 184,563 | 166,734 | 452,611 | 21,781 | 775 | - |
| - with early redemption option | 96 | 1,126,723 | 184,563 | 166,734 | 452,611 | 21,781 | 775 | - |
| - other | - | 43,813 | 3,906 | 1,322 | 22,693 | 236 | - | - |
| 1.2 Other assets | 96 | 1,082,910 | 180,657 | 165,412 | 429,918 | 21,545 | 775 | - |
| 2. Cash liabilities | | | | | | | | |
| 2.1 Reverse repo agreements | 202 | 358 | 14 | - | - | - | - | - |
| 2.2 Other liabilities | 202 | 358 | 14 | - | - | - | - | - |
| 3. Financial derivatives | | | | | | | | |
| 3.1 With underlying security | 11,439,337 | 121,721,877 | 56,840,318 | 26,267,118 | 113,476,438 | 22,361,929 | 1,852,142 | 809,000 |
| - Options | 47 | 796,729 | 384,145 | 288,805 | 378,659 | 17,971 | 26,135 | - |
| + Long positions | - | 257,160 | 190,916 | 280,125 | 161,413 | 5,000 | - | - |
| - Short positions | - | 151,774 | 114,953 | 156,481 | 48,507 | - | - | - |
| - Other derivatives | 47 | 105,386 | 75,963 | 123,644 | 112,906 | 5,000 | - | - |
| + Long positions | 47 | 539,569 | 193,229 | 8,680 | 217,246 | 12,971 | 26,135 | - |
| - Short positions | - | 246,651 | 105,430 | 4,671 | 127,725 | 4,112 | 12,300 | - |
| 3.2 Without underlying security | 11,439,290 | 120,925,148 | 56,456,173 | 25,978,313 | 113,097,779 | 22,343,958 | 1,826,007 | 809,000 |
| - Options | 427,461 | 2,313,585 | 1,228,401 | 833,331 | 5,295,440 | 862,642 | 119,453 | - |
| + Long positions | 56,304 | 563,769 | 699,765 | 280,600 | 3,363,791 | 507,926 | 68,001 | - |
| - Short positions | 371,157 | 1,749,816 | 528,636 | 552,731 | 1,931,649 | 354,716 | 51,452 | - |
| - Other derivatives | 11,011,829 | 118,611,563 | 55,227,772 | 25,144,982 | 107,802,339 | 21,481,316 | 1,706,554 | 809,000 |
| + Long positions | 6,417,834 | 62,157,501 | 26,645,466 | 11,459,604 | 52,058,197 | 10,199,711 | 1,078,232 | 809,000 |
| - Short positions | 4,593,995 | 56,454,062 | 28,582,306 | 13,685,378 | 55,744,142 | 11,281,605 | 628,322 | - |

Denomination currency: Positions in Other Currencies

| Type/Residual life | On demand | Up to 3 months | 3 - 6 months | 6 months - 1 year | 1 - 5 years | 5 - 10 years | Over 10 years | Infinite life |
|---------------------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|
| | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES |
| 1. Cash assets | | | | | | | | |
| 1.1. Debt securities | - | 11,413 | 6,761 | 356 | 623 | 254 | 657 | - |
| - with early redemption option | - | 11,413 | 6,761 | 356 | 623 | 254 | 657 | - |
| - other | - | - | - | - | 19 | - | 656 | - |
| 1.2 Other assets | - | 11,413 | 6,761 | 356 | 604 | 254 | 1 | - |
| 2. Cash liabilities | 21 | - | - | - | - | - | - | - |
| 2.1 Reverse repo agreements | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | 21 | - | - | - | - | - | - | - |
| 3. Financial derivatives | 295,650 | 1,834,892 | 993,550 | 915,291 | 1,658,780 | 77,914 | 133 | - |
| 3.1 With underlying security | 6 | 317,390 | 308,520 | 378,602 | 169,728 | 1,190 | 133 | - |
| - Options | - | 292,435 | 308,520 | 315,317 | 85,232 | - | - | - |
| + Long positions | - | 128,469 | 135,446 | 126,178 | 34,019 | - | - | - |
| - Short positions | - | 163,966 | 173,074 | 189,139 | 51,213 | - | - | - |
| - Other derivatives | 6 | 24,955 | - | 63,285 | 84,496 | 1,190 | 133 | - |
| + Long positions | 6 | 10,517 | - | 63,261 | 390 | 587 | 66 | - |
| - Short positions | - | 14,438 | - | 24 | 84,106 | 603 | 67 | - |
| 3.2 Without underlying security | 295,644 | 1,517,502 | 685,030 | 536,689 | 1,489,052 | 76,724 | - | - |
| - Options | - | 707 | 180 | - | 180 | 707 | - | - |
| + Long positions | - | - | 180 | - | - | 707 | - | - |
| - Short positions | - | 707 | - | - | 180 | - | - | - |
| - Other derivatives | 295,644 | 1,516,795 | 684,850 | 536,689 | 1,488,872 | 76,017 | - | - |
| + Long positions | 115,367 | 810,355 | 352,042 | 349,297 | 690,453 | 52,817 | - | - |
| - Short positions | 180,277 | 706,440 | 332,808 | 187,392 | 798,419 | 23,200 | - | - |

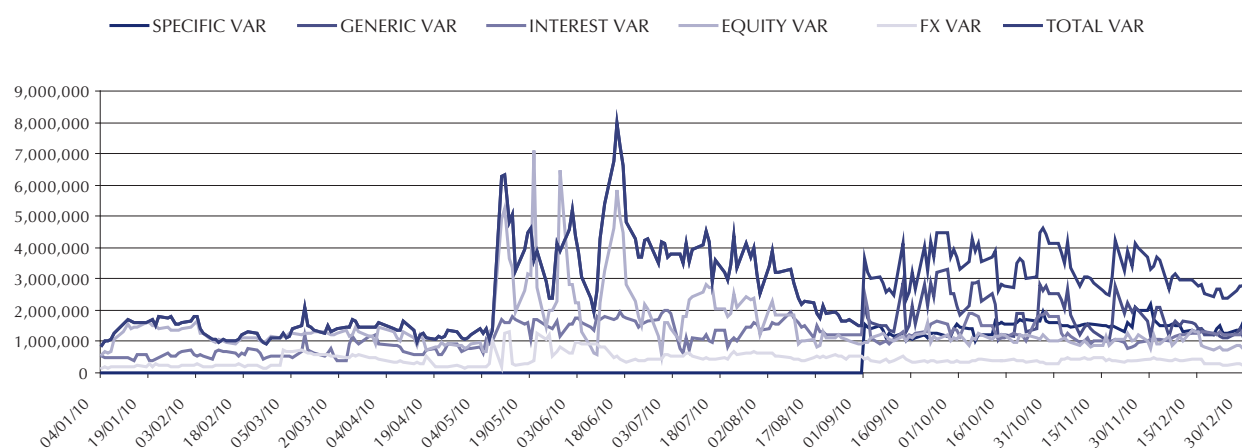
2. Regulatory trading book: breakdown of exposures in equity instruments and share indices by major country of listing

| (in thousands of euro) | Listed | | Unlisted |
|-----------------------------------------------------------------|---------------|-----------------|------------------|
| | Italy | Other countries | |
| A. Equity instruments | 930 | 205,337 | 40 |
| - long positions | 205 | 195,240 | 40 |
| - short positions | 725 | 10,097 | - |
| B. Sales/purchases of equity instruments not yet settled | 4,165 | 4,425 | 15,413 |
| - long positions | 847 | 1,305 | 6,099 |
| - short positions | 3,318 | 3,120 | 9,314 |
| C. Other derivatives on equity instruments | 38,652 | 851 | 386,455 |
| - long positions | 5,838 | 550 | 211,961 |
| - short positions | 32,814 | 301 | 174,494 |
| D. Derivatives on share indices | 22,174 | 169,616 | 3,694,003 |
| - long positions | 9,158 | 36,725 | 1,848,185 |
| - short positions | 13,016 | 132,891 | 1,845,818 |

3. Regulatory trading book: internal models and other sensitivity analysis methods

The 2010 VaR (*) figures for the Banca Aletti regulatory trading book are provided below.

**Daily VaR trend and trend by risk factor BANCA ALETTI:
Regulatory trading book**

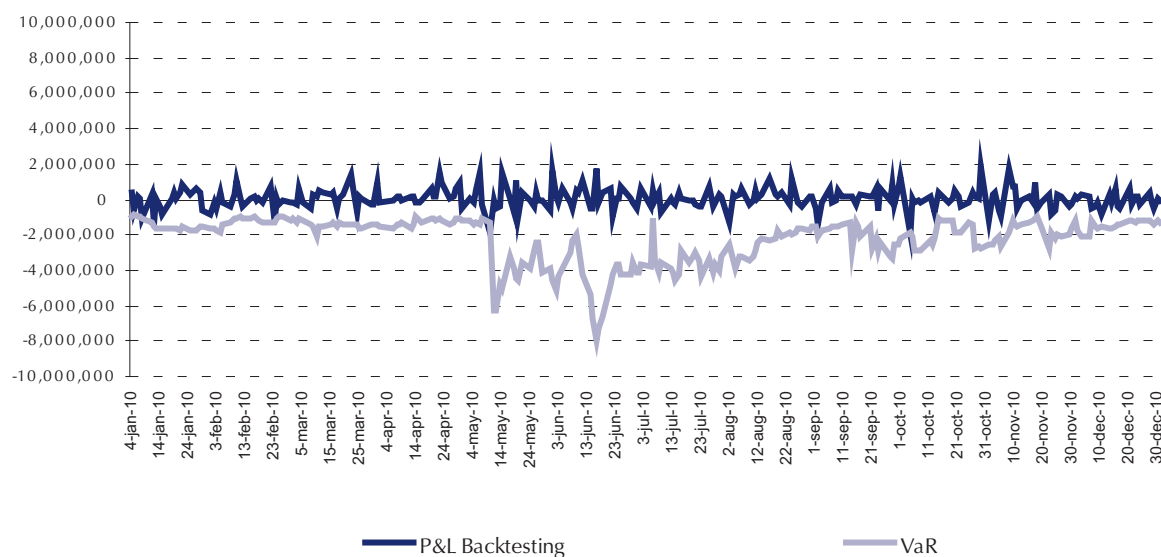


| Regulatory trading book (in millions of euro) | 31 December | | 2010 | | |
|--------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2009 | 2010 | AVERAGE | PEAK | MINIMUM |
| Interest rate risk | 0.561 | 1.240 | 1.127 | 1.127 | 0.371 |
| Exchange rate risk | 0.152 | 0.250 | 0.430 | 1.301 | 0.130 |
| Share price risk | 0.383 | 0.916 | 1.459 | 7.112 | 0.571 |
| Effect of diversification | - 0.178 | - 1.180 | | | |
| Total Generic Risk | 0.918 | 1.226 | 2.234 | 7.984 | 0.898 |
| Risk Specific to Debt Securities | | 1.766 | 1.466 | 2.177 | 1.032 |
| Combined risk | 0.918 | 2.991 | 3.299 | 4.618 | 2.332 |

The fluctuations seen in 2010 were primarily due to changes in share price risk, due to both the effect of the movement in market parameters as well as the effect of the change in exposure following transactions.

The chart below indicates the backtesting of the VaR methodology on the Banca Aletti portfolio for 2010 for the generic component only.

Banca Aletti backtesting – 2010



2.2 Interest rate risk and price risk – Banking book

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods for interest rate risk and price risk

Interest rate risk on the banking book, represented by deposits, loans and repurchase agreements with interbank counterparties and ordinary customers, is managed centrally by the Forex and Money Market Department of the Parent Company.

The main exposures to price risk on the Banca Aletti banking book concern the strategic portfolio, comprising units of hedge funds, UCIs and private equity funds.

With regard to the strategic portfolio, this currently includes units of hedge funds managed by Gestielle Alternative. These funds were added to the portfolio in previous years also with a view to diversifying traditional investment portfolio results, especially in highly volatile periods.

Again with a view to diversifying banking book investments, the Bank subscribed to units of a private equity fund, "Fondo Dimensione Network". This fund does not envisage immediate payment of the subscription value, but rather a gradual series of payments on demand from the fund management company as investments corresponding to the terms of the regulation are identified.

Management procedures and methods for price risk

Price risk monitoring and control of the banking book, comprising funds of hedge funds, is performed using the internal VaR model described in the section "Interest rate risk and price risk - Regulatory trading book". Risk assessment is performed by attributing a combination of risk factors representing the management strategies to each hedge fund (together with a factor capable of representing the related specific risk component).

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual life (by repricing date) of financial assets and liabilities

Denomination currency: Positions in euro

| Type/Residual life | On demand | Up to 3 months | 3 - 6 months | 6 months – 1 year | 1 – 5 years | 5 – 10 years | Over 10 years | Infinite life |
|---------------------------------|------------------|----------------|---------------|-------------------|-------------|---------------|---------------|---------------|
| | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO |
| 1. Cash assets | 2,120,635 | 619,201 | 48,808 | 24,210 | - | 6,142 | - | - |
| 1.1 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Loans to banks | 788,696 | 522,407 | 48,808 | 24,210 | - | 2,117 | - | - |
| 1.3 Loans to customers | 1,331,939 | 96,794 | - | - | - | 4,025 | - | - |
| - current account | 9,086 | - | - | - | - | - | - | - |
| - other loans | 1,322,853 | 96,794 | - | - | - | 4,025 | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | 1,322,853 | 96,794 | - | - | - | 4,025 | - | - |
| 2. Cash liabilities | 3,554,319 | 456,679 | 48,223 | 24,191 | - | 60,881 | - | - |
| 2.1 Due to customers | 702,801 | 361,627 | 44,838 | 24,191 | - | - | - | - |
| - current account | 572,976 | - | - | - | - | - | - | - |
| - other liabilities | 129,825 | 361,627 | 44,838 | 24,191 | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | 129,825 | 361,627 | 44,838 | 24,191 | - | - | - | - |
| 2.2 Due to banks | 2,851,518 | 95,052 | 3,385 | - | - | 60,881 | - | - |
| - current account | 1,158,456 | - | - | - | - | - | - | - |
| - other liabilities | 1,693,062 | 95,052 | 3,385 | - | - | 60,881 | - | - |
| 2.3 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 3. Financial derivatives | - | - | - | - | - | - | - | - |
| 3.1 With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - |

Denomination currency: Positions in Other Currencies

| <i>Type/Residual life</i> | On demand | Up to 3 months | 3 - 6 months | 6 months – 1 year | 1 – 5 years | 5 – 10 years | Over 10 years | Infinite life |
|---------------------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|
| | Other currencies | Other currencies | Other currencies | Other currencies | Other currencies | Other currencies | Other currencies | Other currencies |
| 1. Cash assets | 167,531 | - | - | - | - | - | - | - |
| 1.1. Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Loans to banks | 90,259 | - | - | - | - | - | - | - |
| 1.3 Loans to customers | 77,272 | - | - | - | - | - | - | - |
| - current account | 2,311 | - | - | - | - | - | - | - |
| - other loans | 74,961 | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | 74,961 | - | - | - | - | - | - | - |
| 2. Cash liabilities | 323,472 | - | - | - | - | - | - | - |
| 2.1 Due to customers | 30,944 | - | - | - | - | - | - | - |
| - current account | 29,860 | - | - | - | - | - | - | - |
| - other liabilities | 1,084 | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | 1,084 | - | - | - | - | - | - | - |
| 2.2 Due to banks | 292,528 | - | - | - | - | - | - | - |
| - current account | 274,091 | - | - | - | - | - | - | - |
| - other liabilities | 18,437 | - | - | - | - | - | - | - |
| 2.3 Debt securities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with early redemption option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 3. Financial derivatives | - | - | - | - | - | - | - | - |
| 3.1 With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - |

2. Banking book: internal models and other sensitivity analysis methods

As interest rate risk regarding the Banca Aletti banking book is managed centrally by the Parent Company, no open interest rate risk positions have been recognised.

The following table illustrates 2010 VaR figures for the Banca Aletti banking book, limited to positions concerning transactions classified as AFS, FV, L&R and HTM.

The figures depend on positions in Hedge Funds classified as FV.

| “No trading” book (in millions of euro) | 2009 31-December | 2010 31-December |
|----------------------------------------------------|-----------------------------|-----------------------------|
| Interest rate risk | 0.000 | 0.000 |
| Exchange rate risk | 0.000 | 0.000 |
| Share price risk | 0.091 | 0.288 |
| Total not correlated | 0.091 | 0.288 |
| Effect of diversification | 0.000 | 0.002 |
| Combined risk | 0.091 | 0.290 |

The backtesting results were not presented, as the banking book is valued at amortised cost and is not subject to a specific P&L transaction, hence does not have the ex-post profit components to be compared with ex-ante risk estimates.

2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods for exchange rate risk

Exchange rate risk is managed centrally by the Equity Structured Products Department. The exposures are the result of transactions in exchange rate derivatives in the major currencies for a total of less than 10 million euro.

With regard to the measurement methods and control of exchange rate risk generated by the trading book, reference should be made to the description in the section “Interest rate risk and price risk – Regulatory trading book”. As for other risks, the adopted methods are not applied in the calculation of capital requirements.

B. Exchange rate risk hedging

Exposure to exchange rate risk is monitored daily and hedged so as to comply with the risk limits envisaged for each department.

QUANTITATIVE INFORMATION**1. Breakdown of assets, liabilities and derivatives by denomination currency**

| <i>(in thousands of euro)</i> | Currency | | | | | |
|-----------------------------------------|-----------------|----------------|-----------------|-----------------|------------------|------------------|
| | US Dollar | GB Pound | Swiss Franc | Japanese Yen | Norwegian Kroner | Other currencies |
| A. Financial assets | 134,795 | 12,488 | 64,242 | 107,782 | 789 | 15,847 |
| A.1 Debt securities | 7,758 | 4,954 | 6,462 | 248 | - | 1,013 |
| A.2 Equity instruments | 36,051 | 6,141 | 10,601 | 25,843 | - | 6,540 |
| A.3 Loans to banks | 6,433 | 771 | 45,880 | 77,066 | 789 | 4,462 |
| A.4 Loans to customers | 84,553 | 622 | 1,299 | 4,625 | - | 3,832 |
| A.5 Other financial assets | - | - | - | - | - | - |
| B. Other assets | 8 | - | - | - | - | - |
| C. Financial liabilities | 149,214 | 31,780 | 95,824 | 6,997 | 409 | 14,777 |
| C.1 Due to banks | 135,990 | 30,117 | 94,370 | - | - | 14,398 |
| C.2 Due to customers | 13,224 | 1,663 | 1,454 | 6,997 | 409 | 379 |
| C.3 Debt securities | - | - | - | - | - | - |
| C.4 Other financial liabilities | - | - | - | - | - | - |
| D. Other liabilities | - | - | - | - | - | - |
| E. Financial derivatives | (1,137) | 29,730 | (1,981) | (43,146) | - | 563 |
| - Options | (128,456) | 35,771 | (1,981) | (43,146) | - | 563 |
| + long positions | 269,392 | 68,660 | 32,679 | 21,320 | - | 13,382 |
| + short positions | 397,848 | 32,889 | 34,660 | 64,466 | - | 12,819 |
| - Other derivatives | 127,319 | (6,041) | - | - | - | - |
| + long positions | 226,025 | 3,138 | 134 | 13,693 | 145 | 45 |
| + short positions | 98,706 | 9,179 | 134 | 13,693 | 145 | 45 |
| Total assets | 630,220 | 84,286 | 97,055 | 142,795 | 934 | 29,274 |
| Total liabilities | 645,768 | 73,848 | 130,618 | 85,156 | 554 | 27,641 |
| Imbalance (+/-) as at 31/12/2010 | (15,548) | 10,438 | (33,563) | 57,639 | 380 | 1,633 |
| Imbalance (+/-) as at 31/12/2009 | (5,031) | (3,938) | (69,910) | 96,303 | 74 | 3,872 |

2. Internal models and other sensitivity analysis methods

The monitoring of exchange rate risk generated by the trading book and banking book is performed using an internal VaR model, described in the section "Interest rate risk and price risk - Regulatory trading book" which, in addition to the section "Interest rate risk and price risk - Banking book", provides the values assumed by this indicator.

2.4 DerivativesQUALITATIVE INFORMATION

With regard to derivative transactions the Banco Popolare Group has adopted specific, robust validation and control processes for the Pricing Model and related Market Benchmarks.

Validation and control process for Market Benchmarks

The Banco Popolare Group has a Fair Value Policy that defines the accounting rules for the valuation of market benchmarks. For the implementation of this Policy, a strict market benchmark enumeration, validation and control process is used to measure the market value and to estimate risk for derivative positions. This process is implemented by the parent company Risk Management Department.

Specifically, the process involves:

- constant updating of the Benchmarks Manual, which contains the main benchmarks used and their more important features, together with a definition of the input source;
- constant updating of the benchmark control methodologies;
- validation and control on a daily basis of the listed benchmarks, with automatic data feed from external infoproviders;
- validation and control on a daily basis of illiquid benchmarks at accounting and operating level.

In support of Group control activities, an advanced application is used (with data feed from the Front Office system and, for benchmarking purposes, by alternative, highly specialised infoproviders) to monitor long-term benchmark performance, with statistical analysis of any operational deviations and warnings.

Pricing Model validation process for OTC derivatives

For the valuation of its OTC derivative transactions the Banco Popolare Group uses quantitative pricing models in line with the best market practices already included in the Front Office application or, for particular structures, models developed in-house by Banca Aletti finance engineering.

To guarantee precise and strict governance of the process for adopting new pricing models – whether available on the market or developed internally – a validation process is used which envisages:

- action by a model validation team, formed from managers of various corporate departments and coordinated by the parent company Risk Management Department;
- model validation by strict consistency and strength testing, also conducted with support from advisors from the academic sphere;
- official validation of new models by a Financial Product Innovation Committee, involving strategic company executives.

The current Group policy envisages that the stipulation of financial instrument contracts with innovative features is permitted only after thorough verification of the reliability and accuracy of the related pricing models.

A limited number of OTC derivatives remain (equivalent to 0.1% in terms of the number of OTC contracts) for matching purposes, the complexity of which makes the fair value difficult to reproduce on in-house theoretical models.

However, it should be emphasised that Banco Popolare Group is not exposed to market risk from these products, given their use for matching purposes only. For a correct quantification of counterparty risk and correct recognition to the balance sheet, the valuation of such contracts is based on information provided by external contributors, through sources not available to the public. The percentage incidence of these instruments is in any event due to gradually diminish, as the current Group policy envisages that the stipulation of financial instrument contracts with innovative features is permitted only after thorough verification of the reliability and accuracy of the related pricing models.

QUANTITATIVE INFORMATION

The following table illustrates the total fair value of Banca Aletti derivative positions (excluding forward exchange rate transactions), in relation to the type of pricing model used. Note that as the Banco Popolare Group's investment bank, Banca Aletti manages market risk deriving from complex derivative transactions.

Table: Fair Value of derivative positions

| Aggregate (values in thousands of euro) | No. of contracts/ Trading blocks | Fair value | Positive fair value | Negative fair value |
|--------------------------------------------------------------------------------------------------------|-------------------------------------|------------------|------------------------|------------------------|
| Total | 165,439 | (582,892) | 4,212,206 | (4,795,099) |
| of which: Listed derivatives | 151,502 | (126,752) | 52,270 | (179,022) |
| of which: OTC derivatives measured using proprietary Front Office system models | 12,965 | (353,203) | 3,824,315 | (4,177,519) |
| of which: OTC derivatives measured using in-house models developed by Banca Aletti finance engineering | 958 | (102,965) | 292,066 | (395,030) |
| of which: OTC derivatives measured by external contributors | 14 | 28 | 43,555 | (43,528) |

A. Financial derivatives

A.1 Regulatory trading book: year-end and average notional values

| Underlying assets/Derivative type | Total 2010 | | Total 2009 | |
|------------------------------------------------|--------------------|------------------------|--------------------|------------------------|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| 1. Debt securities and interest rates | 214,349,780 | 7,501,121 | 181,937,208 | 8,856,620 |
| a) Options | 47,184,247 | 1,200,000 | 36,891,128 | - |
| b) Swaps | 166,697,634 | - | 145,046,080 | - |
| c) Forward contracts | 467,899 | 59 | - | - |
| d) Futures | - | 6,301,062 | - | 8,856,620 |
| e) Other | - | - | - | - |
| 2. Equity instruments and share indices | 18,609,642 | 2,756,128 | 22,039,759 | 3,179,505 |
| a) Options | 18,609,292 | 2,468,355 | 22,039,759 | 2,898,029 |
| b) Swaps | - | - | - | - |
| c) Forward contracts | 350 | 15,150 | - | - |
| d) Futures | - | 272,623 | - | 281,476 |
| e) Other | - | - | - | - |
| 3. Currencies and gold | 1,549,622 | - | 1,110,398 | - |
| a) Options | 1,353,478 | - | 906,229 | - |
| b) Swaps | - | - | - | - |
| c) Forward contracts | 196,144 | - | 204,169 | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 4. Commodities | 1,908 | 146,957 | - | - |
| 5. Other underlying assets | - | - | - | - |
| Total | 234,510,952 | 10,404,206 | 205,087,365 | 12,036,125 |
| Average values | 101,645,099 | 739,657 | 141,415,124 | 6,842,052 |

A.2 Banking book: year-end and average notional values

A.2.1 Hedging

| Underlying assets/Derivative type | Total 2010 | | Total 2009 | |
|------------------------------------------------|------------------|------------------------|------------------|------------------------|
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| 1. Debt securities and interest rates | - | - | - | - |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forward contracts | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 2. Equity instruments and share indices | - | - | - | - |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forward contracts | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 3. Currencies and gold | - | - | 5,743 | - |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forward contracts | - | - | 5,743 | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| 4. Commodities | - | - | - | - |
| 5. Other underlying assets | - | - | - | - |
| Total | - | - | 5,743 | - |
| Average values | - | - | 4,662 | - |

A.3 Financial derivatives: gross positive fair value – breakdown by product

| Book/Derivative type | Positive fair value | | | |
|--------------------------------------------|---------------------|------------------------|------------------|------------------------|
| | Total 2010 | | Total 2009 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| A. Regulatory trading book | 4,156,039 | 58,260 | 3,981,527 | 83,137 |
| a) Options | 709,754 | 58,260 | 821,583 | 83,137 |
| b) Interest rate swaps | 3,444,191 | - | 3,153,625 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forward contracts | 2,094 | - | 6,319 | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| B. Banking book - hedging | - | - | - | - |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forward contracts | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| C. Banking book – other derivatives | - | - | - | - |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forward contracts | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| Total | 4,156,039 | 58,260 | 3,981,527 | 83,137 |

A.4 Financial derivatives: gross negative fair value – breakdown by product

| Book/Derivative type | Negative fair value | | | |
|--------------------------------------------|---------------------|------------------------|------------------|------------------------|
| | Total 2010 | | Total 2009 | |
| | Over the counter | Central counterparties | Over the counter | Central counterparties |
| A. Regulatory trading book | 3,989,396 | 809,833 | 4,169,714 | 907,583 |
| a) Options | 1,018,851 | 809,833 | 1,082,081 | 907,583 |
| b) Interest rate swaps | 2,966,415 | - | 3,082,774 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forward contracts | 4,130 | - | 4,859 | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| B. Banking book - hedging | - | - | 148 | - |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forward contracts | - | - | 148 | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| C. Banking book – other derivatives | - | - | - | - |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forward contracts | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| Total | 3,989,396 | 809,833 | 4,169,862 | 907,583 |

A.5 OTC financial derivatives – regulatory trading book: notional values, gross positive and negative fair values by counterparty – contracts not covered by netting agreements

| Contracts not covered by netting agreements | Governments and central banks | Other public authorities | Banks | Finance companies | Insurance companies | Non-financial companies | Other entities |
|------------------------------------------------|-------------------------------|--------------------------|------------|-------------------|---------------------|-------------------------|----------------|
| 1) Debt securities and interest rates | | | | | | | |
| - notional value | 77,318 | - | 63,649,302 | 93,716 | 3,032,188 | - | 3,611,690 |
| - positive fair value | - | - | 1,445,905 | - | - | - | - |
| - negative fair value | - | - | 1,178,445 | - | 346,180 | - | 46,557 |
| - future exposure | - | - | 374,256 | - | 12,254 | - | 34,343 |
| 2) Equity instruments and share indices | | | | | | | |
| - notional value | - | - | 2,921,178 | 309 | 6,799,195 | - | 397,647 |
| - positive fair value | - | - | 18,046 | - | - | - | - |
| - negative fair value | - | - | 190,813 | - | 103,400 | - | 1,685 |
| - future exposure | - | - | 221,805 | 1 | 533,761 | - | 28,395 |
| 3) Currencies and gold | | | | | | | |
| - notional value | - | - | 542,820 | 24,304 | - | - | 864 |
| - positive fair value | - | - | 10,842 | 143 | - | - | - |
| - negative fair value | - | - | 9,889 | 296 | - | - | - |
| - future exposure | - | - | 7,553 | 243 | - | - | 41 |
| 4) Other values | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | 9,713 |
| - future exposure | - | - | - | - | - | - | - |

A.6 OTC financial derivatives – regulatory trading book: notional values, gross positive and negative fair values by counterparty – contracts covered by netting agreements

| Contracts covered by netting agreements | Governments and central banks | Other public authorities | Banks | Finance companies | Insurance companies | Non-financial companies | Other entities |
|------------------------------------------------|-------------------------------|--------------------------|-------------|-------------------|---------------------|-------------------------|----------------|
| 1) Debt securities and interest rates | | | | | | | |
| - notional value | - | - | 124,346,806 | 19,538,760 | - | - | - |
| - positive fair value | - | - | 2,023,499 | 288,157 | - | - | - |
| - negative fair value | - | - | 1,530,678 | 268,137 | - | - | - |
| 2) Equity instruments and share indices | | | | | | | |
| - notional value | - | - | 8,018,537 | 472,776 | - | - | - |
| - positive fair value | - | - | 337,102 | 13,488 | - | - | - |
| - negative fair value | - | - | 268,526 | 16,052 | - | - | - |
| 3) Currencies and gold | | | | | | | |
| - notional value | - | - | 899,490 | 82,144 | - | - | - |
| - positive fair value | - | - | 17,156 | 1,492 | - | - | - |
| - negative fair value | - | - | 17,430 | 1,595 | - | - | - |
| 4) Other values | | | | | | | |
| - notional value | - | - | 1,908 | - | - | - | - |
| - positive fair value | - | - | 209 | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

A.9 Residual life of OTC financial derivatives: notional values

| <i>(in thousands of euro)</i> | Up to 1 year | 1 – 5 years | Over 5 years | Total |
|-------------------------------------------------------------------|-------------------|--------------------|-------------------|--------------------|
| A. Regulatory trading book | 43,517,877 | 155,306,974 | 35,686,102 | 234,510,953 |
| A.1 Financial derivatives on debt securities and interest rates | 38,731,370 | 139,937,309 | 35,681,102 | 214,349,781 |
| A.2 Financial derivatives on equity instruments and share indices | 3,336,935 | 15,267,707 | 5,000 | 18,609,642 |
| A.3 Financial derivatives on exchange rates and gold | 1,447,664 | 101,958 | - | 1,549,622 |
| A.4 Financial derivatives on other values | 1,908 | - | - | 1,908 |
| B. Banking book | - | - | - | - |
| B.1 Financial derivatives on debt securities and interest rates | - | - | - | - |
| B.2 Financial derivatives on equity instruments and share indices | - | - | - | - |
| B.3 Financial derivatives on exchange rates and gold | - | - | - | - |
| B.4 Financial derivatives on other values | - | - | - | - |
| Total 31/12/2010 | 43,517,877 | 155,306,974 | 35,686,102 | 234,510,953 |
| Total 31/12/2009 | 39,116,527 | 128,128,930 | 37,841,909 | 205,087,366 |

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal models

For the purpose of calculating capital requirements in relation to counterparty risk, the Banco Popolare Group does not use EPE-type internal models approved by regulatory authorities.

For management and capital adequacy assessment purposes (ICAAP), the bank uses a risk assessment model for the component represented by over-the-counter (OTC) derivative transactions.

This model envisages the use of internal market risk assessment models to determine potential short-term developments in the fair value of positions, incorporating the benefits of market correlation and including the impact on guarantee agreements, applying internal PD and LGD estimates and weighting formulas as envisaged in the credit risk IRB methodology to the resulting future exposures.

For counterparty risk, a maximum risk limit at the overall Group level is in the testing process since the second half of 2010, based on the metrics described above and monitored on a monthly basis.

B. Credit Derivatives

B.1 Credit derivatives: year-end and average notional values

| Transaction category | Regulatory trading book | | Banking book | |
|--------------------------------|-------------------------|-------------------|-------------------|-------------------|
| | single underlying | underlying basket | single underlying | underlying basket |
| 1. Protection purchases | | | | |
| a) Credit default products | 165,500 | - | - | - |
| b) Credit spread products | - | - | - | - |
| c) Total rate of return swap | - | - | - | - |
| d) Other | - | - | - | - |
| Total 31/12/2010 | 165,500 | - | - | - |
| AVERAGE VALUES | 208,045 | - | - | - |
| Total 31/12/2009 | 143,589 | - | - | - |
| 2. Protection sales | | | | |
| a) Credit default products | - | - | - | - |
| b) Credit spread products | - | - | - | - |
| c) Total rate of return swap | - | - | - | - |
| d) Other | - | - | - | - |
| Total 31/12/2010 | - | - | - | - |
| AVERAGE VALUES | - | - | - | - |
| Total 31/12/2009 | - | - | - | - |

B.2 OTC credit derivatives: gross positive fair value – breakdown by product

| Book/Derivative type | Positive fair value | |
|-----------------------------------|---------------------|------------|
| | Total 2010 | Total 2009 |
| A. REGULATORY TRADING BOOK | 1,131 | - |
| a) Credit default products | 1,131 | - |
| b) Credit spread products | - | - |
| c) Total rate of return swap | - | - |
| d) Other | - | - |
| B. BANKING BOOK | - | - |
| a) Credit default products | - | - |
| b) Credit spread products | - | - |
| c) Total rate of return swap | - | - |
| d) Other | - | - |
| Total | 1,131 | - |

B.3 OTC credit derivatives: gross negative fair value – breakdown by product

| Book/Derivative type | Negative fair value | |
|-----------------------------------|---------------------|--------------|
| | Total 2010 | Total 2009 |
| A. REGULATORY TRADING BOOK | 536 | 4,057 |
| a) Credit default products | 536 | 4,057 |
| b) Credit spread products | - | - |
| c) Total rate of return swap | - | - |
| d) Other | - | - |
| B. BANKING BOOK | - | - |
| a) Credit default products | - | - |
| b) Credit spread products | - | - |
| c) Total rate of return swap | - | - |
| d) Other | - | - |
| Total | 536 | 4,057 |

B.5 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts covered by netting agreements

| <i>Contracts covered by netting agreements</i> | Governments and central banks | Other public authorities | Banks | Finance companies | Insurance companies | Non-financial companies | Other entities |
|------------------------------------------------|--------------------------------------|---------------------------------|----------------|--------------------------|----------------------------|--------------------------------|-----------------------|
| Regulatory trading book | | | | | | | |
| 1) Protection purchases | - | - | 152,065 | 15,102 | - | - | - |
| - notional value | - | - | 150,500 | 15,000 | - | - | - |
| - positive fair value | - | - | 1,029 | 102 | - | - | - |
| - negative fair value | - | - | 536 | - | - | - | - |
| 2) Protection sales | - | - | - | - | - | - | - |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| Banking book | | | | | | | |
| 1) Protection purchases | - | - | - | - | - | - | - |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| 2) Protection sales | - | - | - | - | - | - | - |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

B.6 Residual life of credit derivatives: notional values

| Underlying assets/Residual life | Up to 1 year | 1 – 5 years | Over 5 years | Total |
|-------------------------------------------------------------------------|---------------------|--------------------|---------------------|----------------|
| A. Regulatory trading book | 65,500 | 100,000 | - | 165,500 |
| A.1 Credit derivatives on loans with reference obligation - qualified | - | - | - | - |
| A.2 Credit derivatives on loans with reference obligation - unqualified | 65,500 | 100,000 | - | 165,500 |
| B. Banking book | - | - | - | - |
| B.1 Credit derivatives on loans with reference obligation - qualified | - | - | - | - |
| B.4 Credit derivatives on loans with reference obligation - unqualified | - | - | - | - |
| 31/12/2010 | 65,500 | 100,000 | - | 165,500 |
| 31/12/2009 | - | 143,589 | - | 143,589 |

B.7 Credit derivatives: counterparty risk/financial risk – Internal models

The internal model used for estimating counterparty risk for derivatives were not applied to credit derivatives.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparty

| <i>(in thousands of euro)</i> | Governments and central banks | Other public authorities | Banks | Finance companies | Insurance companies | Non-financial companies | Other entities |
|-----------------------------------------------------|-------------------------------|--------------------------|---------|-------------------|---------------------|-------------------------|----------------|
| 1) Bilateral financial derivative agreements | | | | | | | |
| - positive fair value | - | - | 559,618 | 116,735 | - | - | - |
| - negative fair value | - | - | 178,221 | 99,382 | - | - | - |
| - future exposure | - | - | 291,715 | 72,670 | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| 2) Bilateral credit derivative agreements | | | | | | | |
| - positive fair value | - | - | - | 102 | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - future exposure | - | - | - | 1,500 | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| 3) Cross-product agreements | | | | | | | |
| - positive fair value | - | - | 216,914 | - | - | - | - |
| - negative fair value | - | - | 36,487 | - | - | - | - |
| - future exposure | - | - | 206,127 | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |

Section 3

Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods for liquidity risk

Liquidity risk is generated by a very short-term mismatch between expected incoming and outgoing cash flows. In addition to the difficulty/impossibility of hedging against these mismatches, liquidity risk can also lead to interest rate risk arising from the need to raise/use funds at unknown and potentially disadvantageous rates.

During 2010, the Banco Popolare Group implemented its liquidity risk management and control system and is completing the 2010 QIS questionnaire. The study conducted under Bank of Italy guidelines resulted, at the end of year, in the central bank issuing new supervisory regulations for this area, which will become effective at different points in time. In 2011, the Group will complete the implementation of the new European Community regulations.

First level control of liquidity risk is covered by the daily monitoring and control of cumulative mismatches in operating liquidity, generated from transactions with interbank and institutional counterparties, using the following time buckets: overnight, 14 days, 1 month, 3 months and 6 months.

Monitoring of the operating liquidity risk limits, as for the first level controls, is assigned to the ALM and Asset Backed Funding Departments of the Group Finance Division, whereas the Transformation and Operational Risk Department of the Risk Management Division is responsible for second level control.

Second level control of liquidity risk involves the monitoring of any structural liquidity mismatch, generated from transactions regarding the entire banking book, using the following time buckets: 14 days, 1 month, 3 months and 6 months. Monitoring of structural liquidity risk limits is handled by the Transformation and Operational Risk Department of the Risk Management Division.

Third level monitoring of liquidity risk involves the measurement and management of structural liquidity risk by the ALM and Asset Backed Funding Departments of the Group Finance Division.

The measurement of structural liquidity risk, i.e. lack of cash resources necessary to fund financial outgoings, is performed on processors produced by the Operating Asset & Liability Management procedure, in particular the simulation module which is also used to measure interest rate risk.

Structural liquidity risk is measured from both a static point of view, measuring liquidity needs by building liquidity gaps into each time bucket (the difference between due commitments and deposits) and from a dynamic point of view, determining liquidity needs in various scenarios characterised by a change in certain financial balances capable of affecting the time-related liquidity profile.

In identifying Group liquidity risk an important role is played by the thorough, constant and daily measurement of counterbalancing capacity, a readily available reserve of liquidity which essentially comprises securities – prior to planned haircuts – the characteristics of which can be determined in advance by the European Central Bank. For its counterbalancing capacity the Group adopts a restrictive definition that takes into consideration only the positions on individual securities exceeding 5 million euro.

QUANTITATIVE INFORMATION

1.1 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in euro

| | On demand | 1 - 7 days | | 7 - 15 days | | 15 days – 1 month | | 1 - 3 months | | 3 - 6 months | | 6 months – 1 year | | 1 – 5 years | | Over 5 years | | Infinite life | |
|-----------------------------------------------|------------------|----------------|---------------|----------------|------------------|-------------------|----------------|----------------|----------------|---------------|---------------|-------------------|--------------|---------------|---------------|--------------|--------------|---------------|--------------|
| | | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO | EURO |
| Cash assets | 2,045,086 | 3,491 | 28,887 | 268,067 | 1,088,736 | 170,957 | 219,962 | 776,754 | 106,551 | - | - | - | - | - | - | - | - | - | - |
| A.1 Government securities | - | - | - | - | 652,062 | 2,028 | 512 | 18,619 | 10,042 | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | 349 | 29,982 | 87,587 | 120,121 | 195,240 | 758,135 | 90,367 | - | - | - | - | - | - | - | - | - | - |
| A.3 UCI units | 24,304 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| A.4 Loans: | 2,020,782 | 3,491 | 28,538 | 238,085 | 349,087 | 48,808 | 24,210 | - | 6,142 | - | - | - | - | - | - | - | - | - | - |
| - Banks | 788,696 | 3,491 | 28,538 | 141,291 | 349,087 | 48,808 | 24,210 | - | 2,117 | - | - | - | - | - | - | - | - | - | - |
| - Customers | 1,232,086 | - | - | 96,794 | - | - | - | - | 4,025 | - | - | - | - | - | - | - | - | - | - |
| Cash liabilities | 3,168,745 | 5,878 | 18,805 | 18,632 | 413,432 | 48,229 | 24,191 | 467 | 60,881 | - | - | - | - | - | - | - | - | - | - |
| B.1 Deposits and current accounts | 2,520,009 | - | - | - | - | - | - | - | 60,881 | - | - | - | - | - | - | - | - | - | - |
| - Banks | 1,947,033 | - | - | - | - | - | - | - | 60,881 | - | - | - | - | - | - | - | - | - | - |
| - Customers | 572,976 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 648,736 | 5,878 | 18,805 | 18,632 | 413,432 | 48,229 | 24,191 | 467 | - | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet transactions | 6,903,575 | 810,559 | 6,241 | 165,477 | 279,812 | 382,626 | 386,396 | 397,796 | 66,317 | 19,000 | 19,000 | 9,500 | 9,500 | 25,444 | 25,444 | 9,500 | 9,500 | 9,500 | 9,500 |
| C.1 Financial derivatives with equity swap | - | 545,024 | 6,241 | 165,477 | 279,812 | 382,626 | 386,396 | 397,796 | 66,317 | 19,000 | 19,000 | 9,500 | 9,500 | 25,444 | 25,444 | 9,500 | 9,500 | 9,500 | 9,500 |
| - Long positions | - | 250,732 | 5,111 | 122,754 | 128,962 | 187,502 | 195,735 | 271,097 | 40,873 | 40,873 | 40,873 | 9,500 | 9,500 | 25,444 | 25,444 | 9,500 | 9,500 | 9,500 | 9,500 |
| - Short positions | - | 294,292 | 1,130 | 42,723 | 150,850 | 195,124 | 190,661 | 126,699 | 25,444 | 25,444 | 25,444 | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 | 9,500 |
| C.2 Financial derivatives without equity swap | 6,902,851 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | 3,718,282 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | 3,184,569 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | 265,535 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | 265,535 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees granted | 724 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

1.2 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in US Dollars

| (in thousands of euro) | On demand | | 1 - 7 days | | 7 - 15 days | | 15 days – 1 month | | 1 - 3 months | | 3 - 6 months | | 6 months – 1 year | | 1 – 5 years | | Over 5 years | | Infinite life | | |
|-----------------------------------------------|----------------|--------|------------|--------|-------------|---------|-------------------|---------|--------------|--------|--------------|-----|-------------------|-----|-------------|-----|--------------|-----|---------------|-----|---|
| | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | |
| Cash assets | | | | | | | | | | | | | | | | | | | | | |
| A.1 Government securities | 77,017 | - | - | - | - | - | 271 | 1,328 | 327 | 3,216 | 1,622 | 693 | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | 271 | 1,328 | 327 | 3,216 | 1,622 | 693 | - | - | - | - | - | - | - | - | - |
| A.3 UCI units | - | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| A.4 Loans: | 77,017 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Banks | 6,432 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Customers | 70,585 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash liabilities | 155,892 | | | | | | | | | | | | | | | | | | | | |
| B.1 Deposits and current accounts | 154,137 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Banks | 135,320 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Customers | 18,817 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 1,755 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet transactions | 37,005 | | | | | | | | | | | | | | | | | | | | |
| C.1 Financial derivatives with equity swap | 6 | 32,320 | 4,946 | 62,689 | 138,211 | 234,777 | 489,736 | 232,911 | 144 | 18,710 | | | | | | | | | | | |
| - Long positions | 6 | 30,075 | 4,946 | 62,689 | 138,211 | 234,777 | 489,736 | 232,911 | 144 | 18,710 | | | | | | | | | | | |
| - Short positions | - | 13,982 | 20 | 24,741 | 58,476 | 115,716 | 277,722 | 105,991 | 71 | 9,355 | | | | | | | | | | | |
| C.2 Financial derivatives without equity swap | 36,999 | 16,093 | 4,926 | 37,948 | 79,735 | 119,061 | 212,014 | 126,920 | 73 | 9,355 | | | | | | | | | | | |
| - Long positions | 18,869 | 2,245 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | 18,130 | 2,245 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees granted | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

1.2 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in GB Pounds

| (in thousands of euro) | On demand | | 1 - 7 days | | 7 - 15 days | | 15 days - 1 month | | 1 - 3 months | | 3 - 6 months | | 6 months - 1 year | | 1 - 5 years | | Over 5 years | | Infinite life | | |
|-----------------------------------------------|---------------|---------------|------------|------------|---------------|---------------|-------------------|-----------|--------------|-----------|--------------|-----------|-------------------|-----------|-------------|-----------|--------------|-----------|---------------|-----------|-----------|
| | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | GBP | |
| Cash assets | 1,393 | - | - | - | - | - | - | - | 1,559 | 3,465 | - | - | - | - | - | - | - | - | - | - | - |
| A.1 Government securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | 1,559 | 3,465 | - | - | - | - | - | - | - | - | - | - | - |
| A.3 UC1 units | - | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| A.4 Loans: | 1,393 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Banks | 771 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Customers | 622 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash liabilities | 33,824 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.1 Deposits and current accounts | 33,717 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Banks | 30,010 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Customers | 3,707 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 107 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet transactions | 10,934 | 12,341 | 789 | 110 | 37,912 | 75,673 | 4,838 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 |
| C.1 Financial derivatives with equity swap | - | 12,341 | 789 | 110 | 37,912 | 75,673 | 4,838 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 |
| - Long positions | - | 12,341 | 789 | 110 | 37,912 | 75,673 | 4,838 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 |
| - Short positions | - | 3,152 | 789 | 110 | 21,434 | 41,663 | 4,665 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| C.2 Financial derivatives without equity swap | 10,934 | 9,189 | - | - | 16,478 | 34,010 | 173 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | 4,242 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | 6,692 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees granted | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

1.2 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in Swiss Francs

| (in thousands of euro) | On demand | | 1 - 7 days | | 7 - 15 days | | 15 days – 1 month | | 1 - 3 months | | 3 - 6 months | | 6 months – 1 year | | 1 – 5 years | | Over 5 years | | Infinite life | | |
|-----------------------------------------------|---------------|-----|------------|-----|-------------|-----|-------------------|-----|--------------|-----|--------------|-------|-------------------|-----|-------------|-----|--------------|-----|---------------|-----|---|
| | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF | |
| Cash assets | | | | | | | | | | | | | | | | | | | | | |
| A.1 Government securities | 755 | - | - | - | - | - | - | - | - | - | 6,558 | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | - | - | - | 6,558 | - | - | - | - | - | - | - | - | - |
| A.3 UCI units | - | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| A.4 Loans: | 755 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Banks | 739 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Customers | 16 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash liabilities | 97,330 | | | | | | | | | | | | | | | | | | | | |
| B.1 Deposits and current accounts | 97,323 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Banks | 94,363 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Customers | 2,960 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 7 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet transactions | 11,894 | | | | | | | | | | | | | | | | | | | | |
| C.1 Financial derivatives with equity swap | - | 671 | 662 | 226 | 436 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| - Long positions | - | 662 | 662 | 226 | 436 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.2 Financial derivatives without equity swap | 11,894 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | 5,656 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | 6,238 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees granted | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

1.2 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in Other Currencies

| (in thousands of euro) | On demand | 1 - 7 days | | 7 - 15 days | | 15 days – 1 month | | 1 - 3 months | | 3 - 6 months | | 6 months – 1 year | | 1 – 5 years | | Over 5 years | | Infinite life | |
|-----------------------------------------------|---------------|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES | OTHER CURRENCIES |
| Cash assets | 88,367 | - | 743 | - | - | - | - | - | - | - | - | 116 | 201 | - | 249 | - | - | - | - |
| A.1 Government securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | 743 | - | - | - | - | - | - | - | - | 116 | 201 | - | 249 | - | - | - | - |
| A.3 UCI units | - | - | X | - | - | - | - | X | - | X | - | X | X | - | X | - | - | - | X |
| A.4 Loans: | 88,367 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Banks | 82,317 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Customers | 6,050 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash liabilities | 18,683 | - | - | - | - | - | - | - | - | - | - | - | 21 | - | - | - | - | - | - |
| B.1 Deposits and current accounts | 18,683 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Banks | 14,307 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Customers | 4,376 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | 21 | - | - | - | - | - |
| Off-balance sheet transactions | 8,788 | 30,206 | 36,950 | 377 | 377 | 36,950 | 69,273 | 69,273 | 69,273 | 28,047 | 28,047 | 9,105 | 15,630 | 1,189 | 1,189 | 15,630 | 1,189 | 1,189 | 1,189 |
| C.1 Financial derivatives with equity swap | - | 27,948 | 36,950 | 377 | 377 | 36,950 | 69,273 | 69,273 | 69,273 | 28,047 | 28,047 | 9,105 | 15,630 | 1,189 | 1,189 | 15,630 | 1,189 | 1,189 | 1,189 |
| - Long positions | - | 15,393 | 10,364 | 372 | 372 | 10,364 | 8,839 | 8,839 | 8,839 | 13,823 | 13,823 | 3,609 | 6,946 | 573 | 573 | 6,946 | 573 | 573 | 573 |
| - Short positions | - | 12,555 | 26,586 | 5 | 5 | 26,586 | 60,434 | 60,434 | 60,434 | 14,224 | 14,224 | 5,496 | 8,684 | 616 | 616 | 8,684 | 616 | 616 | 616 |
| C.2 Financial derivatives without equity swap | 8,788 | 2,258 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | 4,464 | 9 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | 4,324 | 2,249 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to disburse funds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees granted | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

Section 4

Operational risk

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods for operational risk

Nature of the risk

Operational risk is defined as the risk of losses suffered as a result of inadequacy or malfunction of procedures, human resources and internal systems, or from external events.

Strategic risk and reputation risk are not included in this definition, but it does include legal risk, intended as a risk deriving from the violation of current laws and other regulations, failure to comply with contractual and off-contract responsibilities, and from other disputes that could arise with counterparties as a result of operational inefficiency.

Sources of the risk

The main sources of operational risk are: lack of reliability – in effectiveness/efficiency terms – of operating processes, internal and external fraud, operating errors, the quality level of physical and logistics security, inadequacy of the IT system compared to the extent of operations, increasing recourse to automation, outsourcing of company business activities, the use of a limited number of providers, changes in strategy, incorrect human resource management and training policies and, lastly, social and environmental impact.

Risk management model and the organisational structure

The Banco Popolare Group has adopted a risk management model that incorporates the management methods and players involved in the identification, measurement, monitoring, mitigation and reporting processes. The content of the model is included in a Group Regulation approved by the Corporate Governance bodies in 2008.

In order to implement adequate operating policies for this type of risk, also in compliance with special regulatory requirements, specific roles were defined in terms of governance, management and control of the operational risk model.

With regard to the identification and measurement steps for operational risk, the Banco Popolare Group has defined an in-house VaR logic model based on quantitative and qualitative analysis.

The quantitative assessment is first of all based on internal loss data recorded and stored on a dedicated IT application, in compliance with specific regulatory provisions which in this respect envisage processes linked to the operations used for accounting records for those losses. As such, a system has been developed offering automated loss collection and accounting of commercial repayments and operating losses for the sales networks. The loss collection process also contemplates a verification and certification system based on operational risk data, guaranteeing the completeness, quality and accuracy of individual loss records.

Secondly, for quantitative assessment purposes external loss data available to the Group are also used, particularly with regard to DIPO consortium back flows. DIPO was set up as part of the ABI (Italian Banking Association) by the major Italian Banking Groups, the Banco Popolare Group being a member since the consortium was set up.

The qualitative risk assessment is performed to enhance the available quantitative data, particularly in cases where there is no historic loss data to indicate the level of risk associated with specific events (especially low frequency-high impact events) or tasks involving review of business operations are in progress that change the exposure level, in general adding perspective to the overall assessments. Risk Assessment data are gathered periodically by a structured process involving managers of the various departments.

The Banco Popolare Group has implemented a capital requirement calculation model in compliance with the standard approach rules envisaged in the new Supervisory Instructions.

Regarding the in-house VaR calculation model, the configuration of which was completed in 2008, function analysis continued in 2010 to fine-tune and calibrate this tool. The model's Group results are used at management level.

The Banco Popolare Group has implemented a reporting model which specifically envisages:

- a) a managerial IT system, with analysis and assessment of all matters related to operational risk (in particular significant losses and related recoveries, overall assessment of the risk profile, capital absorption and risk management policies implemented and/or planned);
- b) an operative reporting system, intended as a tool for the operations departments involved in loss collection processes, useful for adequate risk management in their respective areas.

The tasks planned and implemented by the Group for operational risk have allowed adoption of the standardised method, effective since the Supervisory Instructions of 30 June 2008, combined with the basic method applied only to Group companies which, cumulatively, do not exceed the sizing envisaged in the regulatory provisions (former Italease Group companies which at 31 December 2010 were included in the Banco Popolare Group consolidation area use this last method).

To implement the standardised method, the Group organisational model envisages centralised risk management by specific parent company departments operating directly on behalf of the subsidiaries, making use of decentralised local risk management contacts where companies have adopted the standardised method.

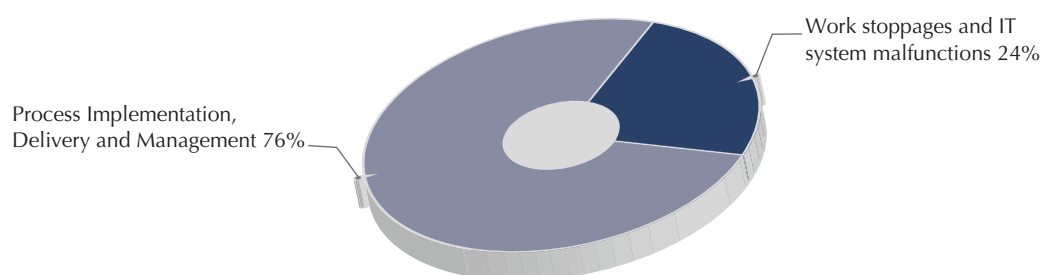
Legal disputes

For a description of the primary legal disputes and the possible related losses, refer to “Part B - Liabilities Data - Section 12 Provisions for risks and charges”.

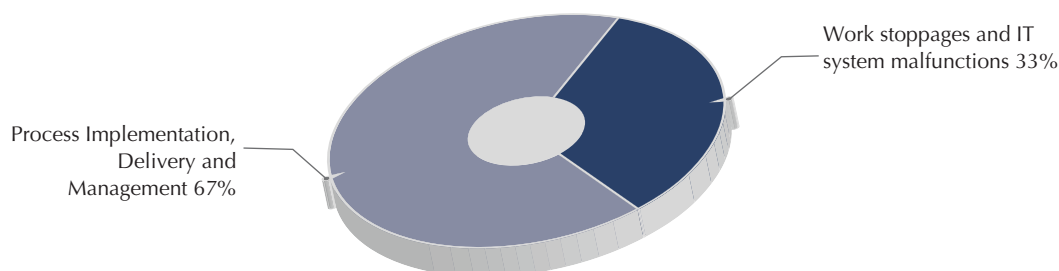
QUANTITATIVE INFORMATION

With regard to sources of operational risk, an analysis was conducted on pure operational risk events, with gross losses in the income statement equal to or greater than 5,000 euro and with an event starting date in 2010, recorded in the Group loss collection archive. The loss data were grouped by event type with breakdown by impact and frequency, in accordance with the event classification format envisaged in the new Supervisory Instructions.

Gross loss breakdown



Frequency breakdown



In the perimeter under consideration, a limited number of low-impact events were included, relative to process errors and information system malfunctions.

PART F – INFORMATION ON CAPITAL

Section 1 – Capital and reserves

The information provided below refers to the breakdown of regulatory capital calculated as envisaged in current Bank of Italy instructions, and in particular the new formats established in Circular no. 155/91 on implementation of European directives on capital adequacy (2006/48/EC and 2006/49/EC) – i.e. Basel 2 – implemented by Circular no. 263 “New prudential supervisory instructions for banks”.

B.1 Capital and reserves: breakdown

| <i>(in thousands of euro)</i> | 2010 | 2009 |
|----------------------------------------------------------------------------|----------------|----------------|
| 1. Share capital | 121,164 | 121,164 |
| 2. Share premium reserve | 72,590 | 72,590 |
| 3. Reserves | 243,486 | 238,252 |
| - profit | 243,486 | 238,252 |
| a) legal | 24,233 | 24,233 |
| b) statutory | - | - |
| c) own shares | - | - |
| d) other | 219,253 | 214,019 |
| - other | - | - |
| 4. Equity instruments | - | - |
| 5. (Own shares) | - | - |
| 6. Valuation reserves: | 2,724 | 1,735 |
| - Available-for-sale financial assets | 2,724 | 1,735 |
| - Property, plant and equipment | - | - |
| - Intangible assets | - | - |
| - Foreign investment hedges | - | - |
| - Cash flow hedges | - | - |
| - Exchange differences | - | - |
| - Discontinued operations | - | - |
| - Actuarial gains (losses) on defined benefit plans | - | - |
| - Portion of valuation reserves relating to investments measured at equity | - | - |
| - Special revaluation laws | - | - |
| 7. Profit (Loss) for the year | 136,502 | 162,559 |
| Total | 576,466 | 596,300 |

B.2 Valuation reserves – available-for-sale financial assets: breakdown

| <i>(in thousands of euro)</i> | Total 2010 | | Total 2009 | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities | - | - | - | - |
| 2. Equity instruments | 2,724 | - | 1,735 | - |
| 3. UCI units | - | - | - | - |
| 4. Loans | - | - | - | - |
| Total | 2,724 | - | 1,735 | - |

The net positive reserve can be broken down as follows:

- London Stock Exchange for 2,480 thousand euro;
- SIA-SSB for 242 thousand euro;
- Sivori – UnicaSim for 2 thousand euro.

B.3 Valuation reserves – available-for-sale financial assets: annual changes

| <i>(in thousands of euro)</i> | Debt securities | Equity instruments | UCI units | Loans |
|-------------------------------------------------------------------------------|-----------------|--------------------|-----------|-------|
| 1. Opening balances | - | 1,735 | - | - |
| 2. Positive changes | - | 1,205 | - | - |
| 2.1 Increases in fair value | - | 1,197 | - | - |
| 2.2 Reversal of negative reserves to the income statement: | - | - | - | - |
| due to impairment | - | - | - | - |
| due to realisation | - | - | - | - |
| 2.3 Other changes | - | 8 | - | - |
| 3. Negative changes | - | (216) | - | - |
| 3.1 Decreases in fair value | - | - | - | - |
| 3.2 Write-downs for impairment | - | (141) | - | - |
| 3.3 Reversal of positive reserves to the income statement: due to realisation | - | - | - | - |
| 3.4 Other changes | - | (75) | - | - |
| 4. Closing balances | - | 2,724 | - | - |

Section 2 – Regulatory capital and ratios**Scope of application of the regulations**

The regulatory capital and ratios are calculated in compliance with Bank of Italy instructions in Circular no. 263 of 27 December 2006 (“New prudential supervisory instructions for banks”) and Circular no. 155 of 18 December 1991 (“Reporting instructions for regulatory capital and prudential ratios”), as amended.

In 2009, European Community institutions approved various measures (Directive 2009/27/EC, 2009/83/EC and 2009/111/EC, collectively known as “CRD II”) that strengthen European prudential regulation in light certain weaknesses that were evident after the 2007-2008 financial crisis as well as resolving uncertainties in interpreting certain regulations (Directive 2006/48/EC and 2006/49/EC).

With recent updates to Circular no. 263, certain of these innovations were applied in Italy for banks and banking groups, also implementing the related guidelines subsequently issued by the Committee of European Banking Supervisors (CEBS).

2.1 Regulatory capital**A. QUALITATIVE INFORMATION**

Pursuant to Circular no. 263, the regulatory capital comprises the sum of Tier 1 capital – included in the calculation without restrictions – and Tier 2 capital, included up to the maximum limit for Tier 1 capital. Deducted from these aggregates are equity investments, innovative and non-innovative equity instruments, hybrid capitalisation instruments and subordinated assets, held by other banks and finance companies not pertaining to the Group.

Also deducted are investments in insurance companies and subordinated liabilities issued by such companies, if the issuer calculates them for capital purposes, as well as additional elements linked to the capital requirements calculation.

For both Tier 1 and Tier 2 capital specific adjustments are applied (so-called “prudential filters”) in order to protect the quality of regulatory capital and to reduce potential volatility associated with the adoption of new IAS/IFRS accounting standards.

Beginning in this year, as regards the revaluation reserve for debt securities in the AFS portfolio and issued by government authorities in the European Union, our Banking Group and bank, chose to use a symmetrical approach that completely offsets both the gains and losses, as provided for in the Bank of Italy Measure of 18 May 2010.

Again, pursuant to Circular no. 263, the effects of the change in the bank’s credit rating were extended to all fair value financial liabilities. Note that currently in our Group, the only financial liabilities that are affected by changes in the credit rating are bond loans classified under the fair value option used to resolve accounting mismatching between the valuation of the security and the underlying derivative.

1. Tier 1 capital

Tier 1 Capital primarily consists of paid-up capital, reserves (including share premium reserves) and profit for the year (according to the allocation proposal), net of intangible assets recorded under Assets item 120 and own shares in portfolio.

The 5th update of 22 December 2010 to Circular no. 263 introduced more restrictive criteria for calculating share capital as well as non-innovative and innovative equity instruments. A transitory system, in effect through 31 December 2020, was established that permits the inclusion of securities representing share capital and non-innovative and innovative equity instruments that were issued prior to 31 December 2010 in the calculation of Tier 1 capital, which do not comply with the new criteria envisage in subsections 3 and 4 of Document I, chapter 2, section II.

The Tier 1 capital does not include innovative or non-innovative equity instruments.

2. Tier 2 capital

Tier 2 capital mainly comprises valuation reserves, subordinated liabilities issued (for the portion calculated pursuant to the previously indicated regulation) as well as any preference shares not included in Tier 1 Capital.

3. Deductions from regulatory capital

This includes:

- a) a 20% share in a Securities Brokerage Company, entirely deducted;
- b) various equity interests in banks and financial company, each less than 10% of the entity's share capital;
- c) subordinated instruments issued by banks, if not equity investments, held in the proprietary portfolio.

The elements in points b) and c) were deducted for the portion of their overall amount that exceeds 10% of the value of Tier 1 and Tier 2 capital before deductions.

The aggregate amount of deductions was recognised in Tier 1 and Tier 2 capital within their respective capacity limits.

4. Tier 3 capital

There are no Tier 3 capital components.

B. QUANTITATIVE INFORMATION

| <i>(in thousands of euro)</i> | Total 2010 | Total 2009 |
|---------------------------------------------------------------------|----------------|----------------|
| A. Tier 1 capital prior to application of prudential filters | 425,981 | 417,258 |
| B. Tier 1 prudential filters | | |
| B.1 Positive IAS/IFRS prudential filters | - | - |
| B.2 Negative IAS/IFRS prudential filters | - | - |
| C. Tier 1 capital gross of items to be deducted (A+B) | 425,981 | 417,258 |
| D. Items to be deducted from Tier 1 capital | 27,195 | 3,894 |
| E. Total Tier 1 capital (C-D) | 398,786 | 413,364 |
| F. Tier 2 capital prior to application of prudential filters | 2,724 | 1,735 |
| G. Tier 2 prudential filters | (1,362) | (868) |
| G.1 Positive IAS/IFRS prudential filters | - | - |
| G.2 Negative IAS/IFRS prudential filters | (1,362) | (868) |
| H. Tier 2 capital gross of items to be deducted (F+G) | 1,362 | 868 |
| I. Items to be deducted from Tier 2 capital | (14,279) | (868) |
| L. Total Tier 2 capital (H-I) | - | - |
| M. Items to be deducted from Tier 1 and Tier 2 capital | - | - |
| N. Regulatory capital (E+L-M) | 398,786 | 413,364 |
| O. Tier 3 capital | - | - |
| P. Regulatory capital including Tier 3 (N+O) | 398,786 | 413,364 |

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

According to prudential regulations, the total capital requirement is the sum of capital requirements prescribed for credit, counterparty, market and operational risk.

For credit, counterparty, market and operational risk the respective "standardised approaches" have been adopted.

As the Bank is a member of a banking Group that complies with the minimum capital requirement of 8% of risk-weighted assets, it benefits from the 25% regulatory reduction.

B. QUANTITATIVE INFORMATION

According to Chapter 2, paragraph 7, Part F of Circular no. 262 ("Bank financial statements: presentation formats and rules"), in the standardised approach, the values for "unweighted amounts" correspond to the exposure value that takes prudential filters, risk mitigation techniques and credit conversion factors into account (E* in regulatory reports multiplied by the credit conversion factors for guarantees and commitments).

In items C.1, C.2 and C.3, the total of risk-weighted assets is always calculated as the total capital requirements (item B.6) multiplied by 12.5 (the opposite of the minimum compulsory requirement of 8%).

The Bank complies with the minimum compulsory capital requirement for Group banks.

| Classes/Values | Unweighted amounts | | Weighted amounts/requirements | |
|----------------------------------------------|--------------------|-----------|-------------------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| A. RISK ASSETS | | | | |
| A.1 Credit risk and counterparty risk | | | | |
| 1. Standardised approach | 4,774,512 | 7,095,694 | 389,786 | 430,252 |
| 2. Method based on internal ratings (1) | | | | |
| 2.1 Basic approach | - | - | - | - |
| 2.2 Advanced measurement approach | - | - | - | - |
| 3. Securitisations | - | 23 | - | 289 |
| B. REGULATORY CAPITAL REQUIREMENTS | | | | |
| B.1 Credit risk and counterparty risk | | | 31,183 | 34,443 |
| B.2 Market risk (2) | | | 182,539 | 206,756 |
| 1. Standardised approach | | | 182,539 | 206,756 |
| 2. Internal models | | | - | - |
| 3. Concentration Risk | | | - | - |
| B.3 Operational risk | | | 50,741 | 49,640 |
| 1. Basic approach | | | - | - |
| 2. Standardised approach | | | 50,741 | 49,640 |
| 3. Advanced measurement approach | | | - | - |
| B.4 Other prudential requirements | | | - | - |
| B.5 Other calculation components | | | (66,116) | (72,710) |
| B.6 Total prudential requirements (3) | | | 198,347 | 218,129 |
| C. RISK ASSETS AND REGULATORY RATIOS | | | | |
| C.1 Risk-weighted assets | | | 2,479,337 | 2,726,618 |
| C.2 Tier 1 capital ratio | | | 16.08% | 15.16% |
| C.3 Total capital ratio | | | 16.08% | 15.16% |

(1) Includes exposures relating to equity instruments.

(2) The items "standardised approach" and "internal models" also include the capital requirement for regulatory risk.

(3) In the total prudential requirements calculation, banks pertaining to Italian banking groups also take into account the 25% reduction in requirements. Banks and banking groups that calculate credit risk and counterparty risk capital requirements according to the IRB method or for operational risk according to the AMA method, the envisaged floor is also taken into account.

PART H – RELATED PARTY TRANSACTIONS

1. Information on director and executive remuneration

| <i>(in thousands of euro)</i> | 2010 AMOUNTS | | 2009 AMOUNTS | |
|-------------------------------|--------------|------------|--------------|------------|
| | DIRECTORS | EXECUTIVES | DIRECTORS | EXECUTIVES |
| Gross annual remuneration | 632 | 695 | 367 | 694 |
| Short-term benefits | 82 | 18 | - | 99 |
| Post-employment benefits | 4 | 9 | - | 9 |
| Severance indemnity | 22 | 25 | - | 39 |
| Total | 740 | 747 | 367 | 841 |

In order to fully comply with regulatory requirements, the Banco Popolare Group companies have adopted procedural and material rules on the classification of “related party transactions”, envisaging membership of a Group system to keep such transactions under constant observation.

A board of directors regulation was therefore adopted which involves the implementation of a Group database including data based on declarations submitted by individual company officers.

The Boards of Directors of the Group companies are periodically informed of transactions completed with related parties through reports indicating the aggregate figures (where such transactions are ordinary and significant) and with itemised figures if the transactions are unusual or atypical.

It is important to emphasise that, in this respect and from a more extensive prudential point of view, the Group has decided to consider Group company “related parties” to be both persons “related” to the company itself and persons “related” at group level. The figures in the following tables take this configuration into account.

With regard to relations with related parties, as defined by IAS 24, art. 2359 “Subsidiaries and associates”, Italian Civil Code and the Issuers’ Regulation (Consob Resolution no. 11971/99, as amended), it should be specified that transactions with such parties during the year formed part of the normal business activities of the company in whose interest the transactions were completed, promptly settled at arm’s length conditions, and therefore bear no indication of conflict of interest.

2. Information on related party transactions

Transactions with Group companies

The transactions with related parties are listed below.

| <i>(in thousands of euro)</i> | Parent company | Other group companies | Subsidiaries | Associates | Strategic executives | Other related parties | TOTAL | % impact on financial statements |
|--------------------------------------------------|-----------------|-----------------------|--------------|--------------|----------------------|-----------------------|------------------|----------------------------------|
| Financial assets held for trading | 1,317,997 | 578,000 | - | - | - | 1,055 | 1,897,052 | 30.8% |
| Due from banks | 1,111,454 | 77,531 | - | 289 | - | - | 1,189,274 | 37.5% |
| Due from customers | - | 1,503 | - | 1,313 | - | - | 2,816 | 0.2% |
| Other asset items | 47,382 | 8,392 | 725 | - | - | - | 56,499 | 43.4% |
| Due to banks | 1,391,856 | 142,608 | - | - | - | 251 | 1,534,715 | 49.0% |
| Due to customers | - | 6 | 1,959 | 93,029 | 935 | 16,457 | 112,386 | 6.6% |
| Financial liabilities held for trading | 715,419 | 616,087 | - | 434,575 | - | 220 | 1,766,301 | 34.5% |
| Hedging derivatives | - | - | - | - | - | - | - | 0.0% |
| Other liability items | 67,448 | 16,996 | 513 | 5 | 169 | 1,587 | 86,718 | 72.9% |
| Guarantees granted and commitments | - | 1,623 | - | 830 | - | - | 2,453 | 0.2% |
| Interest income and similar revenues | 15,983 | 6,164 | - | 5 | - | - | 22,152 | 6.8% |
| Interest expense and similar interest | (19,861) | (487) | (8) | (5) | (4) | (45) | (20,410) | 7.6% |
| Commission income | 1,125 | 16,892 | - | 1,594 | - | - | 19,611 | 12.3% |
| Commission expense | (21) | (103,991) | - | - | - | - | (104,012) | 111.0% |
| Earnings margin | (2,774) | (81,422) | (8) | 1,594 | (4) | (45) | (82,659) | -68.4% |
| Administrative expense | (11,607) | (28,046) | (534) | - | (1,472) | - | (41,659) | 34.9% |
| - Staff costs | (461) | (1,835) | 316 | - | (1,472) | - | (3,452) | 6.0% |
| - Other administrative expense | (11,146) | (26,211) | (850) | - | - | - | (38,207) | 61.7% |
| Other operating income/expense | 149 | 6,485 | 339 | (270) | (20) | - | 6,683 | 47.3% |
| Costs/Revenues for groups of discontinued assets | - | (661) | - | - | - | - | (661) | -192.2% |
| Other income and charges | - | - | - | 95 | - | - | 95 | -0.1% |
| Profit/(Loss) for the year | (14,232) | (103,644) | (203) | 1,419 | (1,496) | (45) | (118,201) | 221.0% |
| Direct deposits | - | - | - | - | 935 | 16,449 | 17,384 | 1.9% |
| Indirect deposits | - | - | - | - | 26,690 | 423,966 | 450,656 | 2.9% |

PART L – OPERATING SEGMENTS

Banca Aletti has decided to adopt the “assets segment” as the segment representing its core business.

Breakdown by business segment – Income statement data

| <i>(in thousands of euro)</i> | <i>Investment Banking</i> | <i>Wealth Management and Sales</i> | <i>Total 31/12/2010</i> |
|----------------------------------------------------------------------------------------|-------------------------------|--------------------------------------------|-----------------------------|
| 1) EARNINGS MARGIN | 27,569 | 2,536 | 30,105 |
| 2) Other operating income | 159,052 | 101,132 | 260,184 |
| 3) OPERATING INCOME (1+2) | 186,621 | 103,668 | 290,289 |
| 4) Operating costs | (35,675) | (63,872) | (99,547) |
| 5) OPERATING PROFIT (3+4) | 150,946 | 39,796 | 190,742 |
| 6) Write-downs, provisions and gains/(losses) from measurement/disposal of investments | 590 | (1,179) | (589) |
| 7) PROFIT/(LOSS) ON CURRENT OPERATIONS BEFORE TAX | 151,536 | 38,616 | 190,152 |

Breakdown by business segment – Balance sheet data

| <i>(in thousands of euro)</i> | <i>Investment Banking</i> | <i>Wealth Management & Sales</i> | <i>Total</i> |
|-------------------------------|-------------------------------|----------------------------------------------|--------------|
| Due from customers | 1,501,996 | 8,033 | 1,510,030 |
| Total Assets | 9,909,169 | 30,818 | 9,939,987 |
| Due to customers | 165,991 | 998,409 | 1,164,400 |
| Total Liabilities | 8,941,578 | 998,409 | 9,939,987 |

The segmenting model adopted envisages the setup of two lines of business, and the potential inclusion of a residual segment (Other). Specifically:

- Investment Banking: includes all traditional UK-style Investment Banking, including treasury and forex transactions, trading on international markets on the bank’s own account and on behalf of third parties, OTC derivative transactions, share and bond transactions on the capital markets;
- Wealth Management and Sales: includes all activities relating to Private Banking, Asset Management and Commercial Banking for corporate and institutional customers.





Information on the company responsible for management and coordination of Banca Aletti

Management and coordination

Pursuant to art. 2497-bis of the Italian Civil Code, a summary statement is provided below on the main data from the latest approved financial statements of the company responsible for management and coordination.

Banco Popolare società cooperativa

Registered office: Piazza Nogara 2 – 37121 Verona, Italy

| | 31/12/2009 | 31/12/2008 | Changes |
|-------------------------------------------------------------------------------------|------------|------------|---------|
| Income statement (in millions of euro) | | | |
| Earnings margin | 593.5 | 210.3 | - |
| Net commissions | 15.0 | 9.7 | 54.6% |
| Operating income | 770.5 | 306.4 | - |
| Operating costs | -271.1 | -271.1 | - |
| Operating profit | 499.4 | 35.3 | - |
| Profit/(loss) on current operations before tax | 296.2 | -975.5 | - |
| Net profit/(loss) on current operations | 240.0 | -493.9 | - |
| Profit for the year | 240.0 | -493.9 | - |
| Balance sheet (in millions of euro) | | | |
| Total assets | 71,317.5 | 54,640.4 | 30.5% |
| Direct deposits | 39,212.2 | 24,106.5 | 62.7% |
| Gross loans to customers | 14,550.7 | 4,426.5 | (**) |
| Financial assets and hedging derivatives | 9,596.6 | 8,231.3 | 16.6% |
| Shareholders' equity | 10,355.3 | 8,681.3 | 19.3% |
| Organisation and operating performance | | | |
| Average workforce (*) | 1,388 | 1,480 | -6.2% |
| Number of branches | 2 | 2 | - |
| (*) Weighted average calculated monthly. | | | |
| (**) Figures recalculated based on the update to Bank of Italy Circular no. 262/05. | | | |

Disclosure of auditing fees pursuant to art. 40, Italian Legislative Decree 39/2010

The following table illustrates the fees paid to the independent auditors appointed pursuant to Italian Legislative Decree 58/98, and to members of the independent auditors' network:

| Type of service | Service provider | Fees (*) in thousands of euro |
|---------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------|
| Audit | Reconta Ernst & Young Spa | 214 |
| Other services (tax return signoff) | Reconta Ernst & Young Spa | 5 |
| Other services (compliance with global investment performance standards – GIPS) | Ernst & Young Spa Financial Business Advisory Spa | 47 |
| (*) the amounts stated do not include expenses and VAT | | |

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