BANCA ALETTI. ANNUAL REPORT 2011.

BANCA ALETTI

ANNUAL REPORT 2011

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
Chief Executive Officer	Maurizio Zancanaro (*)
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
	Deputy General Manager
	Franco Dentella
	Manager responsible for the preparation of corporate accounting documents
	Roberto Gori
	Independent Auditors
	Reconta Ernst & Young S.p.A.

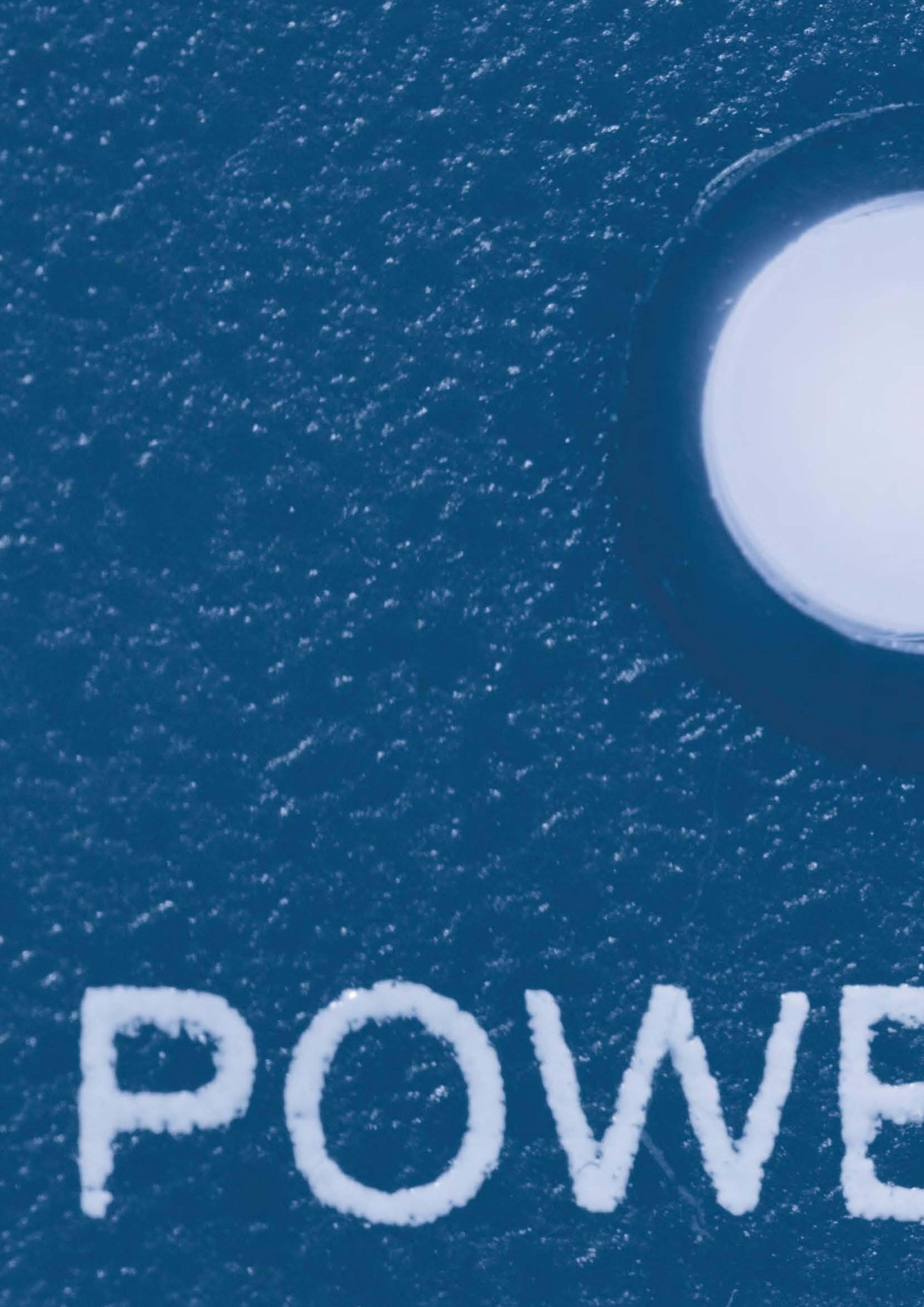
(*) Until 25 July 2011, General Manager

TABLE OF CONTENTS

FINANCIAL HIGHLIGHTS

The Bank's financial highlights and key indicators, calculated based on the reclassified financial statements, are presented below.

	31-12-2011	31-12-2010	Changes
Income statement *(in millions of euro)*			
Interest margin	46.01	29.63	55.29%
Net commissions	43.17	36.29	18.94%
Operating income	318.26	290.29	9.64%
Operating costs	-93.42	-99.55	-6.16%
Operating profit	224.85	190.74	17.88%
Profit/(loss) on current operations before tax	224.57	190.15	18.10%
Net profit/(loss) on current operations	148.64	136.50	8.89%
Profit for the year	148.64	136.50	8.89%
	31-12-2011	**31-12-2010**	**Changes**
Balance sheet *(in millions of euro)*			
Total assets	12,405.24	9,536.18	30.09%
Net loans to customers	1,417.90	1,410.13	0.55%
Financial assets and hedging derivatives	6,278.78	6,515.30	-3.63%
Shareholders' equity	592.75	576.47	2.83%
Customer financial assets *(in millions of euro)*			
Direct deposits	2,583.26	746.83	245.90%
Indirect deposits	13,710.59	17,022.51	-19.46%
- Asset management	11,265.79	14,112.12	-20.17%
- Mutual funds and Sicavs	478.95	553.96	-13.54%
- Securities and fund management	10,705.51	13,471.85	-20.53%
- Insurance policies	81.33	86.31	-5.76%
- Administered assets	2,444.80	2,910.39	-16.00%
Organisation and operating performance			
Average workforce	431	433	-0.48%
Number of branches	35	36	-2.78%
Net loans to customers per employee *(€/1000)*	3,290	3,256	1.04%
Operating income per employee *(€/1000) (*)*	738	670	10.17%
Operating costs per employee *(€/1000) (*)*	217	230	-5.70%
Operating profit per employee *(€/1000) (*)*	522	440	18.46%
Profitability ratios (%)			
ROE	33.47%	31.03%	7.87%
Interest margin/Operating income	14.46%	10.21%	41.64%
Net commissions/Operating income	13.56%	12.50%	8.49%
Operating costs/Operating income	29.35%	34.29%	-14.41%


POWE

REPORT ON OPERATIONS

OUTCOME OF POLICIES AND STRATEGIES

The economic context

Global scenario

After receiving a boost from satisfactory economic figures at the end of 2010, 2011 began on a positive note. However, expectations suddenly plunged in the second half of the year: economic activity in developed countries, with certain exceptions in the U.S., suffered a sharp decline, curbed by higher energy prices, continued weakness in employment figures, more restrictive budget policies, especially in Europe, widespread uncertainty regarding the resolution of financial imbalances and the waning of the economic situation in emerging countries, which, however, continued to provide a strong impetus for the global economy. At the end of the first quarter, global economic growth was interrupted by two particularly relevant events: first, the government debt crisis in the Eurozone was rekindled and secondly, the Japanese economy was struck by a natural disaster. The European sovereign debt crisis influenced the remainder of the year. At the same time, the anti-cyclical economic policies, primarily based on monetary leverage through quantitative easing measures, was not able to provide growth stimulus in developed countries, nor shore up the negative impacts on emerging countries, despite the consistent deployment of resources. At year end, the global GDP, according to initial estimates, grew 3.7%, compared to 5.2% in 2010, and international trade grew at a lower rate than 2010: +6.5% against +15.5% in the previous year.

More specifically, according to initial estimates, the U.S. GDP grew 1.7% annually, compared to 3% in 2010. Broken down into its components, consumer spending showed a positive contribution, growing 2.2%. Fixed investments in the private sector, sustained by tax incentives, grew at a rate 6.6% in 2011, after having posted a result of 2.6% in 2010. Residential investments, however, continued their downward slide, although at a lower rate than 2010 (-1.4% compared to -4.3% in 2010), confirming the continued weakness of the American real estate market. Exports continued along their path of growth, posting a result of +6.8% compared to +5% imports. Employment continues to suffer from low demand in the labour market; however, it did show a slight improvement: in December 2011, the unemployment rate was 8.5% compared to 9.6% in 2010. The trend in consumer prices showed a significant acceleration, growing from 1.5% in 2010 to 3% in 2011.

In Japan, the GDP showed no growth in 2011 (+4.4% in 2010), as a result of the negative economic impacts of the earthquake and subsequent nuclear incident last March. Consumer prices continued to fall (according to initial available estimates, the inflation rate was -0.3% in 2011), confirming the deflationary trend in Japan's economy.

Growth in emerging countries reflected the lethargy in the more developed, industrialised economies: according to initial estimates, in China, the GDP grew 9.2%, against +10.4% in 2010, supporting expectations of adjustments to growth as a result of pressure from the Central Bank that is determined to keep the inflation rate under control. Consumer prices ended 2011 with a trend rate of 4.1%, which is an increase from the end of 2010, after having reached a high in July of 6.5%. India’s GDP grew 8.4% in 2011 (+10.4% in 2010), Pacific countries grew at 4.2%, compared to +7.2% for the previous year and Latin American countries posted a result of +4.4% (+6.6% in 2010).

The performance of the global economy had a calming effect on raw materials prices. After reaching 115 dollars per barrel at the beginning of the year, the WTI reached a low of 75 dollars in the third quarter, while gold, after reaching a high of 1,900 dollars per ounces, began a correction process in the second half that carried on through the end of the year.

European and Italian Scenario

The Eurozone economy had an initial phase of widespread positive expectations following the satisfactory results seen in 2010, but then began to slow down in the second quarter of the year, following the sudden worsening of certain government debt crises. The restrictive undertones in fiscal policies, aimed at restoring the situation in public finances principally in peripheral countries but also in the major partners, and the less expansive tone in monetary policy, aimed at combating inflation forecasts at the end of the year, had a negative impact on both consumption and net public expenditures. Therefore, growth was driven solely by exports, which, beginning in March, were partially favoured by new weakness in the euro. Based on available data, the Eurozone GDP (EA-17) closed 2011 with growth of 1.4% (+1.9% in 2010) due to the positive contribution of 0.6% of total demand (as a result of 0.7% growth in private consumption and 1.1% growth in total investments) and a contribution of 0.9% for net exports. Inflation grew at a marked rate over the prior year: the standardised consumer price index grew 2.7% in 2011, against 1.6% growth in 2010. However, the average growth rate of GDP hides important variances: Germany, which benefits from excellent positioning with emerging markets, showed 3% growth, while Greece declined by 6.8% and Portugal by 1.7%. The state of public finances began to improve, validating the effect of the restrictive fiscal policies adopted throughout the Continent aimed at recovery: in fact, net borrowings of governments in the area dropped from 6.2% of GDP at the end of 2010 to 4.3% at the end of 2011.

In this context, the Italian economy, which is characterised by a lower growth rate than that of the larger European partners, continued to reflect weakness in internal demand in 2011 and, beginning in the summer, the direct involvement of Italy in the sovereign debt crisis. Signs of economic vitality were extinguished at the end of the first half, as the positive trend in exports and the selective fiscal incentives were not capable of activating a growth cycle in consumption and investments. Economic operators experienced a climate of general uncertainty, augmented by tensions in financial and credit markets and the first effects of the manoeuvres to correct public accounts, launched to combat the extension of the crisis of confidence in Italy to ensure the sustainability of the public debt and focus on the objective of a balanced budget. Consumer confidence dropped to the low levels reached during the recession of 1991-1993. The erosion of households’ purchasing power aggravated by weak trends in income and inflationary trends and combined with a worsening in labour

market with respect to 2010 had a negative effect on consumption. During the year, there were three financial manoeuvres to correct public accounts, of which the third was launched in December under the new Monti government. Overall, they were measures that, in terms of cumulative impact on net borrowings, are expected to result in 5% of GDP at the end of 2014.
Current estimates indicate that for 2011, Italian GDP grew at 0.5%, compared to +1.4% in 2010. This figure reflects the negative results in the last two quarters, in which GDP declined by 0.2% in the third quarter and 0.7% in the fourth quarter, thereby resulting in a recessionary phase for our economy. As regards the various components, household spending grew by 0.3% (+1.1% in 2010), investments in machinery and transportation vehicles grew by 0.4% (+10% in 2010) and exports of goods services grew 6.2% (+12% in 2010) against growth of 0.7% in imports (+12.4% in 2010), which represents the real driver of the Italian economy. Public spending declined by 0.4% (-0.5% in 2010) and disposable income dropped 1.0% (-0.6% in 2010). Investments in construction continued to fall (-2.2% in 2011, following -4.1% in 2010). Despite the recessive fiscal impact, consumer prices jumped 2.8% on average, against 1.5% in 2010. Labour market conditions continued to be weak and the unemployment rate in 2011 was 8.2%, marginally better than the previous year (8.4%).
However, public finances did close the year with improvements: net demand in the government sector was, based on initial estimates, equivalent to 61.5 billion euro, against 67.0 billion at the end of 2010 and net interest expense for the year showed a surplus of 15.4 billion (1% of GDP), against a deficit at the end of 2010 (-0.1% of GDP). As a result of these dynamics, the deficit/GDP ratio was 3.9% in 2011, down from 4.6% in 2010, while government debt as a percentage of GDP continued to increase, from 118.4% to 120.7%.

Money markets and financial markets

In 2011, U.S. and European monetary policies had differing trends, and for a certain period, were even divergent: while the Federal Reserve maintained its highly permissive stance in its monetary policy (the Fed funds reference rate remained at 0.25% for the entire year), and instead focused on assuring the market of the stability of rates that were near zero, the ECB was concerned about consumer prices, raising the reference rate by 25 b.p. on two occasions, (7 April and 7 July 2011), bringing the key refinancing rate to 1.50%. After the new President, Mario Draghi, assumed his post, and given the grave uncertainty of the European economic situation, the ECB decided in its meeting of 3 November to reduce the reference rate by 25 b.p., bringing it back to 1.25%, anticipating a drop in the inflation rate below the threshold level of 2% in 2012. In December, the European Central Bank reduced the reference rate to 1% and announced two extraordinary long-term refinancing transactions, at a fixed rate, with maturities of more than 36 months and full assignment of the amounts requested. These interventions represented a buffer against the impacts on the European banking system of the drastic economic slowdown and the euro crisis.
2011 was particularly marked by the crisis in the peripheral countries of the Eurozone, that resulted in, among other things, a significant weakening in the single currency with respect to the other principal global currencies. In May, European authorities had to launch a new financial assistance plan to support Portugal, following the plans launched in 2010 to save Greece and Ireland. In its July meeting, the Euro Group established the European Stability Mechanism (ESM), a new fund to stabilise the Eurozone, which will substitute the EFSF on a permanent basis beginning in 2012, expanding the financial endowment to 500 billion euro. At the same meeting, a second emergency plan for Greece was outlined. The various initiatives aimed at resolving the euro crisis were not enough, however, to reassure markets. The indecision, caution and delays with which the first measures were launched led to doubts about their effectiveness and the political resolve to commit large amounts to these emergency plans. The proposals formulated by various parties to initiate more radical institutional reforms, such as issue of Eurobonds or transferring to the ECB the role of lender of last resort, were repeatedly vetoed by Germany. Specialised agencies first reduced the ratings of Ireland, Spain, Greece and Portugal between the end of February and the beginning of March, while in the summer Italy also suffered from a ratings reduction. Hence, during the summer months the crisis expanded to directly impact Italy and Spain. The rate differential between the BTP and the 10-year Bund reached 300 b.p., deteriorating even more in the fall, reaching 500 b.p. at its peak in November.
At the two meetings of the European Council in October and, especially, in December, the decision was made to introduce a more robust agreement that coordinates economic policies and improves governance in the Eurozone. The new rules, known as the “Fiscal Compact”, to which Great Britain and the Czech Republic did not agree, envisage the commitment of EU countries to maintain balanced government budgets (maximum deficit of 0.5% of GDP), implementing domestic legislation through constitutional laws or the equivalent, as well as semi-automatic sanctions if the deficit threshold of 3% of GDP is exceeded and the requirement that all countries with a deficit greater than 60% of GDP to reduce the deficit every year by at least 1/20 of the excess amount.
The euro crisis and the subsequent widening of the spread on European government securities in comparison to the German Bund had repercussions on all sectors of financial markets. Credit risk of non-government bond issuers, measured by credit default swap contracts, increased excessively. Specifically, the effect was particularly pronounced in the banking sector, especially for the high number of government securities in peripheral countries on the books of credit institutions: the 5-year CDS index for the European banking sector in the first half of September reached nearly 500 b.p.. During the summer in Italy, bank bond issues were essentially suspended and there were considerable declines in secondary markets, especially for subordinated instruments. The interbank financing channels dried up and the abundant liquidity provided by the ECB in many cases remained parked at the Central Bank as deposits. After a predominantly stable first half of the year, stock indices experienced substantial declines in the third quarter, weighing down prices of banking securities, especially in Italy. In addition, bank stock prices were affected by the necessity of the principal credit institutions to carry out significant capital increases following requirements imposed by the Basel 3 agreement and, especially upon recommendation of capital strengthening formulated by the EBA, the new European supervisory authority. In Italy, these increases carried out in January 2012 were on the order of 20 billion euro.

Only in the last part of the year, and more so in the initial months of 2012, did the situation in financial markets begin to improve. Due to the consistent participation in the first extraordinary, long-term financing transaction launched by the ECB, completed on 22 December, Italian banks improved their liquidity positions, mitigating the tensions on their stock and bond prices. At the same time, as a result of the first measures of the new Italian government, including the guarantee by the State on certain types of bank liabilities, the BTP/Bund spread fell from its maximum levels and, consequently, the borrowing rate for Italian credit institutions dropped. As fears of contagion of the Italian crisis diminished, together with the start-up of talks for a second round of assistance to Greece to avoid default, the financial markets returned to more stable levels.

Domestic banking industry

During the first half of the year, loans to households and businesses continued at a sustained pace due to the still positive economic situation: in June the increase was at a 6.1% trend rate, net of the effect for the "re-emersion" of securitised loans. In the second half of the year, the force of the economic slowdown, tensions on government debt securities for peripheral countries in the Eurozone and the intensification of capital constraints imposed by the EBA on European banks - with the requirement to comply with a Tier 1 ratio of 9% by the first half of 2012 and the recapitalisation transactions that resulted – were reflected in the dynamics of the European banking system and, in particular, in Italian banks, both in terms of demand as well as the offer, generating a limited increase in the loan rate at the end of the year of 3.6%. This value combines the effects of stronger performance in short-term loans (+5.4%) and weaker performance in medium/long-term loans (+3%); loans to households increased at a 4.3% rate while those to businesses increased 3.1%.
In terms of product offer, the slowdown reflects the more selective loan disbursement and pricing policies, based firstly on the perception of greater risk in the economic scenario, as evidenced by increases in non–performing loans. A further constraint is that of the increase in the funding cost, as a consequence of the effect on the inter-bank rate following the crisis in peripheral EU countries and the more restrictive capital constraints imposed by supervisory regulations, with additional pressure for deleveraging for banks.
Demand for household loans was influenced by the contraction in disposable income, lower consumer confidence and declining expectations for the real estate market. Demand for business loans suffered mainly from a standstill in investment decisions and a slowdown in production activity.
Bank deposits reflected the real economic performance in 2011 and, specifically, difficulties in generating savings. Total funding at the end of 2011 posted a trend rate of 1.3%, with a re-composition in favour of time deposits: in fact, while deposits in total closed the year with an annual contraction of 2.8%, and repurchase agreements of 39%, bonds saw growth of 8.4%.
In terms of rates, greater selectivity in loan disbursement and in determining the credit rating, together with more stringent capital constraints and tensions in funding costs, caused increases in rates for interest payable and receivable. The cost of deposits for the banking system was affected by more intense competition to ensure deposits from ordinary customers against the aforementioned lower savings generation, while the cost of bond deposits was influenced by the trends in the spread between Italian and German government securities. In December, the assignment of the aforesaid first long-term, extraordinary transaction launched by the ECB contributed to easing tensions and improving liquidity conditions in the primary market for Italian bank bonds.
The combined effect generated a limited expansion of 12 b.p. in the banking rate spread, or the difference between the average loan rate to households and non-financial companies and the average deposit rate, which in December was 224 basis points (212 b.p. in December 2010). The mark-up – or the difference between the average loan rate to households and non-financial companies and the 3-month Euribor rate – reached 280 b.p. at year end (against 260 b.p. in December 2010). The mark-down - or difference between the average 3-month Euribor rate and the average rate on deposits from households and non-financial companies – worsened, reaching -56 b.p. at the same date (against -48 b.p. from the prior year).
As regards credit quality, the preliminary figures indicate that in December 2011, gross non-performing loans for the Italian banking system exceeded 107 billion euro, up 29.3 billion compared to December 2010 (+37.6%), with a ratio of loans of 5.44% (4.01% in December 2010), reflecting the marked deterioration in the economic situation. Net of write-downs, non-performing loans amounted to 60.3 billion euro in December (+29.8% trend rate).
Finally, the asset management sector closed 2011 with net deposits from the beginning of the year in Italian and foreign mutual funds with a negative balance of 33.3 billion euro. The total balance of Italian and foreign mutual funds totalled 419.1 billion euro in December 2011, against 460.4 billion at the end of 2010.

SIGNIFICANT EVENTS

Bond issues

On 15 April 2008, the parent company approved the "Banco Popolare Single Issuer" project that envisaged the centralisation in the parent company of the role of single issuer of the Group's direct funding through bonds developed for retail customers.
Following this project, the funding raised by the parent company Banco Popolare was transferred to the individual Group banks via lending transactions, primarily bonds (hereinafter "Infragroup Bonds"), which were not structured against each bond loan issued by the parent company, but at market conditions as part of ALM, pursuing both the objective to balance

the liquidity position of each bank as well as the objective of offsetting the mismatch between the duration of assets and liabilities highlighted in the inertial profiles of the financial statements of each bank.
These bonds, issued by the local banks, were entirely subscribed by the parent company and were used as collateral or surety for repurchase agreements with Group customers.
The change in the corporate structure of the parent company that involved the merger by incorporation of the local banks into the parent company with the establishment of “Large Cooperative Bank (Grande Banca Popolare)”, will, from an accounting perspective, result in the “cancellation” of all infragroup bonds with the exception of bonds issued by Credito Bergamasco, which will maintain its separate legal entity.
Without prejudice to the primary objective of maintaining an adequate liquidity position in the subsidiary legal entities that were not part of the integration according to the “Large Cooperative Bank (Grande Banca Popolare)” project and in order to leave unchanged the deposit transactions carried out as part of the repurchase agreement transactions with retail and corporate customers of our Group, by continuing to ensure that an adequate liquidity profile is maintained with respect to tightening of requirements for Basel 3, the parent company's Management Board, in its meeting of 27 September 2011, authorised the subscription of infragroup bonds issued by the subsidiary Banca Aletti and their inclusion in the L&R accounting category of the securities portfolio.
At the same time, the parent company authorised that Banca Aletti’s liquidity surplus generated by the bond issue be used by Banca Aletti to subscribe to one or more bonds issued by the parent company.
The bonds issued by the parent company and subscribed by Banca Aletti were included in the L&R accounting category of the securities portfolio.

On 30 September 2011, the Board of Directors of Banca Aletti authorised the issue of senior bonds at floating or fixed rates, also with zero coupons, up to a maximum of 3 billion euro, which were entirely subscribed by the parent company Banco Popolare.

It should be noted that the transaction in question should be considered a related party transaction, governed by art. 2391-bis of the Italian Civil Code, by Consob Regulation no. 17221 of 12 March 2010 and by the Procedure Governing Related Party Transactions, adopted by the parent company's Management Board, in its meeting of 30 November 2011, and in the disclosure provided in the Bank's board meeting on 20 January 2011. Specifically, as the transaction involves Banco Popolare and one of its subsidiaries, it is considered an “infragroup transaction”, specifically governed by art. 14, subsection 2 of Consob Regulation and art. 11.6 of the aforementioned Procedure.

Sale of loans to Icelandic Banks

On 8 December 2011, Banca Aletti concluded an agreement with Merrill Lynch International for the sale of the remaining outstanding Notes issued by Pillar Securitisation S.a.r.l. related to the restructuring of loans to Kaupthing Bank Luxembourg (for a par value of 13,966 thousand euro and a book value of 7,383 thousand euro) with a payment of 910 thousand euro. This amount was recognised entirely as a gain in the income statement in that the Pillar Notes were held at zero value in the balance sheet.

Furthermore, on 15 December 2011, the Board of Directors of Banca Aletti resolved to sell the 10 million euro loan for a deposit with the Icelandic bank Kaupthing bank HF, which subsequently went into default. An offer was received from Morgan Stanley and includes a payment of 2,562,500 euro.
The loan was recognised in the financial statements at 2,116,590 euro and hence this sale resulted in a gain for Banca Aletti of 445,910 euro.

LSE sale

The parent company Banco Popolare, as part of Capital Management transactions undertaken to strengthen the Group’s capital ratios, decided to partially or fully dispose of certain equity investments. These transactions were completed to improve the capital ratios and not merely to recognise a gain.
Specifically, as regards the 2.088% stake in London Stock Exchange Group (“LSE”), the Group’s equity investment as at 31 December 2010 consisted of 5,660,736 shares (of which 4,973,863 shares, or 1.835%, held by the parent company and 686,873 shares, or 0.253%, held by Banca Aletti). This holding was recognised under available-for-sale (AFS) securities and its book value as at 31 December 2010 totalled 30.3 million euro, of which 26.6 million euro for the parent company and 3.7 million euro for Banca Aletti. The valuation of the entire investment was calculated based on the fair value as at 31 December 2010 according to the stock price on said date of 8.38 GBP, for a total of 55.1 million euro.

LSE’s stock price reached its lowest point in 2009 (3.70 GBP per share) since the date of the merger with Borsa Italiana. During 2010, the average stock price was 6.91 GBP. The news of the merger agreements between LSE and Tmx Group (the company that owns the Toronto Stock Exchange) gave a noteworthy boost to the stock price. As a result of the LSE's stock price in February and March 2011, and in consideration of the objective to reinforce capital ratios, the parent company disposed of its investment for a number of shares equivalent to 1.5%, in a gradual manner so as to avoid causing shocks in the stock price.

Subsequently, the parent company's Management Board disposed of the entire investment held by Banco Popolare, and, as part of its activities of management and coordination pursuant to art. 2497 of the Italian Civil Code, advised the Board of Directors of Banca Aletti to make a similar resolution for its investment in LSE.

On 21 April 2011, the Board of Directors of Banca Aletti resolved to dispose of its entire investment in LSE of 0.253%, with a total counter value of 3.7 million euro as at 31 December 2010. The sale, which occurred in the period immediately following the resolution, resulted in a gain for Banca Aletti of 2,944 thousand euro.

Audit by the Milan Finance Police

Upon completion of the audit by the Milan Finance Police on the portion of 2006 profits distributed, the audit report was delivered on 25 October 2011.
The transactions that were subject to certification were those financial transactions carried out in the interest of foreign parties that, in selling their equity investments prior to the dividend payment and repurchasing them immediately after, were therefore exempt from the withholding taxes on dividends received.
The auditors refused to recognise the economic validity of all the transactions identified, considering them to have been carried out to obtain undue advantage of tax arbitrage.
As such, in the audit report the Finance Police deemed applicable to the case the principle of misuse of rights, under the assumption that Banca Aletti would have carried out the transactions only to obtain a consistent tax advantage, citing the judgment of the European Court of Justice c/420/06 that recognised an "abusive practice" when an essential, but not exclusive, objective is to obtain a tax advantage.
In conclusion, the auditors deemed there to be a violation of a false annual tax declaration for an audited amount less than that declared of 65.20 million euro, corresponding to a withholdings not paid of 17.6 million euro and a violation of the obligation to withhold taxes on said amount.

On 29 December 2011, the following tax assessments were received:

- Tax Assessment no. TMB032C01217/2011

The assessment is based on the 17.60 million euro that was not withheld and penalties were levied for submission of a false tax declaration by the withholding agent and not withholding taxes for the full extent of 120%, for a total assessment of 21.12 million euro.

- Formal penalty notice no. TMBO2C00328/2011

Penalties were imposed for unpaid withholdings to the full extent for a total amount of 5.28 million euro.
A tax settlement proposal was submitted according to art. 6 of Legislative Decree no. 218/97.

Given the above, a potential tax liability was deemed possible.

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 **Reclassified assets *(in thousands of euro)***	**31/12/2011**	**31/12/2010**	**Changes**	
Cash and cash equivalents	19	24	-5	-19.5%
Financial assets and hedging derivatives	6,278,785	6,515,296	-236,511	-3.6%
Due from banks	4,589,123	1,476,497	3,112,626	210.8%
Due from customers	1,417,904	1,410,132	7,772	0.6%
Investments	21,031	21,031	-	-
Property, plant and equipment	1,293	1,677	-384	-22.9%
Intangible assets	20,938	21,084	-146	-0.7%
of which: goodwill	20,938	21,080	-143	-0.7%
Other asset items	76,144	90,437	-14,292	-15.8%
Total	**12,405,237**	**9,536,177**	**2,869,060**	**30.1%**

BALANCE SHEET **Reclassified liabilities *(in thousands of euro)***	**31/12/2011**	**31/12/2010**	**Changes**	
Due to banks	3,619,320	2,999,451	619,869	20.7%
Due to customers and debt securities in issue	2,872,300	1,064,502	1,807,798	169.8%
Financial liabilities	5,195,883	4,811,004	384,879	8.0%
Provisions	11,932	15,287	-3,356	-22.0%
Other liability items	113,048	69,467	43,581	62.7%
Shareholders' equity	592,754	576,466	16,288	2.8%
- Share capital and reserves	444,115	439,963	4,151	0.9%
- Profit for the year	148,639	136,502	12,137	8.9%
Total	**12,405,237**	**9,536,177**	**2,869,060**	**30.1%**

Income Statement Data

Banca Aletti closed 2011 with an increase in net profit of 8.89%, from 136.50 million euro as at 31 December 2010 to 148.64 million euro as at 31 December 2011.
However, recurring items increased from 136.62 million euro as at 31 December 2010 to 148.69 million euro as at 31 December 2011, up 12.07 million euro (8.84 %).
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)*	**31/12/2011**			**31/12/2010**			**Recurring**	
	Recurring	**Non-recurring**	**Total**	**Recurring**	**Non-recurring**	**Total**	**Abs. change**	**% change**
Interest margin	**46,010**	**-**	**46,010**	**29,628**	**-**	**29,628**	**16,382**	**55.3%**
Net commissions	43,166		43,166	36,291		36,291	6,875	18.9%
Net other operating income	236		236	169		169	67	40.0%
Net financial income	228,852		228,852	224,201		224,201	4,651	2.1%
Other operating income	**272,254**	**-**	**272,254**	**260,661**	**-**	**260,661**	**11,593**	**4.4%**
Operating income	**318,264**	**-**	**318,264**	**290,289**	**-**	**290,289**	**27,975**	**9.6%**
Personnel costs	-49,983	-73	-50,056	-52,444	-167	-52,611	2,461	-4.7%
Other administrative costs net of recoveries	-42,304		-42,304	-45,809		-45,809	3,505	-7.7%
Net write-downs on property, plant, equipment and intangible assets	-1,055		-1,055	-1,127		-1,127	72	-6.4%
Operating costs	**-93,342**	**-73**	**-93,415**	**-99,381**	**-167**	**-99,548**	**6,039**	**-6.1%**
Operating profit/(loss)	**224,922**	**-73**	**224,849**	**190,908**	**-167**	**190,741**	**34,014**	**17.8%**
Net write-downs for impairment of loans	363		363	2,009		2,009	-1,646	-81.9%
Write-downs on other assets	-20		-20	-1,401		-1,401		
Net provisions for risks and charges	-617		-617	-1,200		-1,200	583	-48.6%
Gains (Losses) on investments	-		-	-	3	3	-	-
Profit (Loss) on current operations before tax	**224,647**	**-73**	**224,574**	**190,316**	**-164**	**190,152**	**34,331**	**18.0%**
Income tax	-75,955	20	-75,935	-53,696	46	-53,650	-22,259	41.5%
Net profit (loss) on current operations	**148,692**	**-53**	**148,639**	**136,620**	**-118**	**136,502**	**12,072**	**8.8%**
Profit for the year	**148,692**	**-53**	**148,639**	**136,620**	**-118**	**136,502**	**12,072**	**8.8%**

The recurring result indicates a 9.64% growth in recurring operating income, reaching 318.26 million euro (290.29 million euro as at 31 December 2010).
The figures for recurring interest margin, 46.01 million euro as at 31 December 2011, increased from 29.63 million euro in the 2010 Financial Statements,
Other recurring Operating Income showed a total increase of 4.45% following the increase in net commissions, which grew from 36.29 million euro as at 31 December 2010 to 43.17 million euro as at 31 December 2011. Net financial income grew 2.07%, from 224.20 million euro as at 31 December 2010 to 228.85 million euro as at 31 December 2011.
Recurring operating charges decreased 6.08% from 99.38 million euro as at 31 December 2010 to 93.34 million euro as at 31 December 2011.
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 assets 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/(losses) on disposal of equity and other investments 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 2011 income components considered non-recurring.

Personnel costs include 73 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)	31-12-2011	31-12-2010	31-12-2009	Change since 31-12-2010	Change since 31-12-2009
Customer financial assets	**16,293.8**	**17,769.3**	**16,199.0**	**-8,3%**	**0,6%**
Direct deposits	2,583.3	746.8	892.1	245.9%	189.6%
Indirect deposits	13,710.6	17,022.5	15,306.9	-19.5%	-10.4%
- Asset management	11,265.8	14,112.1	12,178.7	-20.2%	-7.5%
- Mutual funds and Sicavs	478.9	554.0	437.7	-13.5%	9.4%
- Securities and fund management	10,705.5	13,471.9	11,695.7	-20.5%	-8.5%
- Insurance policies	81.3	86.3	45.2	-5.8%	79.9%
- Administered assets	2,444.8	2,910.4	3,128.3	-16.0%	-21.8%

The performance of customer deposits shows a contraction in 2011, due both to the negative impact of stock and bond performance on the values of Indirect Deposits, as well as the effect of customers abandoning the asset management department for more liquid forms of investment.

Productivity and profitability ratios

	31-12-2011	31-12-2010	31-12-2009	Change since 31-12-2010	Change since 31-12-2009
Productivity ratios					
Net loans to customers per employee (€/1000)	3,289.8	3,255.9	2,520.9	1.0%	30.5%
Operating income per employee (€/1000)	738.4	670.3	723.0	10.2%	2.1%
Operating costs per employee (€/1000)	216.7	229.8	224.7	-5.7%	-3.5%
Operating profit per employee (€/1000)	521.7	440.4	498.3	18.5%	4.7%
Profitability ratios (%)					
ROE	33.47%	31.03%	37.48%	7.9%	-10.7%
Interest margin/Operating income	14.46%	10.21%	15.72%	41.6%	-8.0%
Net commissions/Operating income	13.56%	12.50%	18.98%	8.5%	-28.5%
Operating costs/Operating income	29.35%	34.29%	31.08%	-14.4%	-5.6%

The productivity and profitability ratios as at 31 December 2011 improved in comparison to the previous year, maintaining their excellent levels.
Specifically, ROE is greater than 30% (33.47% at 31 December 2011) and the cost/income ratio is lower than the banking industry average (29.35% as at 31 December 2011).

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 Bank 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 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 predominant source of 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, minimises 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 value added for shareholders against financial investments with a comparable risk-return profile;
- 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 the 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 managing the Group’s risks is played by the parent company’s Board of Directors, 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. The Board of Directors resolves amendments to the Group’s risk regulations based on changes in operations and the reference market.
For its investigative and consultancy activities related to internal control and business risk management and monitoring, the Board of Directors relies on its Internal Control and Risk Committee, which was established within the Board.

The Board of Statutory Auditors supervises the effectiveness and adequacy of the risk management and control system as well as internal audits and the functionality and adequacy of the overall internal control system.
The boards of directors of the subsidiaries define management and operating policies relative to their individual business risks, based on the Group's guidelines.
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.
In particular, support to the parent company Management Board and individual boards of directors is provided by the Group Risk Committee, consisting of 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 departments of the parent company, through a specific structured document (Risks – Report on the Group's risk exposure).
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 Board of Directors, 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 the Board of Directors' guidelines, and governed by the "Group risk regulation" 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 uncertainly continues regarding the economic outlook, 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 were, however, essentially stable in 2011.

If the economic situation worsens, it could result in deterioration in business solvency at a system level, with potential negative repercussions on banking system budgets.

The credit policy objectives pursued by the Group aim, amongst other things, for diversification of the loans 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 significant deterioration in the economic framework.

The second half of 2011 saw an increase in the perception of risk inherent in Italian government securities by institutional investors , with an ensuing increase in minimum required returns. This phenomenon, along with new prudential supervisory regulations on liquidity and international regulations (Basel 3), could give rise to competition between banks, governments and businesses in renewing medium/long-term funding, affecting the profitability the Group as well as that of the entire banking system. To mitigate this risk, the Group undertook the refinancing transactions proposed by the European Central Bank, which, especially at the end of 2011, saw increases in terms of both amounts and duration.

To mitigate liquidity risk, the Group has focused on continuous improvement in its control methods. The Group has sought greater balance in its financial maturities by increasing liquidity reserves and activating new tools (e.g., covered bonds) which it made use of in the second half of the year following the European government debt crisis and, as a result, the European banking system crisis. These tools allowed the Group to maintain it liquidity profile at stable levels in the face of great uncertainty.

As regards interest rate risk, the Group has a bullish profile that, should interest rates rise, would result in an increase in the interest margin. Given the extremely low levels of market rates, the theory of a further decline of 100 b.p. is highly unlikely, thereby opening up the possibility of an improvement in profitability if interest rates rise. 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.

Projects in progress

Basel 2 and other Risk Management projects

In 2011, as part of Basel 2, Banco Popolare continued to work to obtain Supervisory Authority approval for the use of internal methodologies to calculate minimum capital requirements in reference to credit and market risks.
For this and other operational projects in the Risk Management area, the status as at 31 December 2011 is provided below.

Credit Risk

During 2011, the actions taken to obtain authorisation from the Supervisory Authority to use Internal Rating Based ("IRB") methodologies to calculate the minimum capital requirements for credit risk involved (i) development and updating of internal models to estimate risk factors (specifically, Probability of Default, PD, and Loss Given Default, LGD), (ii) fine-tuning of processes and organisational structures connected with the internal rating system, and (iii) the IT infrastructure and related aspects (e.g., data quality). Subsequently, preliminary meetings were held in November and December 2011 to provide pre-validation audit access to the Supervisory Authority: the findings are being analysed and implemented.

Credit risk assessment models

Over the course of 2011, a well-defined project was undertaken to update the credit risk assessment models (PD and LGD, specifically) in reference to:

- the segmentation “thresholds” for business customers (for the models’ assessment);
- the “definition of default” when the models’ make assessments or are calibrated;
- the historical information based on the estimation and/or calibration process;
- the model design, or when the modular elements of the models are structured and integrated.

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

Credit 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, Top Management and the Corporate bodies were constantly involved in the definition of guidelines and dissemination of project results.
In addition, the risk ceilings were updated based on statistical metrics (VaR) and applied to the largest Group companies, in order to implement the new corporate structure of Banco Popolare Group.

Market risk

In 2011 the Group continued its efforts to constantly improve market risk management, from both a technological and a methodological point of view.
The continued increase in risk associated with governments required persistent oversight of the credit spread component for positions in debt securities measured by the VaR model for both the trading and banking books. As such, the VaR historical simulation methodology was refined to include the joint movement of the macro risk and micro risk for debt securities (previously the two components were added up). Additionally, in order to make the VaR measurement more aligned with the actual economic results of the risk positions, correlation and dividend risk factors were introduced for derivative positions on equity instruments, and the component relative to the misalignment of movements in risk factors that occurs between debt securities and their hedges through credit risk derivatives (CDS).
During the year, analyses were conducted to verify the economic impacts of extreme, but plausible movements in market risk factors, both historically and hypothetically (stress tests) and a rigorous monitoring process was introduced that is based on the monthly data on risk absorption with respect to limits defined in internal regulations.
Finally, studies were carried out that were necessary to implement the new rules for calculating capital absorptions, which will become effective 31 December 2011.

Project to validate the internal market risk model

This year activities were undertaken that will allow the Group to use the internal model to replace the standard approach in quantifying capital absorption. Specifically, in September the Bank of Italy carried out an audit at the Bank that showed the project’s excellent progress toward achieving certification in the short term.

Operational risks

Activities were performed in 2011 to implement the AMA framework for operational risks. The AMA calculation model, used for internal management and with specific reference to capital adequacy valuation (ICAAP), necessitated work during the year on risk classes, analysis and management of extreme events and scenario evaluations. In 2012, further work is expected to develop the model and the risk governance processes, with the goal of initiating the certification process for adopting the advanced methodologies to calculate minimum capital requirements.

Liquidity risk

In 2011 Banco Popolare Group committed to implementing the new supervisory regulations issued in December of the previous year, defining the risk tolerance thresholds that then determine the risk control and measurement systems as well as the structure of the limits. In addition, the Group carried out two measurements (Quantitative Impact Studies or QIS) of new indicators provided for in Basel 3.
In the second half of 2011, a new and more serious phase of the government debt crisis began, which influenced the European banking system. During this phase, the monitoring framework was able to provide timely information on the dynamics of the Group’s liquidity profile. In 2012, technical activities will be completed that are necessary to fully implement the European regulations, which will be effective in the near future.

Counterparty risk

During 2011, actions were taken to adjust the risk measurement metrics and to extend their perimeter of applicability, to provide better management.
In addition, Quantitative Impact Studies (QIS) were conducted on the new provisions on counterparty risk (perimeter of OTC derivatives) and related capital requirements, which will become effective in January 2013.
In 2012, the activities of methodological and application development will continue, in order to implement recurrent risk monitoring and control processes, using management metrics consistent with new Basel 3 regulations.

Rating

Rating agency	*Short-term borrowings*	*Long-term borrowings*	*Credit Watch / outlook*
Standard & Poor's	A-2	BBB	Negative

On 18 October 2011, Standard & Poor's lowered its long-term rating of Banco Popolare and its subsidiaries Credito Bergamasco and Banca Aletti from A- to BBB. It left the short-term rating unchanged at A-2. On the same day, the Credit Watch was change to Stable, but on 8 December 2011, as a direct consequence of the negative rating of Italy (A/A-1) posted in Credit Watch on 5 December, the long-term and short-term ratings of Banco Popolare (BBB/A-2) and its subsidiaries Credito Bergamasco and Banca Aletti were changed to negative in Credit Watch.

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"

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 data flows from the corporate control bodies;
- receives suitable data flows from various company departments involved in controls (Internal Audit, Compliance, Risk Management, etc.);
- receives suitable data flows 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: 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

The assessment of entity level control provides for an annual evaluation of the five areas envisaged in the reference internal control model (CoSO Report, and specifically, Internal Control, Risk Assessment, Control-related activities, Reporting and disclosures, Monitoring). These activities are carried out by the corporate accounting manager.

Formalisation of processes, related risks and mitigation controls

The formalisation of processes considered significant for financial reporting purposes, identified in the 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 of 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 is 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

The following actions were taken in 2011:

Structured Products

In the Fixed Income Structured Products Department, the Interest Rate Volatility Office was re-established after having been suspended in the initial months of 2009, as part of an organisational restructuring aimed at reducing headcount.
During the following two years (2009 and 2010), investment product placements by the Group's network were decidedly concentrated on structured bonds linked to interest rates with key optional components, causing a drastic increase in transaction volumes in the aforementioned portfolio. This situation could not have been foreseen. Due to the continued high volumes, the complexity and risks (both market and operational) of the portfolio have increased substantially.
Therefore, it was deemed appropriate to re-establish the Interest Rate Volatility Office, with the objective of focusing greater attention on managing the activity, previously the responsibility of the Department Manager, supported by resources allocated to the activity, and initiating a prudent oversight of risks, particularly operational.

Investment Management

As part of organisational streamlining and resulting improved structure of this Department, the Quantitative Management Office was suspended, with the "absolute return/flexibility" AUM assigned to the Private and Retail Management Office and the "guaranteed" AUM assigned to the Institutional Management Office. The Customer Management Department was renamed the Asset Management Department.

Private Network

The following actions were taken in during the year:
- incorporating the "East Triveneto" Area in the "West Triveneto" Area , changing the latter's name to the "Tri-Veneto" Area , and the transfer of the Mantua unit from "West Tri-Veneto" Area to the "North Lombardy" area;
- re-establishing the "Central South" Area to have responsibility for the branches in Rome, Naples and Catania;
- renaming the "South Lombardy and Sicily" Area to "South Lombardy" Area and transferring the Catania branches to other Areas;
- renaming the "Piedmont Lazio and Campania" Area to "Piedmont and Valle d'Aosta" Area, transferring the Rome and Naples branches to other Areas;
- incorporating the Crema branch in the Cremona branch.

Human Resources

The Human Resources Operational Support Office was established in the Human Resources Department, thereby aligning the human resource management model to that of the Group.

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

	Workforce	%	Employees	%	Seconded In	%	Seconded Out	%
31/12/2009	**454**	-9.0	**413**	-2.8	**72**	-25.0	**31**	40.9
31/12/2010	**430**	-5.3	**415**	0.5	**52**	-27.8	**37**	19.4
31/12/2011	**434**	0.9	**426**	2.6	**46**	-11.5	**38**	2.7

and certain statistics of a general nature:

	2009	%	2010	%	2011	%
Grades						
Area 2	3	0.7	2	0.4	1	0.2
Area 3 – grades 1 and 2	58	12.8	56	13	62	14.3
Area 3 – grades 3 and 4	53	11.7	50	11.6	52	12.0
Managers – levels 1 and 2	117	25.8	106	24.7	102	23.5
Managers – levels 3 and 4	200	44.0	192	44.7	193	44.5
Executives	23	5.0	24	5.6	24	5.5
	454		**430**		**434**	
Gender						
M	300	66.1	275	64	271	62.4
F	154	33.9	155	36	163	37.6
Education						
University degree	234	51.5	234	54.4	242	55.7
High school diploma	211	46.5	190	44.2	187	43.1
Other	9	2.0	6	1.4	5	1.2
Average age	**40 Y 8 M**		**41 Y 1 M**		**41 Y 7 M**	
Average seniority	**4 Y 9 M**		**5 Y 2 M**		**5 Y 9 M**	

Selection, Recruitment and HR Management

Approximately 400 CVs were received during the year.

30 recruitments were arranged, 16 of which involving personnel from Group companies and 10 with temporary contracts.
19 employees left the Bank, of which 8 under intra-group mobility.
Also during the year, 16 employees were seconded in from the Group, 34 secondments were terminated, whilst 16 were seconded out to Group companies and 13 were terminated.
During the year 34 transfers were arranged within the Bank and new responsibilities assigned to 9 colleagues.

Recourse was made to temporary work contracts in 2011 to cover staff absences, office support needs or needs arising from reorganisations.
Hence, 18 new temp contracts were arranged, whilst 2 temporary agency employees were hired by the bank under temporary contracts.
At year end the total number of temporary employees was 7.

Also during the year, a total of 11 new work experience and orientation schemes were implemented, 3 of which led to a different form of collaboration with the company.

Training

During the year a technical/specialist training course was launched for the Private Network regarding portfolio diversification and behavioural finance, developed with the Group's Training Department and taught by SDA Bocconi. In addition, a new training initiative was introduced aimed at enhancing marketing collaboration with the corporate management of the Group banks. These initiatives involved a total of 234 resources for a total of 400 training days.
Particular attention was dedicated to professional updating on issues arising from mandatory regulations (or compulsory training). In addition to the usual commitment regarding insurance product placement (ISVAP), anti-money laundering and workplace safety, a specific training course was developed and delivered on market abuse, for specific individuals in the trading and securities investment areas. This training involved a total of 378 resources for a total of 1,170 training days.
Another significant training investment was made in updating and enhancing skills for resources that work in the central offices. The course, including both "technical" and "behavioural" elements, was delivered based on the different profiles in the role. The course was delivered to a total of 91 resources over a total of 115 training days.
The need for a more thorough handling of very specific issues was met by participating in courses delivered by external organisations whilst, for cross-company needs, courses included in the internal "training catalogue" were reconfirmed, particularly in terms of communication and teamwork, for a total of 181 resources and 272 training days.
In agreement with the Group Human Resources Division, Management Development meetings continued during the year dedicated to Private Area managers (and central office managers, involving 29 resources for 49 training days.
For certain topics, distance learning tools were used (web-based courses on Administrative Liability of Banks, Anti-Money Laundering, Privacy, and Workplace Safety.).

Relations with Trade Unions

During 2011, meetings with trade union representatives mainly concerned both spot topics of an operational nature, as well as with meetings with the with Group union delegations on matters under their competence.

Internal Audit

Internal auditing in Banca Aletti is delegated to the Group Audit Department of the parent company Banco Popolare. As part of the related organisational structure, the Finance Processes Audit Department is responsible for carrying out audits on brokerage/investment banking activities of Banca Aletti and the investment services offered in the branch network.

The objectives of the Group Audit Department include the assessment of the internal control system relative to business operational processes, adequacy of the technical-organisational system with respect to Supervisory Authority requirements and the application of parent company directives for the banks of Banco Popolare Group. These activities are carried out through on-site audits and remote auditing using trend analyses.

In addition to the above, the Group Audit Department manages for Banca Aletti the reporting to the Banco Popolare Internal Control Committee and to the Surveillance Body pursuant to Legislative Decree no. 231/01, through activating periodic control and audit procedures on its related protocols. Finally, the Audit Department works with the corporate accounting manager (Italian Law no. 262/2005) on auditing administrative and accounting processes and carries out internal audits according to the provisions of the "New prudential supervisory instructions for banks (Bank of Italy Circular no. 263 of 27 December 2006) and subsequent updates.

Compliance

The Banco Popolare Group places great 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.

During 2011, a significant impetus to achieve the greatest possible effectiveness of the 2nd level control system (including compliance risk control) came from the establishment of the Risk Department, whose manager (Chief Risk Officer) took on the role of Compliance Manager.

The creation of the Risk Department involved the integration of the Legal Division, Compliance Division and Risk Management Division into said Department. At the same time, the Compliance Division was strengthened by integrating it with:

- the offices already responsible for 2nd level controls with regards to transparency and usury prevention;
- the pre-existing Anti-Money Laundering Department.

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:

- continued participation in activities to improve implementation of the “Level III MiFID Project” to define and enact 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; Specifically, in 2011, activities were carried out to identify the use of indices of potential anomalies, the results of which were then submitted to the competent structures;
- continual support to the process of monitoring and managing conflicts of interest, and to implementing provisions regarding personal transactions in financial instruments by employees of Banco Popolare Group;
- participation in the project to define operational processes to manage relationships with Banca Aletti institutional customers;
- continued participation in the project to define Banca Aletti’s new Wealth Management advisory model for direct and accredited private customers;
- continued participation in activities to improve implementation of the company structure dictated in Italian Legislative Decree no. 231/2007 as amended; as such, the contribution of the Compliance Division, in close coordination with the Anti-Money Laundering Department, has become increasingly important, to support the functions responsible for relationships with (i) foreign banks and (ii) Italian exporting businesses, to attain full compliance with regulations restricting trade with certain countries (e.g., Iran and Syria);

- participation in the Anti-Usury Project;
- to the extent of their duties, input in relations with Audit Departments to pinpoint compliance risks;
- providing training to the operating units of Banca Aletti and the Group on issues on specific topics (e.g., market abuse, managing conflicts of interest, Legislative Decree no. 231/01);
- 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 of duties, validate staff incentive campaigns;
- monitoring complaints related to investment services, for which compliant handling process is managed by the parent company’s Quality Department;
- performing specific assessment activities (e.g., monitoring financial product switching and controls on stock buy-backs carried out by Banca Aletti for customers).

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, Internal Communications, Operations Marketing, and Media Relations.

1) External Relations

In 2011 External Relations organised and managed approximately 60 different events for both institutional and private customers. Specifically, there were exclusive visits to the artistic treasures of the cities in which our units operate, exclusive gala evenings with international guests and golf and sailing events. For institutional customers, sector trade shows were organised and managed with stands presenting our products and services.

2) Corporate Identity

In addition to the routine maintenance and updating of the various communication tools used and developing the visual presentation of panels and stands for trade shows and exhibitions, Corporate Identity also developed institutional communication tools including, for Aletti Fiduciaria and Aletti Trust, a new brochure and certain support materials.
Publication of the periodic newsletter “Aletti Inside” continued.
The re-styling project for the Banca Aletti brochure was completed with a new version dedicated to Private customers along with the 2011 edition of the Art Brochure "Viaggio sulle orme del tempo" [Voyage in the footprints of time] created for our external and internal customers.
As regards product communications, a new communication tool was created for the Certificate area, known as “Quick Certificate” in addition to its traditional newsletter, “Il punto sui Mercati” [Market Perspectives].

3) Internal Communications

As part of the project to update internal communications to improve the effectiveness of information dissemination, a new tool was developed, Aletti News, sent by mail to all employees, as a source of rapid and timely information.
Several internal presentations were created.
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

This area includes 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, ensures that Banca Aletti is covered by various communications media, particularly the Finance specialists, although to a lesser extent than in the past.
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

Investment Management Division

In the second half of the year, the sensitive activity of standardising and optimising the investment lines continued, which is expected to be completed by February 2012.

In addition, application enhancements to include derivative instruments in the products available to account managers were completed and released into the production environment. They are expected to be operational in the first quarter of 2012.
In support of commercial development, systems and organisational procedures were implemented to allow the use of external depositories for institutional asset management. This was made particularly relevant following the mandates acquired from the Forwarding Agents and Carriers Fund (FASC) and the National Social Security Institute for Workers in the Entertainment Industry (ENPALS).
For the Advisory business (advanced consultancy for key customers for whom there has been a significant increase in volumes over the year), activities were focused on providing greater system integration and enriching the functionality of the dedicated application. In the second half of the year, particular attention was given to intra-day monitoring of portfolios for which the customer’s position is update in real time with posting of executed orders.
In 2012, the focus will be given to developing an application to update the calculation of portfolio performance, which will no longer be based on “balances” but on “movements”.

“Private” Customer Division

The release of the application enhancements necessary for the introduction of the Wealth Management model, a new service model for portfolio consultancy, to certain pilot units of the Bank was essential in driving the project forward.
After a comprehensive parallel phase, which allowed necessary functionality to be completed as well as training for branch employees, the Wealth Management application was released throughout the Private Network in January 2012.

Front Office and Position Keeping Division

2011 was a year of intense activity, aimed at expanding and refining the application and technology tools available to the Bank’s front office desks, particularly for the Market Making and Arbitrage and Securities Lending Offices.
In the first half of the year, the extension of the position-keeping system for all Bank offices was completed that ensures the operations desks have the best professional performance.
In the second half, the Securities Lending area reached its objective of extending its service to the Group's administrative customers, who will now be able, after signing a specific contract, 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 2011.
The “Market Proximity” project regarding the positioning of the technology infrastructure for access to markets on the Borsa Italiana has been strategic and has allowed Banca Aletti to be a key player in market making.

Along with the Orc Liquidator application launched in the first half of the year for the Equity Structured Products Department, Orc Spreader was installed in the Market Making and Arbitrage Office with the objective of automating arbitrages both between stock futures and individual underlying assets as well as between different financial instruments.
As regards the business needs for services rendered by Banca Aletti to its Institutional Customers, the links between order management and transmission were enhanced to improve performance and market access times.
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, has suffered from delays due to factors external to the Group, specifically, obtaining authorisation from BaFin (German Financial Supervisory Authority) for Cassa e Compensazione e Garanzia to become a clearer for the Equiduct market. The feasibility of a solution to work around this obstacle is still being investigated.
In the latter part of the year, a project to rationalise the infoproviders in all of the Bank's Units and certain central structures was initiated, replacing the “Radiocor" application of Il sole-24 Ore with a new service known as “Market Connect” from Borsa Italiana, resulting in notable savings (approximately 60%).

Trust Company

In 2011 a project was started and completed to replace the Bank’s information system with a full outsourcing contract with Unione Fiduciaria (Italian leader in the sector).

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.

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 2011 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 2011 with global AUM (administered and managed assets) of 13.7 billion euro.

2011 was characterised by a limited contraction in the earnings margin compared to the prior year: the total figure comprises an increase in the first half and a drop in the second half. This result should be viewed within the context of the situation in financial markets, which displayed various criticalities.
The continued volatility in equity markets, heightened by periodic tensions related to government debt in various Eurozone countries, compelled many customers to return to defensive positions, slowing down the process of re-developing diversified portfolios that had begun in recent six-month periods.
At the same time, the increase in interbank monetary rate and the decided action by the Italian banking system to attract direct deposits helped short-term investments.
Therefore, the combination of the factors described above had an impact on the dynamics of asset management; the increasing volumes which had been experienced since 2009 were halted, and instead a downward trend commenced in the second half of the year.
The year was also characterised by contraction in financial availability due to the continued standstill in the real economy and lower credit availability: these factors led to the use of banking assets to finance business or real estate investments. As such, the actions aimed at increasing AUM in the medium-term and expansion of the customer base offset the aforementioned negative influences.

The "cross selling private-corporate" project, "Pri-Corp", is now in its fifth year, with fully synchronised cooperation with the Corporate Network. Its results show a constant upward trend. Since the project was launch in 2006, 3.4 billion euro has been raised, of which 506 million euro in 2011. In the second half of the year, a project phase was started, as part of the Group Business Plan, which aims to re-launch the project and its commercial effectiveness.

As in past years, strategies were defined to support development opportunities with the aim of generating contacts with potential customers through a series of local events (approximately 60 in 2011).
As regards the training plan, in addition to activities that have been scheduled in 2010, a new session dedicated to updating and developing a better understanding of certain issues related to family businesses was gradually rolled out to all private bankers.
With the upcoming launch of advanced portfolio advisory services known as Wealth Management, all private bankers are involved in two additional marketing training days.
In addition, along with the re-launch of Pri-Corp activities, a specific shared training course was provided to the Group's entire Private and Corporate Network. This training will be concluded in the first half of 2012.

At an organisation level, during the second half the Crema unit was merged with that of Cremona, with Cremona continuing to provide branch monitoring.
Also in the second half, the “Central South” area was recomposed, consisting of the Rome, Naples and Catania business units. At the same time, the “Piedmont, Lazio and Campania” area and the “South Lombardy and Sicily” areas were renamed to “Piedmont and Val d'Aosta" and "South Lombardy", respectively.

After these changes, at the end of 2011 the Banca Aletti network comprised 8 Area Offices, 35 Units and 182 Private Bankers.

Investment Management

After a positive first quarter, the global macro-economic scenario of 2011 gradually worsened, initially as a result of the earthquake in Japan, followed by the government debt crisis in peripheral Eurozone countries. Global growth during the year was around 3%, falling below forecasts made at the beginning of the year, caused by the considerable slowdown in more industrialised economies (+1.5% on average for the year), particularly in Eurozone countries. While emerging economies were negatively affected by the government debt crisis and the drop in trade volumes, they experienced a more moderate economic slowdown, with annual growth in GDP of 7%. The intensity and expansion of the government debt crisis, and the necessity for peripheral European countries to adopt more austere fiscal policies, thwarted the expansive effect of monetary policy, which in more advanced economies was largely accommodating.
In 2011, performance in equity markets was negative, both in terms of global indices, such as for example, the MSCI World Index in USD, which posted a drop of 6%, as well as for the more industrialised countries, among which only the U.S. Dow Jones Industrial Average posted positive performance, of approximately 4.7%. Even in emerging countries, performance in

equity markets was clearly negative, with indices in local currencies showing negative results around -13% and, in the case of certain BRIC countries, around -18%.
The global performance of the government bond market in 2011 was positive (Merrill Lunch TR Global Index at +6%) but extremely volatile, particularly in the second half of the year, as the government debt crisis worsened and rewarded government securities in countries seen as more secure and, in the Eurozone, widened the spread between the "core" countries and the peripheral countries to record highs, such as for example the spread between 10-year bonds on the Bund and the BTP, which reach 550 b.p. in November. Among the advanced economies, the best performance was seen in the British and American bond market, the latter being supported by the appreciation of the US dollar against the euro. The European bond market, where the debt crisis resulted in a structural re-pricing of country risk, also posted positive returns (Merrill Lunch TR Global Index at +3%)
As regards the currency market, 2011 was marked by weakness in the euro with respect to other major currencies, directly linked to the government debt crisis and uncertainties highlighted by the decision-taking mechanisms of European governing bodies. Specifically, the euro depreciated 9% against the Japanese yen and 3.5% against the US dollar.

Portfolio management activities felt the negative effects of the greater uncertainty that characterised the performance of various asset classes. The equity component of the portfolios was particularly weighed down by the increase in risk aversion and weakness in the financial sector, while the government bond component, especially for Italy, was marked by the widening in the spread between "core" countries and "peripheral" countries in the Eurozone. A positive contribution was provided by diversification in currencies other than the euro, and to a lesser extent, in the corporate bond department. For the sum of these effects, the returns offered by managed products that are more highly exposed to the bond market and to currency diversification were in line with reference indicators. For the Total Return products, results achieved were positive in absolute terms, as a result of careful management of bond risk, particularly for Italian debt, and a marked diversification in currencies.
As at 31 December 2011, AUM was 11.19 billion euro, down 18.5% from December 2010. The trend in deposits for most of the year was negative for AUM in all product types. With regard to internal service activities, activities continued for the project to use derivative instruments in asset management, and for currency forward transactions in individual management.

The Advisory Desk service, for direct and accredited Private customers, in close collaboration with the commercial network, was able to stabilise its activities for 96 active contracts that as at 31 December had a countervalue of 233 million euro, despite the uncertainty in the market. As regards the Service's internal activities, the integration between internal procedures and Banco Popolare's operating procedures was completed during the year.

Investment Banking

Derivatives and Structured Products - Financial Engineering

The dynamics of the interest rate market in 2011 were closely linked to the expansion of the European government debt crisis. The increasingly greater problems experienced by peripheral countries in obtaining funding created a strong impetus to "fly to quality", or a preference for countries and assets that were considered more secure. The swap rates that accompanied the movement, after having increased in the first half of 2011, declined to the low levels seen in 2010, while the asset swap spread (indicators of the return differential between swaps and German government bonds), reach historically high levels (more than 80 b.p. on the 10-year bond).
Liquidity in both regulated markets and over-the-counter markets continued to dry up, as a result of few market-makers that were interested in providing quotations in increasingly volatile markets.
In 2011, the low interest rate level and the perception that rates would not rise in the short term cooled demand for products to hedge interest rate risk for corporate customers, from 4.5 billion euro to 2.6 billion euro, while the sale of bond issues continued at 2010 levels, around 8 billion euro.

After the rather wide trading ranges seen in the first half, the equity markets experienced a sharp decline due to factors previously discussed, such as the government debt crisis in the peripheral Eurozone countries (PIIGS). Consequently, the exchange rate market reflected the structural weakness of the euro with respect to other major currencies. In the derivatives market, the effects were seen through the drastic reduction in liquidity, making it difficult to hedge risk positions in portfolios.
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, and volatility and correlation positions, though restricted to the more liquid underlyings. Given the situation, the choice was made to modify the Bank's role in the regulated IDEM market in reference to contracts on individual equity securities. Effective 20 June 2011, Banca Aletti became a Primary Market Maker on twenty Italian equity securities with the twofold objective of seeking greater profit opportunities in assets with low risk profiles and to strengthen its brand in the market of volatility for institutional investors.
Initial signs of increased volumes in the structuring of equity-linked products (specifically certificates) during the first half were then weakened in the second half as uncertainty grew regarding the Eurozone in general, and Italy in particular. Demand for short-term exchange rate hedges by corporate customers was stable.

In 2011, important projects that had commenced in 2010 were completed.
For transactions involving equity derivatives, the comparative parallel test of the two key and most used technologies of grid computing used by market operators (Platform and DataSynapse) was completed.
The positive results from the test demonstrated that in 2012 it will be possible to upgrade the Bank's pricing and risk management systems with certain computational tools that will notably expand the Group's commercial offer.
Also in regards to equity derivatives, a new, advanced, proprietary pricing model was developed that, using the aforementioned grid computing technology, will dynamically, and prospectively, manage complex equities (local and stochastic volatility, stochastic interest rates, and skew propagation) and will become the primary pricing tool for the equity desk.
Additionally, in the second half of 2011, specific tools for analysis and quotation of implicit volatility were developed, which are useful for controlling market risk for operators in equity derivatives.
As regards interest rate derivatives, in the first half a tree pricing model was developed and launched, which is based on the Hull & White dynamics, 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 has definitively replaced the corresponding native model of the position keeping system.
Furthermore, during the year certain tools for analysing and quoting cap/floor and swaption volatility were developed, based on SABR dynamics, which allows more precise monitoring and governance of the market risk of positions.

Trading & Brokerage

2011 will be remembered as one of the most difficult years for the global financial system. The government debt crisis in the Eurozone, its effects on banks' financial statements and the spectre of a new decline in the global economy forced investors to liquidate, often at any price, considerable amounts of financial instruments that are considered “risky”, searching instead for more secure investments. This de-leveraging affected both the bond department for peripheral European countries as well as the equity department, causing a sharp decline in liquidity, down to historically low levels in some sectors, and generating negative performance in values throughout the year.
In this context, it is particularly significant that operating profit for both the equity portfolio and the bond portfolio provided a positive contribution to the Bank's net profit for the year.

Shares

The increased volatility that characterised the key global indices, particularly in Italy, led to more prudent management of portfolios, favouring long-short and market neutral strategies over so-called "directional" strategies. This choice mitigated the effects of drastic swings in the markets and led to a positive result.
In addition, for third-party assets, which saw a marked decline in volumes traded in the market as seen in data from Borsa Italiana (-16.71%), Banca Aletti improved its position in the market, increasing its share from 1.72% last year to 3.23% in 2011 (Assosim data).
During the year, the Bank consolidated its presence in the IDEM market of Single Stock Futures, with 53 underlyings for which it performed the activity of Primary Market Maker.

Bonds

The government debt crisis for the peripheral EU countries had an effect on customer assets throughout 2011. During the initial months of the year, there was a general tightening of the spread between government securities and those of financial institutions and corporations that was positive in terms of bond issues in the primary market. Beginning in the second half, the worsening of the economic scenario, the acute de-leveraging of portfolios away from government securities of peripheral EU countries, and market illiquidity caused a dramatic widening of the spread on non-core countries and of financial institutions, hindering the latter's access to the primary market.
In this complicated situation, the approach taken by operators in managing their proprietary positions was marked by careful selection of risk assumed, a discerning interpretation of market trends and a limited amount of securities with short durations during the most serious moments of the crisis. This formulation allowed the Bank to increase and decrease the number of securities based on market movements, limiting the impacts of the negative periods and taking advantage of opportunities available in positive periods.
Despite the heightened uncertainty that characterised most of the year, an increase, though slight, was seen in volumes traded by customers compared to 2010. Purchases were concentrated primarily in the latter part of the year, in virtue of higher returns offered by government bonds and Italian bank bonds. Banca Aletti contributed to improving the quality of prices and liquidity of securities listed on the Hi-MTF market, a platform dedicated to Private and Retail customers, by providing purchase and sale prices on 662 plain vanilla bonds by third-party issuers and on all bonds issued by Banco Popolare Group.

Capital Markets

Equity Capital Market

The continued difficult situation in markets gave rise to only one new listing on the MTA in 2011. There were, however, 20 share capital increases against payment and 13 takeover bids.

Banca Aletti's Equity Capital Market Office participated in a placement and underwriting syndicate for the public share offering of Salvatore Ferragamo, in the underwriting syndicates for share capital increases of Falck Renewables SpA and Banca Monte dei Paschi di Siena SpA and the IPOs of Parmalat SpA and SNAI SpA.
In August, Banca Aletti was the intermediary appointed for the share grouping of Investimento e Sviluppo SpA.
In October, Banca Aletti acquired the mandate of Financial Advisor and Intermediary appointed for the voluntary IPO of Minerali Maffei Group. The IPO, which concluded in December exceeding the 90% threshold, will continue in the first quarter of 2012 with the procedure for purchase commitment and squeeze out.
In December, Banca Aletti subscribed to the underwriting syndicate for the Unicredit share capital increase, which is expected to take place no later than February 2012, for a total amount of 7.5 billion euro, and acted as intermediary appointed for the auction for un-optioned rights of KR Energy SpA.
In March the special operator mandate was acquired for shares in Fondo BNL Immobiliare Dinamico. During the second half, the specialist operator contracts were sold relative to Marcolin SpA and Sintest SpA on the MTA and Editoriale Olimpia SpA on the MAC.

Debt Capital Market

During 2011, the Debt Capital Market Office of Banca Aletti participated in the following Banco Popolare issues:
- in January, acting as Joint-Bookrunner – the issue of 3-year covered bonds for 700 million euro;
- in March, acting as Joint-Bookrunner – the 2-year bond issue for 1 billion euro, aimed at institutional investors;
- in March, acting as Joint-Bookrunner – the issue of 5-year covered bonds for 1.25 billion euro;
- in May, acting as Co-Dealer Manager – the exchange transactions for three Lower Tier II subordinated bond loans for a total of 1.3 billion euro;
- in June, the re-opening of 300 million euro of covered bonds issued in September 2010.

Banca Aletti participated in the following placements for external customers:
- in February, the re-opening of BEI bonds for a total of 500 million euro;
- in May and June, in the public offering of the fixed and floating rate bonds General Electric 2017 for a total of 900 million euro;
- in September, in the public offering of the fixed and floating rate bonds ENI 2017 for a total of 1.35 billion euro.

In the first quarter of 2011, as the financial crisis deepened due to the considerable worsening of the quality of Italian government debt, the primary bond market was at a complete standstill.
In December, the Debt Capital Market Office acquired the mandate of Co-Arranger to structure a securitisation transaction of trade receivables of AgosDucato SpA, for a total of approximately 5 billion euro, which should take place in the first quarter of 2012, aimed at refinancing transactions with the ECB.

Equity Research

In a context of deceleration in the business cycle but with persistent illiquidity in certain asset classes, in 2011 the Equity Research desk focused on expanding 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 hiring 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 2011, the distribution strategies, structuring and product structuring and placement activities were heavily influenced by the economic situation, particularly the government debt crisis and its repercussions for the banking system.
10.4 billion euro of structured investment products were placed (+9% over 2010), of which 64% were bonds issued by Banco Popolare, with the dual objective of extending existing funding and developing new sources.
Considering the Banco Popolare bonds acting as underlyings for unit-linked policies, the percentage increases to 82% Third-party bond issues totalled 1.5 billion euro.
Customers continued to prefer simple, guaranteed capital products, indexed to interest rates. The renewed risk aversion curbed Certificates placements in the second half: slightly more than 60 million euro, against 250 million euro in the first half.
However, Banca Aletti maintained its primary position in the Italian market for these financial instruments. As regards interest rate risk hedging products, the Covered Warrant Cap on the Euribor offered to customers with floating rate mortgages experienced a downward trend over the year, due to interest rate trends and dynamics in loans.
The notional value covered during the year was 560 million euro.
Asset management by bank branches continued its trend of asset disinvestment that began in recent years.

Institutional Sales

For commercial activities carried out with "non-captive" customers, the market conditions favoured activities as arranger for Banco Popolare bond issues in the first six months. Banca Aletti participated as bookrunner in the public senior bond offering of Banco Popolare and as co-lead for two covered bonds (bond type preferred over senior bonds in the current banking sector context) and for the share swap of three subordinated loans of Banco Popolare.
In the second half, the government debt crisis deepened and the repercussions for the market curbed public bond issues from the banking sector aimed at institutional customers.
During 2011, four different Banco Popolare bond issues were structured and distributed to customers of Poste Italiane for a total volume of 1.5 billion euro.
Bond trading on the secondary market was assisted by the certain market dynamics becoming drawn out, and led many institutional investors to reposition toward investments such as bonds. This generated an increase in volumes traded and the acquisition of new customers in this specific area of activity.
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. Nevertheless, five new customers began relationships with the Bank.
With respect to commercial activity carried out through the distribution networks outside the Group, on the one hand, the preference for direct deposit products and insurance content, and on the other hand, the elevated risk aversion, which led customer to prefer guaranteed capital products, translated into a drop in Certificates volume and asset management products.
As part of asset management, in June certain banking foundations subscribed to the fund consisting of UCITS 3 hedge funds of Gestielle Alternative. In addition, in July we were awarded the mandate to manage the assets of a new institutional customer (pension fund),
As regards interest rate hedging products, the offer for Covered Warrants Caps on the Euribor to customers holding mortgages at floating rates continued with the addition of two new placers. However, volumes were down as a result of the contraction in customer loans in the banking sector.

Large Corporate Sales

In 2011, following the gradual decline in the Euro interest rate curve, customers in the Large Corporate Sales Department increased the percentage of hedges on their medium/long-term financial liabilities, creating interest rate risk management transactions for almost all of the new disbursements and, in many cases, some loans stipulated in previous years.
The instruments used were predominantly plain vanilla, effective hedging products; in particular, the corporations favoured interest rate swaps or, in some cases, purchasing caps or collars to take advantage of possible further drops in short-term rates.
The exchange rate hedges were mainly used by importing companies that, until October, had benefitted from especially high levels of the cross Euro/USD exchange rates to set up transactions with a 12-18 month time frame. In the last months of the year, as the US dollar steadily appreciated in value, there was renewed interest in effective hedging by importing companies.
The instruments used were mostly simple forward transactions or plan vanilla options.

BUSINESS OUTLOOK

The economic context for the key advanced economies continues to be negative, with pressures on financial markets and a general slowdown in manufacturing activities.

In the United States, there has been mildly positive news in recent quarters, but uncertainties remain on the process of balancing the government budget. In the Eurozone, the continued decline in GDP and, after the summer, pressures from government debts on financial markets were heightened and became systemic, involving not only Greece, but also Spain, Ireland, Portugal and Italy. This caused growth forecasts to be lowered.

Financial operators, that until a few months ago had essentially dismissed the idea that a government issuer in the Eurozone could go bankrupt, began to evaluate the possibility, assuming risk aversion behaviour that generated more turbulence in financial markets. The economic policy responses to the turbulence, while extremely relevant, were not always able to combat the instability, highlighting certain governance limitations in the Eurozone.

Exceptional monetary policy measures were put in place to calm the markets. The European Central Bank reduced the official rate on two occasions, which now stands at 1 percent, and, in December, introduced 3-year refinancing transactions, in order to support lending activities by banks to households and businesses, for a total amount of 490 billion. The mandatory reserve coefficient was reduced by half, and the range of assets eligible to the bank to guarantee these loans was expanded. A second transaction was carried out in February for an additional 530 billion euro. These measures sought to ease the difficulties that wholesale markets had experienced in their funding capacity, which had deteriorated in the worse stages of the crisis, when recourse to wholesale funding was essentially at a standstill due to the liquidity crisis and the increase in the spread for returns on government debt. Despite this, the trend in bank credit reflected the weakness in credit demand by households and businesses due to the unfavourable economic outlook, to which were added problems with credit quality.
The three measures put in place in Italy between July and December 2011 to balance public debt had the objective of respecting the commitment assumed by the EC to have a balanced budget by 2013. Much progress has been made in terms of financial sustainability, including the actions taken on the pension system. The government proceeded to take action on various fronts, including fighting tax evasion, a spending review of the public sector and rationalising regulations and institutions in order to stimulate economic growth potential.
This series of measures has generated positive signals in Italian financial markets in recent weeks: the 10-year BTP/Bund spread progressively and rapidly declined, reaching 316 b.p. on 7 March, as compared to 550 b.p. in November. Premiums on credit default swaps from credit institutions dropped considerably and the banking index showed positive trends, with significant recovery in prices.

2012 will continue to be marked by a recession, with a reduction in the GDP between -1.5% and -2.2%, according to forecasting agencies. GDP is expected to be moderately positive in 2013. Growth forecasts for the economy are weighted down by numerous, significant factors of uncertainty, that have an impact on forecasts for the banking industry: developments in the government debt crisis, trends in the minimum requirements established by the European Banking Authority (EBA) and a series of legislative interventions that will have considerable influence on bank profits.

In this extremely difficult and complex environment, Banco Popolare Group is taking on a thorough reorganisation and re-positioning process, in order to become more competitive and efficient and to better meet our customers' needs.
This is the only way to combat the negative factors exerting pressure on profits, such as the low level of interest rates, the increased funding costs, deterioration in credit quality, and maintain a level of profitability compatible with the ability to successfully compete in an increasingly selective market.

More specifically, the “Large Cooperative Bank (Grande Banca Popolare)” Project, solidified at the end of 2011 with the inclusion of banks in Verona, Lodi, Novara and the Cassa di Risparmio di Lucca Pisa Livorno in the parent company, has brought about a noteworthy simplification of the corporate and organisational structure and allows the strengthening of commercial oversight of the local branches, with significant savings realised since the project launch. Cost savings are estimated at 90 million euro.

The Extraordinary Shareholders’ Meeting at the end of November 2011 resolved to adopt a traditional administration and control system (as opposed to the dual system that had previously been used), resulting in a substantial simplification of the administration system and corporate structure, which will generate savings and operating efficiencies. The resolution authorised the return to a Board of Directors consisting of a maximum of 24 members, of which three or four members are chosen from the Group’s executives.

As regards the strategies of the various brokerage departments that will be handled in the upcoming months, it should be noted that provisioning difficulties in terms of deposits, which has characterised the market over the last year, are less threatening for the Group today, given the actions put in place. Specifically, bond issues on institutional markets last year were greater than those maturing, creating a "reserve" able to cover more than two-thirds of 2012 wholesale funding needs. This situation was further strengthened by the availability of refinancing lines with the ECB.

With respect to credit risk, the internal figures confirm the trend in recent quarters of decline in new non-performing loans, an improvement over the trend in 2010. The forecasts for 2012 are that credit quality will remain at current levels. Our research on thousands of businesses and private individuals shows greater difficulties for businesses operating predominantly in the domestic market, where demand and consumption are in decline, while export-oriented businesses are better situated for the current economic scenario.

PROFIT ALLOCATION PROPOSAL

We propose that the Shareholders' Meeting approves the Financial Statements as submitted and allocates the all profits to "Other reserves".

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

(in thousands of euro)	**Current**	**New**
Share 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	226,138.16	374,777.50
Valuation reserves	-9.97	-9.97
Total Shareholders' Equity	**444,114.65**	**592,753.99**

Chairman of the Board of Directors

Urbano Aletti

BANCA ALETTI

Certification of Financial Statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments

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 the preparation of corporate accounts of Banca Aletti & C. S.p.A., certify the following, in consideration of the provisions of art. 154-bis, subsections 3 and 4 of Legislative Decree no. 58 of 24 February 1998:

   - the adequacy in relation to characteristics of the company, and

   - the effective application

   of administrative and accounting procedures in preparing the 2011 Financial Statements.

2. The assessment of the adequacy and effective application of administrative and accounting procedures in preparing the Financial Statements as at 31 December 2011 is based on an internal model defined by Banca Aletti & C. S.p.A., developed using the model defined by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Report"), which represents the international benchmark for internal control systems.

3. Furthermore, we certify that:

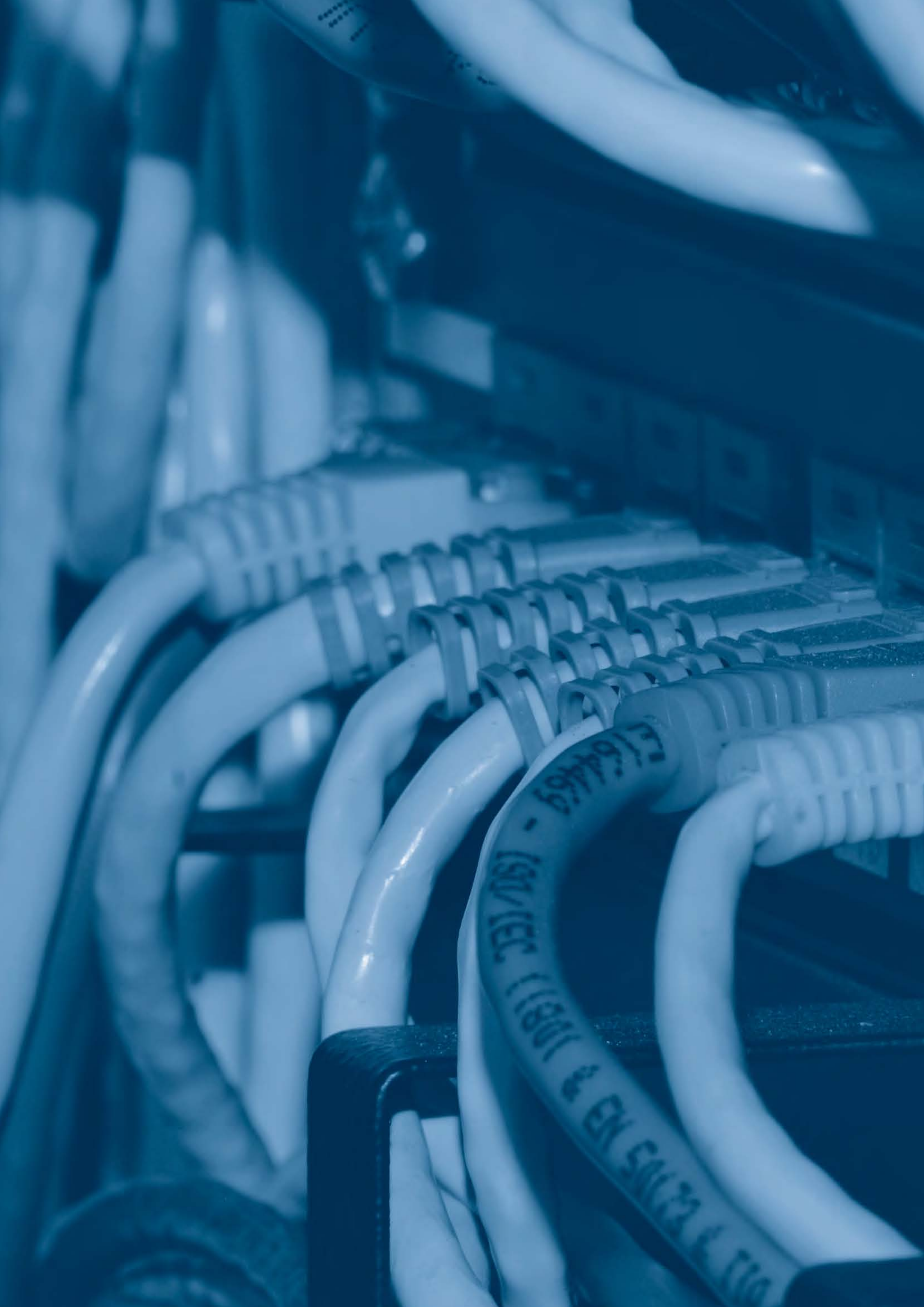
   3.1 the Financial Statements:

   a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community pursuant to EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;
   b) corresponds to the results of accounting books and accounting records;
   c) provides a fair and truthful view of the equity, financial and economic position of the issuer.

   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 it is exposed.

Date: 8 March 2012

Urbano Aletti	*Roberto Gori*
President of the Board of Directors	Manager responsible for the preparation of corporate accounts
[signature]	[signature]



STATUTORY AUDITORS' REPORT

STATUTORY AUDITORS' REPORT TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2011

Dear Shareholders,

The separate financial statements as at 31 December 2011, including the *Notes to the financial statements* and *Report on Operations*, were approved by the Board of Directors on 8 March 2012 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 2011 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.
In performing their institutional duties, the Board of Statutory Auditors complied with legal statutes and – where applicable - with Italian Civil Code provisions, the Consolidated Law on Banking and Credit (Legislative Decree no. 385 of 1 September 1993), the Consolidated Law on Finance (Legislative Decree no. 58 of 24 February 1998), the Consolidated Law on Statutory Audits (Legislative Decree no. 39 of 27 January 2010), and in consideration of Consob regulations and relative technical regulations from the Bank of Italy.
During 2011, Board of Statutory Auditors performed its activities and, as proscribed by law, participated in the 2 Shareholders' Meetings and in the 15 Board of Directors meetings called by the Bank.
The frequency of the Board of Directors meetings made it less essential to receive written reports on quarterly information from the administrative bodies, as established in art. 150, subsection 1 of Legislative Decree no. 58/1998. In fact, in the Board meetings, reports were presented, including orally, on business activities performed, on general operating performance, and on the management outlook, as well as on significant financial transactions carried out by the Bank and its subsidiaries.

The key audit information emerging from Board of Statutory Auditors activities during the year are provided below.

01. In the opinion of the Board of Statutory Auditors, the transactions brought to the attention of the Board of Directors were carried out in accordance with principles of proper administration and resolved following adequate evaluation, in compliance with the law and the Articles of Association, and in the best interests of the Company. Furthermore, they did not appear patently imprudent, risky, or lacking in necessary information if the transactions were in the interest of Directors', on their own behalf or on the behalf of third parties, or under the influence of parties that perform management and coordination or in contrast to Shareholders' Meeting resolutions, nor did they appear to compromise the company's assets.
As such, the Board of Statutory Auditors has taken note of the Bank's key transactions, which are described in detail in the disclosure to the financial statements provided by the Administrative Body, to which the reader is referred, and for which we highlight:

- **Issue of senior bond loans, at floating or fixed rates, also with zero coupons, up to a maximum of 3 billion euro, entirely subscribed by the parent company,** a transaction that is part of the broader project of merging the local banks into the parent company Banco Popolare. The Board of Statutory Auditors notes that this is a related party transaction;
- **Sale of loans to Icelandic banks** (KAUPTHING BANK LUXEMBOURG and KAUPTHING BANK HF), which had been totally or partially written down in previous years, and generated a gain in 2011;
- **Sale of the entire investment in LONDON STOCK EXCHANGE GROUP (LSE)**, equivalent to 0.253% of the share capital, in compliance with instructions received from the parent company and generating a gain in 2011;
- **Audit by the Milan Finance Police, regarding transactions in the Bank's shares in 2006 carried out for foreign parties**, which concluded 25 October 2011 and for which on 29 December 2011 the Bank received a Tax Assessment Notice and a Formal Penalty Notice. A tax settlement proposal with submitted according to art. 6 of Legislative Decree no. 218/1997, for which the Bank sought the opinion of independent consultants that have deemed the associated tax liability as "possible".

02. The Board of Statutory Auditors has not encountered, nor has it received indications from the Independent Auditors, the Group Audit Department or the Compliance Department of atypical or unusual transactions, either with third parties or Group companies.
Infragroup and related party transactions were specifically reviewed by the Administrative Body and, to the extent of our competency, by this Board of Statutory Auditors.
In application of art. 2497-ter of the Italian Civil Code, the significant aspects of the transactions that were potentially influenced by the parent company BANCO POPOLARE were highlighted and the reasons justifying them explained, in a specific section of the disclosure which is provided at the Bank's Board of Directors meetings.
From the audits performed, infragroup and related party transactions were carried out as part of the business plans coordinated by the parent company BANCO POPOLARE. As such, the Board of Statutory Audits monitored their coherency during the Board of Directors meetings held during the year.

Note that, in the *Report on Operations*, the Administrative Body specified that in 2011 transactions were performed that could be considered "influenced" according to art. 2497-ter of the Italian Civil Code, but, in further analysis, were not "influenced", but were the coherent and necessary result of the proper application of common logic aimed at the most efficient possible management of a complex organisation, typical of a banking group, but were transactions (inevitably carried out under the management and coordination of the parent company, given their nature/size), for which the decisions were obviously taken in full independence by the Bank's Board of Directors, could be considered as "influenced" by the parent company.
The Board of Directors notes that the Bank has outsourced many activities to the Group's central structures (directly to the parent company or to Group consortia. These services are governed by contracts envisaging the application of arm's length conditions or the application of cost-spreading criteria that make use of consumption- or volume-based chargeback models. In terms of business activities, these transactions are under constant monitoring from the Bank's central *Operations Coordination* Department (formerly *Supervision of Delegated Activities*) through specific reports that are submitted to the Board of Directors twice a year. With respect to the previous year, there has been much more activity in this area due to better coordination with the activities performed by the Group Audit Department.
A section of the *Report on Operations* and the *Notes to the Financial Statements* includes information on related party transactions, including the income statement and balance sheet implications of the Bank's related party transactions.
In the *Notes to the Financial Statements*, the section includes all the necessary information on the company that performs the role of management and coordination of the Bank, through a summary schedule of the key day from the latest approved financial statements of the parent company, in accordance with art. 2497-bis of the Italian Civil Code.

03. The Board of Statutory Auditors oversaw that transactions carried out by the Bank with parties that performs functions of administration, management and control for the Bank or Group companies were fully compliant with art. 136 of the Consolidated Banking Act and Supervisory Instructions, and that, in any event, they were resolved with a unanimous vote by the members of the Administrative Body and with the favourable vote of all the members of the Board of Statutory Auditors, without prejudice to the audit performed on compliance with obligations provided for in art. 2391 of the Italian Civil Code regarding Directors' interests.
Given the activities performed, the Board of Statutory believes that the disclosure provided by the Administrative Body in the *Report on Operations* and the *Notes to the Financial Statement*s regarding infragroup and related party transactions to be substantially adequate.

04. There were no significant aspects to report in the Independent Auditor's Report, issued on 23 March 2012. It should be noted that, following certain clarifications received from the Bank of Italy in February 2012 on the presentation methods for securities lending transactions and certain types of personnel costs, the Directors restated some comparative data for the previous year in order to allow a more meaningful comparison of data. The aforementioned Report states the methods for calculating comparative data and the related disclosures in the Notes to the Financial Statements were reviewed to provide a professional opinion on the Financial Statements as at 31 December 2011.
In accordance with the legislation introduced by Legislative Decree no. 39/2010, the Independent Auditors issued the *Report on the fundamental issues* on 23 March 2012, from which it emerged that:

1. there were no significant issues that should be brought to the attention of the Board of Statutory Auditors;
2. there were no significant issues discussed, handled through correspondence with management, or written statements requested of the management that should be brought to the attention of the Board of Statutory Auditors;
3. following the audits performed pursuant to art. 14, subsection 1, paragraph b) of Legislative Decree no. 39 of 27 January 2010 on proper book-keeping and the correct reporting of operating events in accounting entries, there were no significant issues that emerged that required reporting to the governance bodies and control bodies;
4. during the audit of the Bank's Financial Statements as at 31 December 2011, there were no substantial gaps in the internal control system in relation to the financial disclosure process, in accordance with art. 19 subsection 3 of Legislative Decree no. 39/2010.

Finally, the Board of Statutory Auditors has performed the necessary supervision of the autonomy of the Independent Auditors, without finding any critical aspects and, in compliance with the provisions of art. 10 and art. 17, subsection 9, paragraph a) of Legislative Decree no. 39/2010, of having received from the Independent Auditors the required "Annual confirmation of independence pursuant to art. 17, subsection 9, paragraph a) of Legislative Decree no. 39/2010" issued on 23 March 2012. The declaration attests that, in the period from 1 January 2011 to the date of the declaration, there were no situations that compromised the independence of the auditors or were incompatible with arts. 10 and 17 of Legislative Decree no. 39/2010 and related implementing measures, nor was there any reporting by the Board of Statutory Auditors to the Independent Auditors.
As such, the Board of Statutory Auditors acknowledges that, during the year and up to the current date, it was not made aware of causes of incompatibility or limitations on the independence of the Independent Auditors.

05. In 2011, the Board of Statutory Auditors did not receive any complaints from shareholders pursuant to art. 2408 of the Italian Civil Code.

06. The Board of Statutory Auditors reviewed the complaints regarding investment services, whose situation is reported twice a year to the Board of Directors and the Board of Statutory Auditors by Compliance, upon request of this Board. Specifically, complaints for 2010 were reviewed (reported in the "Compliance Department Annual Report – 2010 Group Compliance Department") and the complaints for the 1st quarter of 2011 (reported in the "Report on the overall situation of complaints on the rendering of investment services, received in the first half 2011").

Given the documentation review, the Board of Statutory Auditors was able to state that, in the communications presented, the Compliance Department did not receive any complaints indicating important structural gaps.

07. In 2010, the Independent Auditors and its associated companies were assigned the following tasks, in addition to the accounting audit and other audit and certification activities associated with the principal audit mandate:

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

RECONTA ERNST & YOUNG S.p.A. *accounting audit*	*221 thousand euro*
Other services (tax return signoff)	*6 thousand euro*

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

Other services (compliance with global investment performance standards – GIPS)	*48 thousand euro*

The amounts above are stated net of VAT and expenses.
No other mandates were assigned to parties bound by permanent relations to the Independent Auditors.

08. During 2011, there were no instances that required the Independent Auditors RECONTA ERNST & YOUNG S.p.A. to issue a mandatory opinion in accordance with the law.
However, the Board of Statutory Auditors was asked to provide its mandatory opinion on the following matters:

- opinion on the response requested by Bank of Italy of 15 February 2011, Protocol no. 0138012/11 (on 4 April 2011):

and in addition to formulate comments expressly requested by Consob Resolution no. 17297 of 28 April 2010:

- comments on the "Compliance Department Annual Report – 2010 Group Compliance Department" on 12 May 2011);
- comments on the "Internal Audit Annual Report in accordance with art. 14 of the Joint Consob-Bank of Italy Regulation" performed by the Group Audit Department during 2010 (on 12 May 2011);
- comments on the "Risk Management Department Report on activities performed in 2010 as per art. 13 subsection 2 of the Joint Bank of Italy-Consob Regulation" performed by the Risk Management Department during 2010 (on 23 June 2011).

09. In addition to participating in the Shareholders' Meetings and Board of Directors meetings as described above, the Board of Statutory Auditors carried out its institutional duties through 28 meetings, broken down as follows:

- 24 meetings for regular audits,
- 2 audits of Private Branches,
- 2 meetings with the parent company Control Committee.

Audits were carried out through visits to Central Offices and visits to some Private branches, in which the Board of Statutory Auditors met with senior management and managers of various company departments, to obtain information, data and operating programmes.
Audits carried out at central offices and operating branches, with the support of *Audit, Compliance* and *Supervision of Delegated Activities*, identified certain areas for improvement, essentially in terms of organisation and control, for which the issues were reported to headquarters and/or the competent departments for a rapid resolution to the issues.
However, further analysis was performed with the managers of the central offices to verify the organisational adequacy of the Bank, also following any actions taken during the year. More specific considerations involved the adequacy of the "financial disclosure" process, which the "Internal Control and Audit Committee" is required to supervise according to art. 19 of Legislative Decree no. 39/2010, along with the Board of Statutory Auditors in the entities of public interest identified in art. 16 of said Decree, which includes the Bank.
As such, certain recommendations were made and received by management, some of which were initiated through reporting improvements made during the year.
Note that, as part of the activities performed during the year in question, the Board of Statutory Auditors decided to report to the competent Supervisory Authorities according to art. 8, subsection 3 of the Consolidated Finance Law a transaction on a listed security that, following the reviews carried out by the Group Audit Department and the Compliance Department, should have given rise in the Group departments to the reasonable suspicion of market abuse (communication dated 8 July 2011, updated 1 August 2011).
The additional audits requested to the parent company's CRO Department on the processes to identify and report transactions involving suspected market abuse, presented in a specific report from the Group Audit Department, while being judged to be essentially adequate, and noted the necessity for further strengthening of the internal control system in this area. As a result, the Compliance Department was asked to provide further analysis, from which emerged certain indications, and an independent company was commissioned to provide an assessment on the technology application used in this area, on the basis of which the Group Audit Department, along with the parent company's Operations Department, began a project to realign the identified improvement areas. The Board of Statutory Auditors and the 231/01 Surveillance Body , each in its area of competency, are monitoring the status of this project, assisted by Audit, Compliance and Supervision of Delegated Activities, in order to review the effectiveness of the solutions proposed and progressively implemented.

10. The Board of Statutory Auditors does not see the need to formulate substantial comments on compliance with principles of ***proper administration***.

The Bank performs its activities independently, under the management and control of the parent company.
In 2011, Banca Aletti achieved important results for its Banking Group, though slightly less than the 2011 Business Plan (-1.82%), but with a positive variance from the prior year (+8.84%).
The *Report on Operations* provides detail on the Bank's areas of activity, providing a breakdown of results.

11. The audits performed during the year, with the support of the Audit Departments, did not reveal any particular anomalies in the **Bank's organisational structure**, but did identify certain areas for improvement, for which the Board of Statutory Auditors, assisted by the *Supervision of Delegated Activities and Audits*, recently created the *Operations Coordination* Department, monitoring the subsequent actions taken by the Bank, directly or through the Group's central offices.
The Bank's current organisation structure reflects the organisational model adopted by the Banking Group, with certain operating activities outsourced to the Group's central offices (including: *Audit, Compliance, Administration and Financial Statements, Organisation, Legal, Risk Management, Anti-Money Laundering, Loans*, etc. outsourced to the parent company, middle/back-office activities and all technology services and application development, as well as information and physical security outsourced to SOCIETÀ GESTIONE SERVIZI – BP S.C.p.A., while real estate services are managed by BP PROPERTY MANAGEMENT S.C.p.A.).
Note that during the year, certain steps were taken to rationalise the Bank's *Private Network*, *Investment Management*, *Structured Products* and *Human Resources*. Furthermore, the *Operations Coordination* Department (formerly *Supervision of Delegated Activities*) was strengthened and rationalised to increase the focus and supervision in terms of first level controls, as well as outsourced activities.
In the year in question, the Board of Directors approved the Bank's new *Loan Regulation* related to the disbursement of direct customer loans by BANCA ALETTI, as one of the improvements suggested by the Board of Statutory Auditors, though it is a marginal activity with respect to the Bank's operations.

On the advice of this Board, the change to the corporate structure of the Banking Group from the merger by incorporation of the six local branches into the parent company that recently initiated the "Large Cooperative Bank (Grande Banca Popolare)", for which a new dual system organisation model was adopted as opposed the traditional single system, did not cause any significant impacts on the Bank's organisational structure or on operations. The only effect that should be reported following this transaction, other than the issue of the senior bond loans, completely subscribed by the parent company (as discussed above in point 01), was the change in the receiver of the information flows provided by the Bank to the parent company, represented by the Board of Statutory Auditors of the parent company beginning on 27 December 2011, rather than the Control Committee.

12. The Board of Statutory Auditors constantly interacts with the following departments, to supplement the information received during the Board of Directors meetings in order to analyse the **regulatory compliance** of the Bank's activities, both prior and subsequent, as well as the audit on the adequacy of the **internal control system** and the "**financial disclosure**" process:

- *Audit,*
- *Compliance,*
- *Anti-Money Laundering,*
- *Administrative Process Control,*
- *Risk Management,*
- *Supervision of Delegated Activities (now Operations Coordination),*
- *Surveillance Body 231/01*.

Note that the first five areas are managed by the Bank through service contracts with the parent company BANCO POPOLARE that, as previously noted, are subject to constant monitoring by the *Supervision of Delegated Activities* Department.
There has been a significant reorganisation in the *Audit, Compliance, Anti-Money Laundering* and *Legal* Departments since last year, which are now coordinated by the CRO (Chief Risk Officer) Department.
Specifically, the Board of Statutory Auditors had meetings with Group Audit Department, which is autonomous and independent from the managers of each of the Bank's operations areas, receiving the necessary assistance to carry out the aforementioned audits. This Board can confirm that it has received all the audit reports and all the recommendations included in the results of the reviews that Audit carried during the year, on Bank departments, the two subsidiaries, as well as on the Group's central offices when, as outsourcer, the Bank determined there was a need for a review. In addition, the Board examined the 2011 audit plan, the half-year report on activities performed in the second half of 2010 and in the first half of 2011, the "*2010 Internal Audit Annual Report in accordance with art. 14 of the Joint Consob-Bank of Italy Regulation*" and took into consideration comments by Bank senior management submitted to the Board of Directors to make the necessary recommendations. The report on the second half of 2011 and the annual report will be released presently and submitted to the Board of Directors.

The Board of Statutory Auditors made an assessment of the ***Compliance*** Department, receiving adequate support on the specific issues under their competency. In addition, as previously mentioned, the "2010 Compliance Department Annual Report" was reviewed relative to BANCA ALETTI, including both complaints received from customers regarding investment services, from which there did not emerge any specific organisational/procedural gaps for the Bank, as well as the 2011 Compliance activity plan.
During 2011, this department added resources and reorganised its structure.

The Board of Statutory Auditors periodically met with the ***Group Anti-Money Laundering*** Manager to monitor that area, and in particular, the status of audits underway and planned. As such, the information flows from the Board of Statutory

Auditors to said Manager has been further fortified, given the activities performed in this area.

As a result of the review of the control system and to comply with the provisions of Legislative Decree no. 39/2010 that envisages oversight by the Board of Statutory Auditors on the **information processes related to the financial statements**, the Board met periodically with the *Administrative Process Control* Department Manager as well as the *Manager responsible for the preparation of corporate accounts*, which is addressed below.

As discussed previously in this document, **risk management** by the Bank is governed by the parent company Risk Management Department, and the Bank is primarily exposed to:

- *credit risks, counterparty risks, market risks, liquidity risks, operational risks and business risks,*
- as well as *strategic risks, reputation risks and compliance risks*.

For these risks, the *Report on Operations* provides the definition, identification within the Bank, and the description of their oversight and the related methodologies for measuring the risks, either in use or in development. Section "E" of the *Notes to the financial statements* provides a detailed description of the *Risk management model and the organisational structure*.
The Board of Statutory Auditors reviewed the reports that are periodically produced by the Group Risk Management Department, ensuring that the level of analysis was adequate.
Additionally, the Board of Statutory Auditors performed a general review of the Bank's primary risks, with the support of the Chief Executive Officer, the CRO Department and the Group Audit Department. The Board then met with the Group Risk Management Department Manager, and the managers of the departments overseeing each risk area, with whom the risk measurement methodologies and related governance was examined in order to have an appropriate perspective on the effectiveness of the department overseeing the risk and the corresponding coordination of said department, in light of the specific types of Bank transaction, and was also characterised by greater review for the Trading area.
This review brought to light areas in which improvement actions are already underway, and the need, in some case, to augment the dedicate resources. The Board acknowledged that the Bank Risk Management Department constantly monitors trends in operational risks, which are, by definition, impossible to completely eliminate.
During the year, the oversight departments were particularly focused on obtaining authorisation by the Supervisory Authority to use the "Internal Rating Based" (IRB) methodologies to calculate the minimum capital requirements for market risk.
The Bank has adapted to all standards envisaged in the calculation of Group capital requirements.
The Bank's capital adequacy assessment is carried out every quarter at Group level. In addition, the ICAAP (Internal Capital Adequacy Assessment Process) Report is produced annually and submitted to Bank of Italy and 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 supervising departments, the IT support systems, internal regulations, controls, reporting, etc. for managing and mitigating those risks.
- 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.

The Board of Statutory Auditors met periodically with the **231/01 Surveillance Body**, with which it exchanges information on a regular basis. Additionally, audits were performed on specific issues, if necessary.
Note that during the year in question, the Board of Statutory Auditors did not receive communications of behaviours as detailed in Legislative Decree no. 231/01. The 2011 Report on activities performed:

- states that in the period under consideration, there were no reports of violations of the 231/01 Model;
- notes that training courses were offered to Bank employees on issues related to Legislative Decree no. 231/01, designed and delivered by the parent company Training Institute;
- notes that the Bank's 231/01 Surveillance Body was informed by the parent company's 231/01 Surveillance Body on disciplinary proceedings for violations of the 231/01 Model involving Bank employees seconded to Banca Aletti .

In order to encourage the exchange of information on the Bank's and the Group's audits, including with resources in the *Audit* Department, the *Compliance* Department, the *Group Anti-Money Laundering* Department, the *Risk Management* Department and the Bank's 231/01 Surveillance Body, during the year the Board of Statutory Auditors met periodically with the parent company's Control Committee (replaced by the parent company Board of Statutory Auditors effective 27 December 2011), to which it related the activities performed, and had the opportunity to share information and guidelines on susceptible areas for analysis and operational improvements.

In various analyses performed by the Board of Statutory Auditors on the internal control system, the improvements identified in certain areas were related to issues for which the legislative framework is subject to continuous and significant evolution and therefore, timely implementation of improvement measures were recommended and monitored as well as compliance with implementation timelines.
Where the results of the activities performed during the internal control system audit brought to light areas that were deemed not sufficiently adequate, the timely intervention of the Bank's senior management was requested to implement the appropriate improvements, and monitoring the status of activities with the support of the *Supervision of Delegated Activities* Department and subsequent follow-ups were planned with the Audit Department.

For the issues that emerged, with particular reference to irregular transactions in listed securities that could potentially involve market abuse, the appropriate reporting was submitted to the competent Supervisory Authorities and a thorough analysis was requested of the competent departments in order to strengthen oversight on market abuse issues.
In addition, for the year underway, the Board of Statutory Auditors decided to coordinate its institutional activities with the annual planning of the activities carried out by Audit, Compliance, the 231/01 Surveillance Body and the Independent Auditors, with the objective of rationalising the control system and further improving operating efficiency.

13. For the **Bank's administrative-accounting processes and their ability to correctly represent operating results**, the Board of Statutory Auditors reviewed the level of adequacy primarily through the regular exchange of information with the Independent Auditors. In these meetings, we did not receive any indications of events that are considered censured in the performance of the compulsory audit of the financial statements pursuant to art. 155, subsection 2 of Legislative Decree no. 58/1998. We shared with the Independent Auditors the procedures adopted to prepare the financial statements and, hence, we can acknowledge that it is generally compliant as regards the development and structure, both in terms of legislation and supervisory regulations.
To the extent of our competency, we can confirm that the level of efficiency is suitable for ensuring the correct representation of the Bank's equity, economic and financial position as represented in the Financial Statements as at 31 December 2011.
The Board of Statutory Auditors met periodically with the *Manager responsible for preparing corporate accounts* as well as the parent company *Administrative Process Control* Manager, and no issues emerged regarding the procedures. In fact, during these meetings, there were no indications of gaps in operating or control processes that could have an impact on the assessment of adequacy and the effective application of the administrative-accounting procedures, the correct representation of the equity, economic and financial position and compliance with IAS/IFRS international accounting standards, nor with regards to the reliability of the *Report on Operations*.
Note that the financial statements include the certification by the *Manager responsible for the preparation of corporate accounting documents*, envisaged by art. 154-bis, subsection 5 of the Consolidated Finance Law, which the administrative and accounting procedures used to develop the financial statements are suitable and have been applied. More generally, as regards the risk management and internal control system for the financial disclosure process, the review of the adequacy and effective application of administrative and accounting procedures was established by adopting the reference internal control model ("CoSO Report") and the use of guidelines provided in the "CoSO Framework".
The financial statements were prepared in accordance with IAS/IFRS standards and correspond to the data and information that the Board of Statutory Auditors discovered in performing our duties.

The Board of Statutory Auditors acknowledged the Bank's **investments** in:
- ALETTI FIDUCIARIA S.p.A. (created from the merger by incorporation of ALETTI FIDUCIARIA S.p.A. in NAZIONALE FIDUCIARIA S.p.A.) and ALETTI TRUST S.p.A., both 100% subsidiaries of BANCA ALETTI;
- 20% investment in Hi-MTF S.p.A., 10% investment in SOCIETÀ GESTIONE SERVIZI – BP Soc. Cons. per Azioni (SGS), and 1% investment in BP PROPERTY MANAGEMENT Soc. Cons. Per Azioni,

were subject to impairment tests, which did not show any evidence of a permanent loss of value that should be reflected in the item "Investments" in the financial statements.
Among the activities performed in 2011, in order to encourage the exchange of information between the Bank and the Group as part of the control system, the Board of Statutory Auditors established an information exchange with the subsidiaries, meeting periodically with senior management and/or the Board of Statutory Auditors of ALETTI FIDUCIARIA S.p.A. and ALETTI TRUST S.p.A. in compliance with the control structures adopted by the Group.
Particular attention was given to the reorganisation processes of Aletti Fiduciaria S.p.A. as a result of the merger of the companies into the Group's Trust Department.
ALETTI TRUST S.p.A. was specifically subject to a careful review of the structural reorganisation led by the subsidiary's management to make it more appropriate for the highly specialised and professional services that it provides, its Business Plan, which will allow the Bank and the Group to better evaluate the transactions it has performed and will perform, the adoption of the necessary supervision by *Audit, Compliance, Anti-Money Laundering*, as well as the updating/adoption of the Organisational, Management and Control Model pursuant to Legislative Decree no. 231/01.
The activities of the Board of Statutory Auditors with regard to the subsidiaries were performed with the support of the Audit Department, which carried out the appropriate audits on the two companies, in which certain improvement areas were identified in the organisational structure, which will be subject to more specific monitoring by this Board and the Audit Department.

14. During the year, regular meetings were held with the **Independent Auditors**; no issues emerged that should be reported.
These meetings ensured the necessary exchange of information on controls and focused the activities that must be carried out as provided for in art. 19, subsection 1, paragraph c) of Legislative Decree no. 39/2010 regarding the duties of the Board of Statutory Auditors with respect to the compulsory audit of annual and consolidated accounts and for monitoring the adequacy of the internal control systems.

15. As regards **Corporate Governance**, the Bank's Board of Statutory Auditors, with the resolution dated 22 March 2012, gave a positive review of the adequacy of said department's size, composition and professionalism, such as the type and variety of skills and experience as a whole, as well as on its functioning.
That said, the Board of Statutory Auditors acknowledges that the Bank can be assured that it has an administration and

control system characterised by a clear distinction of roles and responsibilities, the appropriate balance of powers, and a balanced composition of corporate bodies.

16. As the Bank is not listed on regulated markets, the Self-imposed Code of Conduct required for listed companies has not been adopted.
However, the Bank has adopted both the Code of Ethics and Internal Self-Imposed Code of Conduct issued at parent company level.

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

* * *

Finally, with the approval of the Financial Statements as at 31 December 2011, the term of office has expired for both the Board of Directors and this Board of Statutory Auditors, and the Shareholders' Meeting will be called to resolve on this matter.

* * *

With regard to supervisory tasks performed in 2011, given all of the above, having reviewed the certifications issued jointly by the Board of Directors and the Manager responsible for the preparation of corporate accounts, having read the Independent Auditors' Report issued by RECONTA ERNST & YOUNG on 23 March 2010 on the 2011 separate financial statements providing a positive opinion without additional comments, we can certify that in the Bank's performance of its activities in 2011, there emerged no omissions, censurable events or irregularities meriting specific reporting to shareholders, and thereby does not have any particular comments and proposals to make regarding the approval of the financial statements submitted by the Board of Directors, with the related *Report on Operations*, and the proposed allocation of profits as indicated in said *Report*.

Milan, 26 March 2012

The Board of Statutory Auditors
Maria Gabriella Cocco*, Chairman*

Alfonso Sonato, *Standing Auditor*

Franco Valotto, *Standing Auditor*


14 SARAH CATANIA
Schatze Auction - bid to cover has been 2.1 co
13 FILIPPO COCCHIERI
RBS: Baa2/BBB XTALN 6¼ 5/15 now offer @
13 CALYON CREDIT
toyota 12's Up at 390. Left +395/90 16s/ 395/8
12 DAVID DURAN PAZ
SGLT&PORTB offers
12 DANIELA FERRARO
Launch of the new Schatz Mar.11 - strong dema
11 GIOVANNI TARDITI
[/] EUROPEAN BANK CDS AXES
1:09 FILIPPO COCCHIERI
COVERED BUYING AXE !!!
1:09 SID GOWDA
BANG-A-THON....MAIN 192¼-193¼
1:09 GIOVANNI TARDITI
****Retail CDS run
1:09 LUIGI FANCIANO
RY 5.75 07/11
11:08 STEFANO RAZIO
Citi >> Euro Utilities Cash >(10am)<
11:08 LOREDANA ABBADINI
HANNOVER RE Q4 08 RESULTS OUT, PROFIT DRO
11:08 STEFANO RAZIO
CITI TOBACCO CASH RUN: INDIC
Tmt Asw
Properties
Legend
Track
Annotations
News
Zoom
Period/Range
Table
DT 4.5 10/25/13 Corp - Mid Asset Swap Spread (R1) 152.00
FRTEL 7.25 1/28/13 Corp - Mid Asset Swap Spread (R1) 163.84
TITIM6.875 1/24/13 Corp - Mid Asset Swap Spread (L1) 348.98
KPN 4.5 3/18/13 Corp - Mid Asset Swap Spread (L1) 229.69
BRITEL 5.25 1/22/13 Corp - Mid Asset Swap Spread (L1) 299.44
TELEFO 5.125 2/14/13 Corp - Mid Asset Swap Spread (R1) 157.33
VOD 3.625 11/29/12 Corp - Mid Asset Swap Spread (R1) 128.78
Sep 30
Oct 31
Nov 28
Dec 31
2008
Jan 30
Tmt Asw
Properties
Legend
Track
Annotations
News
Zoom
Period/Range
Table
EIB 3.75 11/10 Corp - Mid Asset Swap Spread (R1) -13.30
XS0170558877 Corp - Mid Asset Swap Spread (R1) 27.66
XS0361975955 Corp Corp - Mid Asset Swap Spread (L1) 39.63
XS0196448129 Corp - Mid Asset Swap Spread (L1) 59.68

INDEPENDENT AUDITORS' REPORT ON SEPARATE FINANCIAL STATEMENTS

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Independent auditors' report
pursuant to art. 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, 2011, 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 Banca Aletti & C. S.p.A.'s Directors. 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 Directors. 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, the Directors have restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our report dated March 29, 2011. We have examined the methods used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of our opinion on the financial statements as of and for the year ended December 31, 2011.

3. In our opinion, the financial statements of Banca Aletti & C. S.p.A. as of December 31, 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Banca Aletti & C. S.p.A. for the year then ended.

4. The Directors of Banca Aletti & C. S.p.A. are 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 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 art. 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 and for the year ended December 31, 2011.

Milan, March 23, 2012

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.

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Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CC.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U.
Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n. 10831 del 16/7/1997

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SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET

Assets	31/12/11	31/12/10 *	Changes	
10 Cash and cash equivalents	19,376	24,061	(4,685)	-19.5%
20 Financial assets held for trading	6,260,677,437	6,488,385,319	(227,707,882)	-3.5%
30 Fair value financial assets	16,453,767	18,298,967	(1,845,200)	-10.1%
40 Available-for-sale financial assets	1,653,731	8,611,621	(6,957,890)	-80.8%
60 Due from banks	4,589,123,077	1,476,498,035	3,112,625,042	210.8%
70 Due from customers	1,417,903,934	1,410,132,180	7,771,754	0.6%
100 Investments	21,030,734	21,030,734	-	0.0%
110 Property, plant and equipment	1,292,945	1,677,267	(384,322)	-22.9%
120 Intangible assets	20,937,595	21,083,667	(146,072)	-0.7%
of which: goodwill	*20,937,595*	*21,080,270*	*(142,675)*	-0.7%
130 Tax assets	5,184,218	18,803,023	(13,618,805)	-72.4%
a) current	-	7,546,916	(7,546,916)	
b) prepaid	5,184,218	11,256,106	(6,071,888)	-53.9%
150 Other assets	70,960,098	71,632,512	(672,414)	-0.9%
Total	**12,405,236,912**	**9,536,177,386**	**2,869,059,526**	**30.1%**

Liabilities and shareholders' equity	31/12/11	31/12/10 *	Changes	
10 Due to banks	3,619,319,747	2,999,451,117	619,868,630	20.7%
20 Due to customers	987,524,791	1,064,502,248	(76,977,457)	-7.2%
30 Securities in issue	1,884,775,595	-	1,884,775,595	
40 Financial liabilities held for trading	5,195,883,225	4,811,004,443	384,878,782	8.0%
80 Tax liabilities	7,638,808	3,873,970	3,764,839	97.2%
a) current	3,927,344	394,086	3,533,258	896.6%
b) deferred	3,711,464	3,479,883	231,581	6.7%
100 Other liabilities	105,409,149	65,592,667	39,816,482	60.7%
110 Employee termination indemnity	2,917,028	2,816,653	100,375	3.6%
120 Provisions for risks and charges	9,014,587	12,470,638	(3,456,051)	-27.7%
b) other provisions	9,014,587	12,470,638	(3,456,051)	-27.7%
130 Valuation reserves	(9,970)	2,724,227	(2,734,197)	n.s.
160 Reserves	250,370,871	243,485,444	6,885,427	2.8%
170 Share premium reserve	72,590,205	72,590,205	-	0.0%
180 Share Capital	121,163,539	121,163,539	-	0.0%
200 Profit for the year	148,639,337	136,502,237	12,137,100	8.9%
Total	**12,405,236,912**	**9,536,177,386**	**2,869,059,526**	**30.1%**

** Figures were restated in compliance with the flyers issued by the Bank of Italy on 10 February 2012. The annexes include the reconciliation statements between the balance sheet published in the 2010 Annual Report and the one presented in above.*

INCOME STATEMENT

Income Statement items	2011	2010*	Changes	
10 Interest income and similar revenues	118,826,809	120,042,457	(1,215,648)	-1.0%
20 Interest expense and similar charges	(70,432,051)	(91,274,704)	20,842,653	-22.8%
30 Interest margin	**48,394,758**	**28,767,753**	**19,627,005**	**68.2%**
40 Commission income	147,925,306	157,132,050	(9,206,744)	-5.9%
50 Commission expense	(104,758,850)	(120,840,359)	16,081,509	-13.3%
60 Net commissions	**43,166,456**	**36,291,691**	**6,874,765**	**18.9%**
70 Dividends and similar revenues	57,283,793	360,547,741	(303,263,948)	-84.1%
80 Trading gains/losses	166,743,458	(135,581,371)	302,324,829	
90 Hedging gains/losses	31,201	(24,530)	55,731	
100 Gains (Losses) from disposal or repurchase of:	4,299,997	-	4,299,997	
a) loans	1,355,903	-	1,355,903	
b) available-for-sale financial assets	2,944,094	-	2,944,094	
110 Net profit/loss from fair value financial assets and liabilities	(1,445,640)	118,800	(1,564,440)	
120 Earnings margin	**318,474,023**	**290,120,084**	**28,353,939**	**9.8%**
130 Net write-downs/reversals for impairment of:	(82,945)	607,755	(690,700)	
a) loans	(82,945)	1,469,518	(1,552,463)	
b) available-for-sale financial assets	-	(861,763)	861,763	
140 Net profit from financial management	**318,391,078**	**290,727,839**	**27,663,239**	**9.5%**
150 Administrative costs:	(101,510,026)	(106,074,758)	4,564,732	-4.3%
a) personnel costs	(49,242,580)	(52,018,433)	2,775,853	-5.3%
b) other administrative expense	(52,267,446)	(54,056,325)	1,788,879	-3.3%
160 Net provisions for risks and charges	(617,200)	(1,200,000)	582,800	-48.6%
170 Net write-downs/reversals on property, plant and equipment	(600,996)	(597,815)	(3,181)	0.5%
180 Net write-downs/reversals on intangible assets	(3,397)	(4,326)	929	-21.5%
190 Other operating income (expense)	8,914,808	7,297,956	1,616,852	22.2%
200 Operating costs	**(93,816,811)**	**(100,578,943)**	**6,762,132**	**-6.7%**
210 Gains (Losses) on investments	-	3,409	(3,409)	
240 Gains (Losses) on investment disposals	85	10	75	n.s.
250 Profit (Loss) on current operations before tax	**224,574,352**	**190,152,315**	**34,422,037**	**18.1%**
260 Income tax for the year for current operations	(75,935,015)	(53,650,078)	(22,284,937)	41.5%
270 Net profit (loss) on current operations	**148,639,337**	**136,502,237**	**12,137,100**	**8.9%**
290 Profit for the year	**148,639,337**	**136,502,237**	**12,137,100**	**8.9%**

** Figures were restated in compliance with the flyers issued by the Bank of Italy on 10 February 2012. The annexes include the reconciliation statements between the income statement published in the 2010 Annual Report and the one presented in above.*

STATEMENT OF COMPREHENSIVE INCOME

Item		31/12/2011	31/12/2010
10	**Profit (Loss) for the year**	**148,639,337**	**136,502,237**
	Other income items after tax	-	-
20	Available-for-sale financial assets	(2,734,197)	988,844
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**	**(2,734,197)**	**988,844**
120	**Comprehensive income (Items 10+110)**	**145,905,140**	**137,491,081**

2011 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31 12 2010	Changes in opening balance	Balance as at 01 01 2011	Allocation of previous year's results		Changes during the year								Shareholders' equity as at 31 12 2011
				Reserves	Dividends and other utilisation	Changes in reserves	Equity transactions: Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	2011 Comprehensive income	
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	243,485,444	-	243,485,444	6,885,427	-	-	-	-		-	-	-	-	250,370,871
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves:														
a) available for sale	2,724,227	-	2,724,227	-	-		-	-	-	-	-	-	(2,734,197)	(9,970)
b) cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Own shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (Loss) for the year	**136,502,237**		**136,502,237**	**(6,885,427)**	**(129,616,810)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**148,639,337**	**148,639,337**
Shareholders' equity	**576,465,652**	**-**	**576,465,652**	**-**	**(129,616,810)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**145,905,140**	**592,753,982**

2010 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31 12 2009	Changes in opening balance	Balance as at 01 01 2010	Allocation of previous year's results		Changes during the year								Shareholders' equity as at 31 12 2010
						Changes in reserves	Equity transactions						2010 Comprehensive income	
				Reserves	Dividends and other utilisation		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)**	**(157,324,750)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**136,502,237**	**136,502,237**
Shareholders' equity	**596,299,321**	**-**	**596,299,321**	**-**	**(157,324,750)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**137,491,081**	**576,465,652**

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)

OPERATIONS	31/12/11	31/12/10
1. Management	**15,918,739**	**304,193,717**
- interest income received (+)	116,234,163	120,987,744
- interest expense paid (-)	(67,937,109)	(93,475,713)
- dividends and similar revenues	57,283,793	360,318,787
- net commissions (+/-)	34,123,749	37,395,015
- personnel costs	(55,951,669)	(55,637,354)
- other costs (-)	(52,022,814)	(65,785,018)
- other revenues (+)	113,864	7,358,101
- taxes (-)	(15,925,238)	(6,967,845)
- costs/revenues for groups of discontinued assets, net of tax effects (+/-)	-	-
2. Cash flow generated/absorbed by financial assets:	**(2,684,698,615)**	**1,157,479,773**
- financial assets held for trading	394,451,340	(326,062,350)
- fair value financial assets	399,560	241,060
- available-for-sale financial assets	7,198,988	(258,382)
- due from customers	(7,854,699)	(231,395,991)
- due from banks: on demand	(1,413,491,052)	1,302,798,808
- due from banks: other receivables	(1,697,680,383)	396,313,533
- other assets	32,277,631	15,843,095
3. Cash flow generated/absorbed by financial liabilities:	**2,798,608,674**	**(1,304,014,125)**
- due to banks: on demand	405,639,395	362,464,781
- due to banks: other payables	214,229,236	(493,510,731)
- due to customers	(76,977,457)	(630,928,411)
- securities in issue	1,884,775,595	(34,636,212)
- financial liabilities held for trading	384,878,782	(304,881,068)
- fair value financial liabilities	-	-
- other liabilities	(13,936,877)	(202,522,484)
Net cash flow generated/absorbed by operations	**129,828,798**	**157,659,365**
INVESTMENTS		
1. Cash flow generated by:	**-**	**228,954**
- disposal of investments	-	-
- dividends collected on investments	-	228,954
- disposal/redemption of financial assets held to maturity	-	-
- disposal of property, plant and equipment	-	-
- disposal of intangible assets	-	-
- disposal of business segments	-	-
2. Cash flow absorbed by:	**(216,674)**	**(588,898)**
- acquisition of investments	-	-
- acquisition of financial assets held to maturity	-	-
- purchase of property, plant and equipment	(216,674)	(588,898)
- purchase of intangible assets	-	-
- acquisition of business segments	-	-
Net cash flow generated/absorbed by investments	**(216,674)**	**(359,944)**
FUNDING		
- issue/purchase of own shares	-	-
- issue/purchase of equity instruments	-	-
- distribution of dividends and other	(129,616,809)	(157,324,750)
Net cash flow generated/absorbed by funding	**(129,616,809)**	**(157,324,750)**
NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR	**(4,685)**	**(25,329)**

Balance sheet items	31/12/11	31/12/10
Cash and cash equivalents – opening balance	24,061	49,390
Total net cash flow generated/absorbed during the year	(4,685)	(25,329)
Cash and cash equivalents: effect of exchange differences	-	-
Cash and cash equivalents – closing balance	19,376	24,061

NOTES TO THE FINANCIAL STATEMENTS

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 2011 (including SIC and IFRIC interpretations).
For an overview of the standards approved in 2011 or those approved earlier but applicable from 2011 (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 15 February 2012 and 13 March 2012 (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

There are no events to report.

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 8 March 2012 and will be submitted for approval of the Shareholders' Meeting called for 19 April 2012.

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 2011, the application of certain accounting standards or interpretations issued by IASB and approved by the European Commission became either mandatory or optional.

The table below lists all the amendments to the standards and interpretations approved in 2011 or in previous years, which became effective in 2011, for which no significant impacts on the preparation of these consolidated financial statements were identified.

Accounting standards and interpretations (*)	Notes	EC approval regulation	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	EC Reg. no. 1293 of 23 December 2009	1 February 2010
IAS 24 - Related party disclosures IFRS 8 – Operating segments	Simplifies the definition of "related parties", eliminates certain inconsistencies and exempts public entities from certain disclosure requirements for related party transactions	EC Reg. no. 632 of 19 July 2010	1 January 2011
Improvements to IFRS (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 32, IAS 34, IAS 39, IFRIC 13)	Minor changes primarily related to disclosures	EC Reg. no. 149 of 18 February 2011	1 January 2011 1 July 2011 (for changes to IFRS 3)
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	1 January 2011
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	30 June 2010

(*) amendments to IFRS 1 regarding the initial application of IFRS are not included

Finally, note that with Regulation no. 1205 of 22 November 2011, certain amendments to IFRS 7 with respect to disclosure on transfers of financial assets were approved, with the objective of enhancing transparency of disclosures on transfer transactions. For Banco Popolare Group, the standard will be effective beginning in 2012.

Representation of the changes to the financial statements for comparison purposes

2010 Balance Sheet and Income Statement

In February 2012, the Bank of Italy made clarifications on the correct method of presenting certain transactions in the financial statements.

Specifically, it was stated that certain charges functionally connected with employees, represented by analytical reimbursements and documents for costs of board and lodging incurred by travelling employees and costs to reimburse kilometres calculated on the basis of effective cost plans and kilometres travelled, must be presented under item "150 b) other administrative expenses". These expenses, which had been included in sub-item “150 a) personnel costs”, for a total of 883.4 thousand euro, were then reclassified to item "150 b) other administrative expenses".

In addition, for securities lending transactions, it was clarified that only those transactions in which the guarantee is represented by cash that is fully available to the lender should be presented as equivalent to a repurchase agreement.
If the securities lending transactions have guarantees consisting of other securities, or do not have guarantees, that do not exceed the derecognition test envisaged in IAS 39, the lender and borrower must continue to show in balance sheet assets the security lent and the asset used as guarantee, respectively. Hence, for transactions of this type, there does not need to be any further recognition in the financial statements. In addition, the clarifications from the Supervisory Authority state that the related repayment must be recognised by the lender in the item “Commission income” and by the lender under "Commission expense".
In 2010, the securities lending transactions were represented as the combination of two functionally connected transactions - a repurchase agreement and a reverse repurchase agreement on securities and a loan receivable/payable - whose repayment was recorded in the interest margin. Therefore, in 2011 it was necessary to restate the balances of the previous year.
Specifically, for securities lent, item "10 Interest income" of 946.3 thousand euro in 2010, was reclassified under item "40 Commission income". The cost of the securities lent, or 468.8 thousand euro, was reclassified from item "20 Interest income” to item “50 Commission expense”. For the balance sheet as at 31 December 2010, the outstanding transactions of this type were securities lent: the restatement resulted in a reduction of payables for repurchase agreements of 403.8 million euro (recognised as at 31 December 2010 for 303.9 million euro in the liability item "10 Due from banks" and for 99.9 million euro in the liability item "20 Due from customers"), as a balancing entry to speculative reduction to loans for mortgages receivable (previously recorded asset item “60 Due to banks” for 303.9 million euro and in asset item "70 Due to customers” for 99.9 million euro).

For the purposes of better understanding of the quantitative impacts of the changes to recognition criteria that occurred in 2011, the restated balance sheet and income statement for the previous year is reconciled to the data originally published in the 2010 Financial Statements in the annexes.

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

The balance sheet as at 31 December 2011 was prepared in application of the same accounting standards used for the previous year’s balance sheet, with the approved amendments in effect for 2011, 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.: valuation method for listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, values recorded in recent comparable 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 is 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 statement 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 retention of partial 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 their expected effectiveness;
- 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 equipment 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 benefit 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 compositions, 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 statement items

<u>Cash and cash equivalents</u>

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. therefore no gains can be recognised as at the issue date. 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 a 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 continue to be recognised in the financial statements, as “Assets sold but not derecognised”. Amounts collected from the company are

recorded as a balancing entry to loans payable, net of securities issued by the SPV and subscribed by the selling bank and subordinated loans sold by the bank to the SPV. 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 50 B.

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, a description must be provided 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 discretional 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; For certain derivative contacts with highly complex pay off structures, the fair value is subject to an adjustment to include these factors of complexity and illiquidity. In particular, a correction factor attributable to "model risk", or the risk that the pricing model could generate fair values that are not comparable with market values;
- 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 includes 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 for financial asset and liability portfolios measured at fair value, based on the triple hierarchy illustrated in the paragraph "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

	31/12/2011			31/12/2010		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held for trading	841,748	5,418,929	-	1,642,120	4,837,032	9,233
2. Fair value financial assets	16,279	40	135	17,974	76	249
3. Available-for-sale financial assets	-	1,101	553	6,687	1,376	549
4. Hedging derivatives	-	-	-	-	-	-
Total	**858,027**	**5,420,070**	**688**	**1,666,781**	**4,838,484**	**10,031**
1. Financial liabilities held for trading	244,761	4,950,464	658	190,261	4,619,058	1,685
2. Fair value financial liabilities	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**244,761**	**4,950,464**	**658**	**190,261**	**4,619,058**	**1,685**

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 99.98% 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 (0.01%) and refer to minority shareholdings valued according to internal models (profitability, equity or combined methods) and to unlisted private equity funds.

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 2011 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	**9,233**	**249**	**549**	-
2. Increases	**957**	**-**	**4**	-
2.1. Acquisitions	872	-	-	-
2.2. Profits recognised to:	85	-	4	-
2.2.1. Income Statement	85	-	-	-
- of which capital gains	-	-	-	-
2.2.2. Shareholders' equity	X	X	4	-
2.3. Transfers from other levels	-	-	-	-
2.4. Other increases	-	-	-	-
3. Decreases	**(10,190)**	**(114)**	**-**	-
3.1. Sales	(10,163)	-	-	-
3.2. Redemptions	-	-	-	-
3.3. Losses recognised to:	-	(114)	-	-
3.3.1. Income Statement	-	(114)	-	-
- of which capital losses	-	(114)	-	-
3.3.2. Shareholders' equity	-	-	-	-
3.4. Transfers to other levels	-	-	-	-
3.5. Other decreases	(27)	-	-	-
4. Closing balances	**-**	**135**	**553**	-

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	**1,685**	-	-
2. Increases	**373**	-	-
2.1. Issues	368	-	-
2.2. Losses recognised to:	5	-	-
2.2.1. Income Statement	5	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	-	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**(1,400)**	-	-
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised to:	(1,400)	-	-
3.3.1. Income Statement	(1,400)	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	-	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balances	**658**	-	-

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 2011 totals 1.4 million euro and the residual differences still to be recognised amount to 0.7 million euro.

PART B – BALANCE SHEET DATA

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

(in thousands of euro)	31-12-2011	31-12-2010
a) Cash	19	24
b) Demand deposits with Central Banks	-	-
Total	**19**	**24**

Section 2 - Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by product

As at 31 December 2011 financial assets totalled 6,260,677 thousand euro. The breakdown of financial assets is illustrated in the table below.

Items/Values *(in thousands of euro)*	31-12-2011			31-12-2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A Cash assets						
1. Debt securities	584,966	619,789	-	1,302,332	673,872	9,193
1.1 Structured securities	130,397	43,790	-	156,681	78,312	-
1.2 Other debt securities	454,569	575,999	-	1,145,651	595,560	9,193
2. Equity instruments	186,793	-	-	281,437	-	40
3. UCI units	2,911	-	-	6,081	-	-
4. Loans	-	-	-	-	-	-
4.1 Repo agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**774,670**	**619,789**	**-**	**1,589,850**	**673,872**	**9,233**
B Derivatives						
1. Financial derivatives	67,078	4,791,594	-	52,270	4,162,029	-
1.1 trading	67,078	4,791,594	-	52,270	4,162,029	-
1.2 linked to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	7,546	-	-	1,131	-
2.1 trading	-	7,546	-	-	1,131	-
2.2 linked to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**67,078**	**4,799,140**	**-**	**52,270**	**4,163,160**	**-**
Total (A+B)	**841,748**	**5,418,929**	**-**	**1,642,120**	**4,837,032**	**9,233**

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

	Items/Values *(in thousands of euro)*	31-12-2011	31-12-2010
A	**CASH ASSETS**		
	1. Debt securities	**1,204,755**	**1,985,397**
	a) Governments and central banks	2,170	683,269
	b) Other public authorities	-	-
	c) Banks	1,115,985	1,087,604
	d) Other issuers	86,600	214,524
	2. Equity instruments	**186,793**	**281,477**
	a) Banks	60,777	49,456
	b) Other issuers:	126,016	232,021
	- insurance companies	9,549	9,986
	- finance companies	3,422	9,963
	- non-financial companies	113,045	212,072
	- other	-	-
	3. UCI units	**2,911**	**6,081**
	4. Loans	**-**	**-**
	a) Governments and central banks	-	-
	b) Other public authorities	-	-
	c) Banks	-	-
	d) Other entities	-	-
	Total A	**1,394,459**	**2,272,955**
B	**DERIVATIVES**		
	a) Banks		
	- *fair value*	4,275,038	3,891,062
	b) Customers		
	- *fair value*	591,180	324,368
	Total B	**4,866,218**	**4,215,430**
	Total (A+B)	**6,260,677**	**6,488,385**

As at 31 December 2011 the composition of UCI units was as follows:

- Shares and Sicavs: 1,517 thousand euro
- Bonds: 864 thousand euro
- Real estate: 530 thousand euro

Item “A.1. Debt securities – d) 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

	(in thousands of euro)	Debt securities	Equity instruments	UCI units	Loans	Total
A	**Opening balances**	**1,985,397**	**281,477**	**6,081**	-	**2,272,955**
B.	**Increases**	**55,373,907**	**4,493,505**	**3,833**	**-**	**59,871,245**
B1.	Acquisitions	55,254,398	4,428,298	3,822	-	59,686,518
B2.	Positive changes in fair value	5,118	4,072	-	-	9,190
B3.	Other changes	114,391	61,135	11	-	175,537
C.	**Decreases**	**(56,154,549)**	**(4,588,189)**	**(7,003)**	-	**(60,749,741)**
C1.	Sales	(56,052,338)	(4,339,645)	(5,953)	-	(60,397,936)
C2.	Redemptions	-	-	-	-	-
C3.	Negative changes in fair value	(19,374)	(31,469)	(413)	-	(51,256)
C4.	Transfers to other portfolios	-	-	-	-	-
C5.	Other changes	(82,837)	(217,075)	(637)	-	(300,549)
D	**Closing balances**	**1,204,755**	**186,793**	**2,911**	-	**1,394,459**

Section 3 – Fair value financial assets – Item 30

3.1 Fair value financial assets: breakdown by product

Items/Values *(in thousands of euro)*	31-12-2011			31-12-2010		
	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	**-**	**40**	**-**	**-**	**76**	**-**
3 UCI units	**16,279**	**-**	**135**	**17,974**	**-**	**249**
4 Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Structured securities	-	-	-	-	-	-
4.2 Other debt securities	-	-	-	-	-	-
Total	**16,279**	**40**	**135**	**17,974**	**76**	**249**
Cost	**17,561**	**49**	**249**	**17,867**	**118**	**175**

UCI units include 16,279 thousand euro in units of Hedge Funds (comprising investments in “other assets”) and 135 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

Items/Values *(in thousands of euro)*	31-12-2011	31-12-2010
1 Debt securities	**-**	**-**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other issuers	-	-
2 Equity instruments	**40**	**76**
a) Banks	-	-
b) Other issuers:	40	76
- insurance companies	40	76
- finance companies	-	-
- non-financial companies	-	-
- other	-	-
3 UCI units	**16,414**	**18,223**
4 Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**16,454**	**18,299**

3.3 Fair value financial assets: annual changes

	(in thousands of euro)	Debt securities	Equity instruments	UCI units	Loans	Total
A	**Opening balances**	**-**	**76**	**18,223**	**-**	**18,299**
B.	**Increases**	**-**	**-**	**-**	**-**	**-**
B1.	Acquisitions	-	-	-	-	-
B2.	Positive changes in fair value	-	-	-	-	-
B3.	Other changes	-	-	-	-	-
C.	**Decreases**	**-**	**(36)**	**(1,809)**	**-**	**(1,845)**
C1.	Sales	-	-	(413)	-	(413)
C2.	Redemptions	-	-	-	-	-
C3.	Negative changes in fair value	-	(36)	(1,396)	-	(1,432)
C4.	Other changes	-	-	-	-	-
D	**Closing balances**	**-**	**40**	**16,414**	**-**	**16,454**

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

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

	Items/Values *(in thousands of euro)*	**31-12-2011**			**31-12-2010**		
		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**	**-**	**1,101**	**553**	**6,687**	**1,376**	**549**
	2.1 Measured at fair value	-	1,101	553	6,687	1,376	549
	2.2 Measured at cost	-	-	-	-	-	-
3	**UCI units**	-	-	-	-	-	-
4	**Loans**	-	-	-	-	-	-
Total		**-**	**1,101**	**553**	**6,687**	**1,376**	**549**

“Equity instruments” comprise investments in the following companies:

- SIA-SSB S.p.A. (formerly SIA S.p.A.) for 1,101 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 18 thousand euro (12.5% 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.

In 2011, there were no further impairments on these securities.

It should be noted that in May 2011, the entire investment in London Stock Exchange (formerly Borsa Italiana) was sold on the British reference market. The book value as at 31 December 2010 was 6,687 thousand euro (or 0.246% of the company’s share capital). The sale eliminated the positive valuation reserve of 2,517 thousand euro and a gain on the sale was recognised for 427 thousand euro. These amounts were recognised under item 100 of the Income Statement. Furthermore, note that there were hedges against exchange rate risk on this investment and that an exchange loss of 113 thousand euro was recorded in item 90 of the Income Statement for this investment.

In addition, on 13 September 2011, GROUP s.r.l. resolved a “reserved” share capital increase of 11,428.57 euro with a share premium of 6,481.57 euro (hence, a total of 17,910.14 euro) for the addition of a new shareholder (Credito Valtellinese), which then paid said amount. Thereby, Banca Aletti diluted its holding to 12.5% of share capital, compared to the former 14.286%.

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

Items/Values *(in thousands of euro)*		31-12-2011	31-12-2010
1	**Debt securities**	**-**	**-**
	a) Governments and central banks	-	-
	b) Other public authorities	-	-
	c) Banks	-	-
	d) Other issuers	-	-
2	**Equity instruments**	**1,654**	**8,612**
	a) Banks	-	-
	b) Other issuers:	1,654	8,612
	- insurance companies	-	-
	- finance companies	535	535
	- non-financial companies	1,119	8,077
	- other	-	-
3	**UCI units**	**-**	**-**
4	**Loans**	**-**	**-**
	a) Governments and central banks	-	-
	b) Other public authorities	-	-
	c) Banks	-	-
	d) Other entities	-	-
Total		**1,654**	**8,612**

4.3 Available-for-sale financial assets subject to micro-hedging

(in thousands of euro)		31-12-2011	31-12-2010
1	**Financial assets subject to fair value micro hedging:**	**-**	**6,687**
	a) interest rate risk	-	-
	b) price risk	-	-
	c) exchange rate risk	-	6,687
	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**

The figure as at 31 December 2010 refers solely to the investment in London Stock Exchange that was subject to a micro hedge on exchange rate risk, in that the investment was listed in British Pound Sterling. The entire investment was sold in 2011.

4.4 Available-for-sale financial assets: annual changes

(in thousands of euro)		Debt securities	Equity instruments	UCI units	Loans	Total
A	**Opening balances**	-	**8,612**	-	-	**8,612**
B.	**Increases**	**-**	**431**	**-**	**-**	**431**
B1.	Acquisitions	-	-	-	-	-
B2.	Positive changes in fair value	-	4	-	-	4
B3.	Reversals	-	-	-	-	-
	- recognised to the income statement	-	X	-	-	-
	- recognised to shareholders' equity	-	-	-	-	-
B4.	Transfers from other portfolios	-	-	-	-	-
B5.	Other changes	-	427	-	-	427
C.	**Decreases**	**-**	**(7,389)**	**-**	**-**	**(7,389)**
C1.	Sales	-	(7,001)	-	-	(7,001)
C2.	Redemptions	-	-	-	-	-
C3.	Negative changes in fair value	-	(275)	-	-	(275)
C4.	Write-downs for impairment	-	-	-	-	-
	- recognised to the income statement	-	-	-	-	-
	- recognised to shareholders' equity	-	-	-	-	-
C5.	Transfers to other portfolios	-	-	-	-	-
C6.	Other changes	-	(113)	-	-	(113)
D	**Closing balances**	-	**1,654**	-	-	**1,654**

Item B.2 "Positive changes in fair value" consists exclusively of the appreciation in the GROUP s.r.l. security.
Item B.5 "Other changes" consists of the gain on the sale of the London Stock Exchange security for 427 thousand euro in 2011.
Item C.1 "Sales" shows the total amount received for the sale of the London Stock Exchange security.
Item C.3 "Negative changes in fair value" consists exclusively of the depreciation in the SIA-SSB S.p.A. security.
Item C.6 "Other changes" includes 113 thousand euro for the exchange loss in 2011 for the London Stock Exchange security recorded as a balancing entry to item 90 of the Income Statement – "Hedging gains/(losses)" in that it was fully hedged with forward exchange transactions.

Section 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by product

Security type/Values *(in thousands of euro)*		31-12-2011	31-12-2010
A	**Due from Central Banks**	**-**	**-**
	1. Term deposits	-	-
	2. Compulsory reserve	-	-
	3. Repurchase agreements	-	-
	4. Other	-	-
B	**Due from banks**	**4,589,123**	**1,476,498**
	1. Current accounts and demand deposits	2,163,973	737,771
	2. Term deposits	228,242	234,834
	3. Other loans:	301,611	503,893
	3.1 Repurchase agreements	293,999	493,704
	3.2 Finance leases	-	-
	3.3 Other	7,612	10,189
	4. Debt securities	1,895,297	-
	4.1 Structured securities	-	-
	4.2 Other debt securities	1,895,297	-
Total (book value)		**4,589,123**	**1,476,498**
Total (fair value)		**4,597,417**	**1,476,649**

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 185,701 thousand euro;
- short-term term deposits with the parent company for 8,201 thousand euro;
- the compulsory reserve deposited with the parent company for 34,340 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 2011 includes the following:
- sub-item 3.1 – “Repurchase agreements”: from repurchase agreements with a countervalue of 226,246 thousand euro (449,187 thousand euro as at 31 December 2010) and securities lending transactions with cash guarantees for a countervalue of 67,753 thousand euro (44,517 thousand euro as at 31 December 2010);
- sub-item 3.3 “Other”: primarily operating receivables for 7,519 thousand euro (10,189 thousand euro as at 31 December 2010).

Item B.4.2 “Other debt securities” consists exclusively of bonds issued by the parent company Banco Popolare, specifically two bonds (ISIN code IT0004773328 and ISIN code IT0004777949), for a total value of 1,876,113 thousand euro, entirely subscribed by the bank to optimise the liquidity generated by parent company’s treasury activities. Refer to the discussion under "Significant events” in the Report on Operations and to Section 3 of the Notes to the financial statements.

Note that in December (Board of Directors’ resolution of 15 December 2011) the bank’s entire receivable from Kaupthing Banki HF included in the 2010 financial statements was sold for a gross amount of 10,770 thousand euro net of a write-down of 8,654 thousand euro. The entire position, that was classified as non-performing, was sold to Morgan Stanley International Limited for 2,562.5 thousand euro, resulting in a gain of 445.9 thousand euro. Given that the sale involved the transfer of all risks associated with the receivable, the gain was recognised in item 100 of the Income Statement “Gain on disposal”.

Section 7 – Due from customers – Item 70

7.1 Due from customers: breakdown by product

Security type/Values *(in thousands of euro)*	31-12-2011		31-12-2010	
	Performing	Impaired	Performing	Impaired
1 Current accounts	9,335	38	7,185	21
2 Repurchase agreements	1,086,564	-	1,027,554	-
3 Mortgages	-	-	-	-
4 Credit cards, personal loans and salary-backed loans	-	-	-	-
5 Finance leases	-	-	-	-
6 Factoring	-	-	-	-
7 Other transactions	317,938	4,029	371,347	4,025
8 Debt securities	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other debt securities	-	-	-	-
Total (book value)	**1,413,837**	**4,067**	**1,406,086**	**4,046**
Total (fair value)	**1,413,777**	**4,067**	**1,405,358**	**4,363**

Item 1 – “Current accounts” mainly comprises overdrafts granted to reliable customers. These assets were collectively written down by approximately 64 thousand euro.

Item 2 - “Repurchase agreements” consists of securities lending transactions guaranteed by cash for 1,071,950 thousand euro (1,027,554 thousand as at 31 December 2010) and repurchase agreements for 14,614 thousand euro.

Item 7 – “Other transactions” (performing) primarily consists of liquidity and guarantee deposits released to clearing houses for derivatives settled on Italian and international markets for 285,836 thousand euro, collateral on financial instrument contracts released to finance companies for 18,170 thousand euro and operating receivables for 13,923 thousand euro.
Item 7 – “Other transactions” (impaired) primarily consists of receivables with Lehman Brothers Group for 13,344 thousand euro adjusted for the cumulative write-down of 9,391 thousand euro. Note that, given that a restructuring plan has not been defined for some of the subsidiaries of Lehman Group, it was deemed necessary to record variations to the forecasts for loss or write-backs on these positions with respect to the amount outstanding in the 2010 financial statements.
On 8 December 2011, Banca Aletti signed an agreement with Merrill Lynch International to sell the remaining outstanding notes of Pillar Securitisations S.a.r.l. for 910 thousand euro. The notes resulted from the securitisation restructuring of Kaupthing Bank Luxembourg, with which the bank had a guarantee deposit with an original value of 13,966 thousand euro, and as at 31 December 2010 had a gross value of 7,383 thousand euro, fully written down. The sale transferred substantially all of the risks associated with the notes; therefore, the amount collected was recognised in the Income

Statement under item 100 "Gain on disposal", with a balancing entry for the receivable with the purchaser. The notes, classified as non-performing, were derecognised from the bank's assets at the transaction’s settlement date of 16 January 2012, and are therefore included in sub-item 8.2 “Other debt securities" (impaired) at zero value.

7.2 Due from customers: breakdown by borrower/issuer

Security type/Values (in thousands of euro)		31-12-2011		31-12-2010	
		Performing	Impaired	Performing	Impaired
1	**Debt securities**	**-**	**-**	**-**	**-**
	a) Governments	-	-	-	-
	b) Other public authorities	-	-	-	-
	c) Other issuers	-	-	-	-
	- non-financial companies	-	-	-	-
	- finance companies	-	-	-	-
	- insurance companies	-	-	-	-
	- other	-	-	-	-
2	**Loans to:**	**1,413,837**	**4,067**	**1,406,086**	**4,046**
	a) Governments	-	-	-	-
	b) Other public authorities	-	-	-	-
	c) Other entities	1,413,837	4,067	1,406,086	4,046
	- non-financial companies	773	-	111	-
	- finance companies	1,391,936	3,971	1,385,595	3,961
	- insurance companies	3,209	-	1,275	-
	- other	17,919	96	19,105	85
Total		**1,413,837**	**4,067**	**1,406,086**	**4,046**

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by hedge type and hierarchical level

As previously discussed in Section 4 of Assets of the Notes to the Financial Statements, in May 2011, the entire investment in London Stock Exchange (formerly Borsa Italiana) was sold on the British reference market, making it no longer necessary to carry out exchange rate hedging transactions with the British pound sterling. The forward currency transactions that had been used as hedges up to May 2011 resulted in a gain of 145 thousand euro, recorded in item 90 of the Income Statement "Hedging gains/(losses)".

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

Company names (in thousands of euro)	31-12-2011			31-12-2010		
	Registered office	Percentage investment	Percentage of voting rights	Registered office	Percentage investment	Percentage of voting rights
A. 100% subsidiaries						
1. Aletti Fiduciaria S.p.A.	Milan	100%	100%	Milan	100%	100%
2. Aletti Trust S.p.A.	Milan	100%	100%	Milan	100%	100%
C. Companies subject to significant influence						
1. HI-MTF S.p.A	Milan	20%	20%	Milan	20%	20%
2. Società Gestione Servizi - BP Soc. cons. per azioni (SGS)	Verona	10%	10%	Verona	10%	10%
3. BP Property Management Soc. cons. per azioni (formerly BPVN Immobiliare)	Verona	1%	1%	Verona	1%	1%

During the year, there were no changes in value or in the ownership percentage of the Investments held by the bank.

Following the impairment test conducted on 31 December 2011, there were no 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

Company names *(in thousands of euro)*	Total Assets	Total Revenues	Gains (Losses)	Shareholders' equity	Book Value	Fair value
A. 100% subsidiaries	**9,003**	**4,935**	**555**	**6,431**	**9,021**	X
1. Aletti Fiduciaria S.p.A.	7,881	4,134	558	5,898	8,525	X
2. Aletti Trust S.p.A.	1,122	801	(3)	533	496	X
C. Companies subject to significant influence	**340,264**	**499,659**	**(3,175)**	**155,231**	**12,009**	X
HI-MTF S.p.A	5,266	2,543	246	4,760	1,000	X
Società Gestione Servizi - BP Soc. cons. per azioni (SGS)	269,833	345,981	(1,954)	107,380	10,519	X
BP Property Management Soc. cons. per azioni (formerly BPVN Immobiliare)	65,165	151,135	(1,467)	43,091	490	X
Total	**349,267**	**504,594**	**(2,620)**	**161,662**	**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 2011.

10.3 Equity investments: annual changes

(in thousands of euro)	2011	2010
A. Opening balances	**21,030**	**21,046**
B. Increases	**-**	**3**
B.1 Acquisitions	-	-
B0.2 Reversals	-	-
B.3 Revaluations	-	-
B.4 Other decreases	-	3
C. Decreases	**-**	**(19)**
C.1 Disposals	-	(5)
C.2 Write-downs	-	-
C.3 Other decreases	-	(14)
D. Closing balances	**21,030**	**21,030**
E. Total revaluations	-	-
F. Total write-downs	**9,685**	**9,685**

10.4 Commitments relating to investments in subsidiaries

As at 31 December 2011 the Bank had no commitments to subsidiaries.

10.6 Commitments relating to investments in companies subject to significant influence.

As at 31 December 2011 the Bank had no commitments to companies subject to significant influence.

Section 11 – Property, plant and equipment – Item 110

Property, plant and equipment totalled 1,293 thousand euro, net of related provisions for depreciation.

11.1 Property, plant and equipment: breakdown of assets measured at cost

Items/Values *(in thousands of euro)*	31/12/2011	31/12/2010
A Assets - for operational use		
1. Owned	**1,293**	**1,677**
a) land	-	-
b) buildings	-	-
c) furniture and fittings	667	886
d) electrical systems	-	-
e) other	626	791
2. Acquired through finance leases	-	-
a) land	-	-
b) buildings	-	-
c) furniture and fittings	-	-
d) electrical systems	-	-
e) other	-	-
Total A	**1,293**	**1,677**
B Assets held as investments		
1. Owned	-	-
a) land	-	-
b) buildings	-	-
2. Acquired through finance leases	-	-
a) land	-	-
b) buildings	-	-
Total B	-	-
Total (A+B)	**1,293**	**1,677**

11.3 Assets for operational use: annual changes

(in thousands of euro)	Land	Buildings	Furniture and fittings	Electrical systems	Other	Total
A. Gross opening balances	-	-	**4,650**	**787**	**3,395**	**8,832**
A.1 Total net impairment	-	-	(3,764)	(787)	(2,604)	(7,155)
A.2 Net opening balances	-	-	886	-	791	1,677
B Increases:	-	-	**19**	-	**198**	**217**
B.1 Acquisitions	-	-	19	-	198	217
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 Transfers from property, plant and equipment	-	-	-	-	-	-
held as investments						-
B.7 Other decreases	-	-	-	-	-	-
C Decreases	-	-	**(238)**	-	**(363)**	**(601)**
C.1 Disposals	-	-	-	-	-	-
C.2 Depreciation	-	-	(238)	-	(363)	(601)
C.3 Write-downs for impairment 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 decreases	-	-	-	-	-	-
D Net closing balances	-	-	**667**	-	**626**	**1,293**
D.1 Total net impairment	-	-	(4,002)	(787)	(2,967)	(7,756)
D.2 Gross closing balances	-	-	4,669	787	3,593	9,049
E Measurement at cost	-	-	-	-	-	-

Section 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by asset type

Intangible assets totalled 20,938 thousand euro, net of amortisation, and consist entirely of Goodwill, as "Other intangible assets" were derecognised during the year 2011 following full amortisation.

Items/Values *(in thousands of euro)*		31-12-2011		31-12-2010	
		Finite life	Infinite life	Finite life	Infinite life
A.1	**Goodwill**	X	**20,938**	X	**21,080**
A.2	**Other intangible assets**	-	-	**4**	-
A.2.1	Assets measured at cost:	-	-	4	-
	a) Intangible assets generated in-house	-	-	-	-
	b) Other assets	-	-	4	-
A.2.2	Fair value assets:	-	-	-	-
	a) Intangible assets generated in-house	-	-	-	-
	b) Other assets	-	-	-	-
Total		-	**20,938**	**4**	**21,080**

The amount of 20,938 thousand euro consists of:

- 19,973 thousand euro for 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.
- 965 thousand euro for the value attributed to the securities Asset Management contracts purchased at the end of 2010 from Banca Popolare di Puglia e Basilicata. The original value of goodwill recognised in the previous year was 1,107 and, following the re-calculation of the price envisaged in the contracts based on the AUM as at 13 June 2011, an downward adjustment was made of 142 thousand euro.

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.

The impairment test was conducted by referencing the "value in use" of the asset being tested, in consideration of the availability of budgeted years. This approach differs from the fair value estimate, using market multiples, applied for the years 2008-2010, but is consistent with the approach used for the interim period ending 30 June 2011.
These Notes and the underlying analyses were also prepared based on the instructions contained in the Bank of Italy/Consob/ISVAP Document no. 4 of 3 March 2010, as well as the guidelines provided by the Italian Valuation Board (O.I.V.) contained in the document “Goodwill impairment testing in the context of the financial and real crisis" currently in the approval phase.
The IAS 36 standard requires that there is an annual impairment test if there are indications of a reduction in value of an asset, comparing its book value with its recoverable value. This standard defines recoverable value as the greater of:

- Value in Use, or the current value of future cash flows that are expected to be generated by the continual use of a specific asset or from a “Cash Generating Unit”;
- Fair Value, less sales costs, or the amount that can be collected from the sale of an asset in a free-market transaction between knowledgeable and available parties.

The impairment test was conducted using the Value in Use. Hence, the valuation analyses were developed applying the Dividend Discount Model on the basis of Banca Aletti’s medium-term business plan.
In any event, the test 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.

(in thousands of euro)	Goodwill	Other intangible assets: generated in-house		Other intangible assets: Other		Total
		FIN.	INFIN.	FIN.	INFIN.	
A. Opening balances	**21,080**	**-**	**-**	**8**	**-**	**21,088**
A.1 Total net impairment	-	-	-	(4)	-	(4)
A.2 Net opening balances	21,080	-	-	4	-	21,084
B. Increases:	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Acquisitions	-	-	-	-	-	-
B.2 Increases in assets generated in-house	X	-	-	-	-	-
B.3 Reversals	X	-	-	-	-	-
B.4 Positive changes in fair value:	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to the income statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**(142)**	**-**	**-**	**(4)**	**-**	**(146)**
C.1 Disposals	-	-	-	-	-	-
C.2 Write-downs	-	-	-	(3)	-	(3)
- Amortisation	X	-	-	(3)	-	(3)
- 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 Transfers to discontinued operations	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other decreases	(142)	-	-	(1)	-	**(143)**
D. Closing balances	**20,938**	**-**	**-**	**-**	**-**	**20,938**
D.1 Total net impairment	(142)	-	-	(8)	-	(150)
E. Gross closing balances	**21,080**	**-**	**-**	**8**	**-**	**21,088**

Key:
FIN. finite life
INFIN. infinite life

Section 13 – Tax assets and liabilities – Item 130 Assets and Item 80 Liabilities

Current taxes

As at 31 December 2011, current tax liabilities amount to 3,927 thousand euro, corresponding to the taxes due for 2011 net of the 2011 IRAP (regional tax) credit.

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 2011, tax liabilities included liabilities to the parent company for IRES for 42,858 thousand euro, equivalent to the estimated 2011 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 2011, note that the IRAP base rate changed (from 3.9% to 4.65%), introduced in art. 23 of Legislative Decree no. 98/2011, bringing the weighted average rate (including a 0.92% increase) to 5.57%. The rate change resulted in adjustments to deferred tax liabilities and prepaid tax assets that did not, however, have a significant financial impact (57 thousand euro for the liability adjustment and 31 thousand euro for the asset adjustment). Compared to 2010, there were no other 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

	(in thousands of euro)	IRES	IRAP	31-12-2011	31-12-2010
A	**With balancing entry in the income statement**				
	Provisions for risk – non-deductible, standard taxation	487	-	487	668
	Non-deductible costs relating to more than one tax year	-	-	-	41
	Non-deductible operating asset losses	17	3	20	29
	Deferred tax on personnel costs	1,997	-	1,997	2,770
	Goodwill impairment	709	144	853	981
	Write-downs on amounts due from banks	-	-	-	4,365
	Write-downs on amounts due from customers in excess of the deductible limit	1,584	-	1,584	1,689
	Other	194	48	242	713
	Total A	**4,988**	**195**	**5,183**	**11,256**
B	**With balancing entry in shareholders' equity**				
	Fair value measurement of AFS financial assets	-	1	1	-
	Other	-	-	-	-
	Total B	**-**	**1**	**1**	**-**
	Total (A+B)	**4,988**	**196**	**5,184**	**11,256**

13.2 Deferred tax liabilities: breakdown

	(in thousands of euro)	IRES	IRAP	Other taxes	31-12-2011	31-12-2010
A	**With balancing entry in the income statement**					
	Capital gains recognised in relation to Italian UCIs	92	-	-	92	258
	Tax amortisation on goodwill	3,000	479	-	3,479	2,941
	AFS financial asset measurement	-	-	-	-	51
	Other	140	-	-	140	178
	Total A	**3,232**	**479**	**-**	**3,711**	**3,428**
B	**With balancing entry in shareholders' equity**					
	Fair value measurement of AFS financial assets	-	-	-	-	52
	Total B	**-**	**-**	**-**	**-**	**52**
	Total (A+B)	**3,232**	**479**	**-**	**3,711**	**3,480**

13.3 Changes in prepaid taxes (with balancing entry in the income statement)

(in thousands of euro)		31-12-2011	31-12-2010
1.	**Opening balances**	**11,256**	**12,921**
2.	**Increases**	**2,207**	**3,259**
2.1	Prepaid taxes recognised during the year	2,176	3,259
	a) relating to previous years	-	-
	b) due to changes in accounting standards	-	-
	c) reversals	-	-
	d) other	2,176	3,259
2.2	New taxes or tax rate increases	31	-
2.3	Other increases	-	-
3.	**Decreases**	**(8,280)**	**(4,924)**
3.1	Prepaid taxes derecognised during the year	(8,280)	(4,924)
	a) reversals	(8,280)	(4,924)
	b) unrecoverable write-downs	-	-
	c) changes in accounting standards	-	-
	d) other	-	-
3.2	Tax rate decreases	-	-
3.3	Other decreases	-	-
4.	**Closing balance**	**5,183**	**11,256**

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)

(in thousands of euro)		31-12-2011	31-12-2010
1.	**Opening balances**	**3,428**	**3,395**
2.	**Increases**	**603**	**594**
2.1	Deferred taxes recognised during the year	546	594
	a) relating to previous years	-	-
	b) due to changes in accounting standards	-	-
	c) other	546	594
2.2	New taxes or tax rate increases	57	-
2.3	Other increases	-	-
3.	**Decreases**	**(320)**	**(561)**
3.1	Deferred taxes derecognised during the year	(320)	(561)
	a) reversals	(320)	(561)
	b) due to changes in accounting standards	-	-
	c) other	-	-
3.2	Tax rate decreases	-	-
3.3	Other decreases	-	-
4.	**Closing balance**	**3,711**	**3,428**

13.5 Changes in prepaid taxes (with balancing entry in shareholders' equity)

(in thousands of euro)	31-12-2011	31-12-2010
1. Opening balances	**-**	**43**
2. Increases	**1**	**-**
2.1 Prepaid taxes recognised during the year	1	-
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) other	1	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**(43)**
3.1 Prepaid taxes derecognised during the year	-	(43)
a) reversals	-	(43)
b) due to changes in accounting standards	-	-
c) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
4. Closing balance	**1**	**-**

13.6 Changes in deferred taxes (with balancing entry in shareholders' equity)

(in thousands of euro)	31-12-2011	31-12-2010
1. Opening balances	**52**	**31**
2. Increases	**2**	**21**
2.1 Deferred taxes recognised during the year	-	21
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) other	-	21
2.2 New taxes or tax rate increases	2	-
2.3 Other increases	-	-
3. Decreases	**(54)**	**-**
3.1 Deferred taxes derecognised during the year	(54)	-
a) reversals	(54)	-
b) due to changes in accounting standards	-	-
c) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
4. Closing balance	**-**	**52**

13.7 Other information

In 2011, Banca Aletti was subject to an audit by the Milan Finance Police. The audit involved the review of the excluded portion of distributed profits (art. 89 of the Consolidated Income Tax Act) indicated in the specific lines of the income tax declarations for the years 2006, 2007, 2008 and 2009. For more information on the current status of the audit performed, refer to the extensive discussion provided under Significant Events of the Report on Operations.

Section 15 – Other Assets – Item 150

15.1 Other assets: breakdown

Details of certain items of "Other Assets" are provided below.

(in thousands of euro)	31-12-2011	31-12-2010
A. Receivables	**63,590**	**61,640**
1. Tax credits	50,626	49,379
2. Other income receivable	12,964	12,261
B. Other items	**7,369**	**9,993**
1. In progress	3,189	1,888
2. Securities and coupons to be settled	3,441	6,462
3. Other transactions to be settled	-	-
4. Other items	739	1,643
Total	**70,959**	**71,633**

"Tax credits" consists primarily of:

- 47,622 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 46,525 thousand euro are attributable to credits with Swiss tax authorities for withholding on dividends received in the 2006 through 2011 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 14,913 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. The potential liability associated with not collecting the full amount of the tax credit was deemed possible.

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, 2010 and 2011 tax years), equivalent to 31,612 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 2011 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" consists of 207 thousand euro of accruals for commission advances and 508 thousand euro for 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

Security type/Values *(in thousands of euro)*	**31-12-2011**	**31-12-2010**
1. Due to central banks	**-**	**-**
2. Due to banks	**3,619,320**	**2,999,451**
2.1 Current accounts and demand deposits	1,842,109	1,432,824
2.2 Term deposits	711,068	849,180
2.3 Loans	1,053,484	701,298
2.3.1 Reverse repurchase agreements	1,053,484	701,298
2.3.2 Other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other payables	12,659	16,149
Total	**3,619,320**	**2,999,451**
Fair value	**3,619,306**	**2,999,451**

Item 2.2 “Term deposits” consists solely of guarantee deposits for collateral on financial instrument contracts (848,860 thousand euro as at 31 December 2010).

Item 2.3 “Loans” consists of:

- repurchase transactions for a countervalue of 885,837 thousand euro (96,051 thousand euro as at 31 December 2010);
- securities lending transactions guaranteed by cash for a countervalue of 167,647 thousand euro (605,247 thousand euro as at 31 December 2010).

Item 2.5 “Other payables” comprises operating payables.

Section 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by product

Security type/Values *(in thousands of euro)*	**31-12-2011**	**31-12-2010**
1. Current accounts and demand deposits	502,423	557,660
2. Term deposits	222,235	45,176
3. Loans	242,312	448,255
3.1 Reverse repurchase agreements	242,312	448,255
3.2 Other	-	-
4. Commitments to repurchase own equity instruments	-	-
5. Other payables	20,555	13,411
Total	**987,525**	**1,064,502**
Fair value	**987,525**	**1,064,502**

Item 2. “Term deposits” is made up entirely of deposits as collateral on derivative contracts with financial companies.

Item 3. “Loans” consists of:

- repurchase transactions for a countervalue of 195,368 thousand euro (431,755 thousand euro as at 31 December 2010);
- securities lending transactions guaranteed by cash for a countervalue of 46,944 thousand euro (16,500 thousand euro as at 31 December 2010).

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 *(in thousands of euro)*	Total 2011				Total 2010			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,876,614	-	1,884,300	-	-	-	-	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,876,614	-	1,884,300	-	-	-	-	-
2. Other securities	8,161	-	-	8,161	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	8,161	-	-	8,161	-	-	-	-
Total	**1,884,775**	**-**	**1,884,300**	**8,161**	**-**	**-**	**-**	**-**

As previously discussed under “Significant Events” in the Report on Operations, on 30 September 2011, the Board of Directors of Banca Aletti authorised the issue by Banca Aletti of senior bonds, at fixed and floating rates, including those zero coupon bonds.

As at 31 December 2011, the bank had made two issues for a par value of 1 billion euro each (ISIN codes IT0004773336 and IT0004777964), entirely subscribed by the parent company Banco Popolare. The book value of the bonds is 1,876,614 thousand euro and is recognised in item A.1.2 "Other bonds".

Item 2.2 “Other” refers to short-term certificates of deposit in foreign currencies.

Section 4 – Financial liabilities held for trading – Item 40

4.1 - Financial liabilities held for trading: breakdown by product

As at 31 December 2011, financial liabilities held for trading totalled 5,195,883 thousand euro. The breakdown of financial assets is illustrated in the table below.

Security type/Values *(in thousands of euro)*	**Total 2011**					**Total 2010**				
	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	3,694	3,373	-	-	3,373	266	266	-	-	266
2. Due to customers	22,084	22,003	-	-	22,003	10,628	10,973	-	-	10,973
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-		-	-	-	-	
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-		-	-	-	-	
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**25,778**	**25,376**	**-**	**-**	**25,376**	**10,894**	**11,239**	**-**	**-**	**11,239**
B. Derivatives										
1. Financial derivatives	-	219,385	4,950,464	658	-	-	179,022	4,618,522	1,685	-
1.1 Trading	X	219,385	4,950,464	658	X	X	179,022	4,618,522	1,685	X
1.2 Linked to the fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	536	-	X
2.1 Trading	-	-	-	-	-	-	-	536	-	-
2.2 Linked to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**219,385**	**4,950,464**	**658**	**X**	**X**	**179,022**	**4,619,058**	**1,685**	**X**
Total (A+B)	**X**	**244,761**	**4,950,464**	**658**	**X**	**X**	**190,261**	**4,619,058**	**1,685**	**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 8 – Tax liabilities – Item 80

See section 13 under Assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

(in thousands of euro)	31-12-2011	31-12-2010
A. Payables	**80,272**	**52,667**
Due to group companies for tax consolidation	42,858	5,908
Due to tax authorities for amounts payable on behalf of third parties	2,835	2,611
Due to personnel	2,156	2,167
Payables to social security authorities	1,407	1,604
Trade payables	31,016	40,377
B. Other items	**25,136**	**12,926**
Securities and coupons to be settled	22,795	5,927
Bank transfers for clearance	1,046	5,303
Other items	1,295	1,696
Total	**105,408**	**65,593**

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 42,858 thousand euro of 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 43 thousand euro capital gains payable to the tax authority, withholdings on interest paid to customers for 715 thousand euro, 152 thousand euro VAT payable and IRPEF withholding tax for 1,415 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 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 2011 which were settled in the first few days of the new year.

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 2011 which were settled in the first few days of the new year.

“Other items” consists mainly of 1,275 thousand euro for payables to Group companies for personnel seconded to the bank.

Section 11 - Employee termination indemnity – Item 110

11.1 Employee termination indemnity: annual changes

The balance of the employee termination indemnity as at 31 December 2011 was determined in accordance with IAS 19 and totals 2,917 thousand euro. The table below provides details of changes during the year compared to those of the previous year.

(in thousands of euro)	31-12-2011	31-12-2010
A. Opening balances	**2,817**	**2,703**
B. Increases	**292**	**459**
B.1 Allocations for the year	67	118
B.2 Other increases	225	341
C. Decreases	**(192)**	**(345)**
C.1 Settlements	(128)	(187)
C.2 Other decreases	(64)	(158)
D. Closing balances	**2,917**	**2,817**
Total	**2,917**	**2,817**

Changes during the year

The amount recorded under sub-item B.1 “Allocations for the year” includes:
- interest cost of 126 thousand euro;
- actuarial gains of 59 thousand euro, consisting mainly of the reduction in the discount rate (from 4.30% as at 31 December 2010 to 4.25% as at 31 December 2011) for 14 thousand euro and 45 thousand euro for discounting, which generated a reduction in the liability.

Sub-item B.2 “Other changes” refers to employee severance indemnity for personnel terminating their secondment to Group companies during the year and re-employed directly by Banca Aletti.

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 2011 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 2011	
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	4.25%, equal to the Iboxx Corporate index AA 7-10
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 2010 was 4.3%. 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

Items/Values *(in thousands of euro)*	**31-12-2011**	**31-12-2010**
1. Company pension funds	-	-
2. Other provisions for risks and charges	**9,014**	**12,471**
2.1 legal disputes	-	-
2.2 personnel costs	7,360	10,259
2.3 other	1,654	2,212
Total	**9,014**	**12,471**

The total provisions for risks and charges of 9,014 thousand euro can be broken down as follows:

- 7,360 thousand euro liabilities regarding provisions for future personnel costs, 25 thousand euro provisions for renewal of the supplementary company agreement and 115 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, renewed in 2011, for 37 thousand euro;
- 1,654 thousand euro for limited and specific disputes or potential reimbursement of sales to customers as at year end, settlement of which will occur primarily in 2012.

12.2 Provisions for risks and charges: annual changes

(in thousands of euro)	**Pension funds**	**Other funds**	**Total**
A. Opening balances	-	**12,471**	**12,471**
B. Increases	-	**7,862**	**7,862**
B.1 Allocations for the year	-	7,860	7,860
B.2 Time-related changes	-	2	2
B.3 Changes due to discounting rate amendments	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	**(11,319)**	**(11,319)**
C.1 Utilisation during the year	-	(10,540)	(10,540)
C.2 Changes due to discounting rate amendments	-	-	-
C.3 Other decreases	-	(779)	(779)
D. Closing balances	-	**9,014**	**9,014**

Sub-items B.1 and B.2 form the total impact on the income statement of changes in provisions for risks and charges in 2011. The entire amount comprises 7,150 thousand euro provisions for personnel costs recognised to item 150 a) "Personnel costs" of the income statement and 710 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 1,176 thousand euro and 9,364 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 for 686 thousand euro and 93 thousand euro for charges for legal disputes.

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 2011 totalled 932 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 2 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

Items/Type (in thousands of euro)	31-12-2011	31-12-2010
1. Share Capital	121,164	121,164
2. Share premium reserve	72,590	72,590
3. Reserves	250,371	243,486
4. (Own shares)	-	-
5. Valuation reserves	(10)	2,724
6. Equity instruments	-	-
7. Profit (Loss) for the year	148,639	136,502
Total	**592,754**	**576,466**

As at 31 December 2011 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

(in units)		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 increases	-	-
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 Share 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 2011 was as follows:

- Legal reserve: 24,233 thousand euro
- Other reserves: 226,138 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	226,138	A, B, C		226,138	-	-
Other reserves:						
Valuation reserves	(10)		(2)	-	-	-
Comprehensive total	**444,115**			**298,728**	-	-
Non distributable share	**-**			**-**	-	-
Distributable residual share	**444,115**			**298,728**	-	-

(*) A = for share capital increases, B = as loss cover, C = for distribution to investors, D = non-distributable

(1) = according to art. 2431, 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

Note that the amount of the equity reserves and the profits carried forward cannot be lower the comprehensive residual amount of the negative components deducted off the books up through the 2007 tax year and indicated in Section EC of the Unico income tax declaration, net of deferred taxes related to said amounts, equivalent to 2,723 thousand euro. Pursuant to art. 109, subsection 4, letter b) of the Consolidated Income Tax Act, in its formulation as at 31 December 2007, the amount of the reserves and/or distributed profits that draw on the minimum level will become part of the taxable income base.

Other information

1. Guarantees granted and commitments

Transactions *(in thousands of euro)*	31-12-2011	31-12-2010
1) Financial guarantees granted	**645**	**724**
a) Banks	645	724
b) Customers	-	-
2) Commercial guarantees granted	-	-
a) Banks	-	-
b) Customers	-	-
3) Irrevocable commitments to disburse funds	**546,788**	**265,535**
a) Banks	407,449	193,154
i) certain use	407,449	193,154
ii) uncertain use	-	-
b) Customers	139,339	72,381
i) certain use	139,339	72,381
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	**323,709**	**641,124**
Total	**871,142**	**907,383**

The guarantees granted comprise the amount committed to the Interbank Fund for Protection and Deposits for 645 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

Portfolios *(in thousands of euro)*	31-12-2011	31-12-2010
1. Financial assets held for trading	29,173	98,805
2. Fair value financial assets	-	-
3. Available-for-sale financial assets	-	-
4. Financial assets held to maturity	-	-
5. Due from banks	185,630	207,980
6. Due from customers	18,170	96,751
7. Property, plant and equipment	-	-
Total	**232,973**	**403,536**

Financial assets pledged on own liabilities refer to own securities pledged on repurchase agreements and securities lending transactions guaranteed by cash.

As at 31 December 2011 there were no securities sold to guarantee securities lent by the bank.

Furthermore, note that as at 31 December 2011 there were outstanding funding transactions guaranteed by securities (both repurchase agreements and securities lending) that were not recognised in balance sheet assets for 1.312.466 thousand euro (in terms of par value).

Amounts due to banks and customers refer to collateral given on financial instrument contracts.

4. Management and intermediation on behalf of third parties

Service type *(in thousands of euro)*	31-12-2011	31-12-2010
1. Execution of customer orders		
a) purchases	4,554,987	4,468,056
1. regulated	4,323,004	4,202,521
2. unregulated	231,983	265,535
b) sales	4,275,992	4,203,582
1. regulated	4,143,624	4,184,949
2. unregulated	132,368	18,633
2. Portfolio management		
a) individual	10,743,033	13,510,183
b) collective	-	-
3. Securities custody and administration		
a) securities deposited by third parties: relating to custodian bank activities (excluding portfolio management)	-	-
1. securities issued by the bank preparing the financial statements	-	-
2. other securities	-	-
b) securities deposited by third parties (excluding portfolio management): other	62,693,837	65,259,784
1. securities issued by the bank preparing the financial statements	-	-
2. other securities	62,693,837	65,259,784
c) third-party securities deposited with third parties	62,517,061	65,068,044
d) own securities deposited with third parties	3,343,502	2,110,309
4. Other transactions	**-**	**-**

The balance for Asset Management includes 151,141 thousand euro in secured asset management.

5. Securities lending transactions

Banca Aletti carries out securities lending, primarily as an intermediary, between the Group's asset management company (securities lender) and leading international and Italian banks (securities borrowers) or between market counterparties with opposing interests.

The Bank acts as the final borrower only to provide hedging for departments that carry out trading activities.

Transactions with Aletti Gestielle Sgr are governed by a specific Agreement signed by the companies.

Financial instruments involved in these transactions include both equity securities as well as bonds. The latter are primarily government bonds.

The table below provides the amounts (in par value) of the outstanding positions as at 31 December 2011.

Securities borrowed from *(in thousands of euro)*	Security type (par value as at 31-12-2011)		
	Government securities	Bank securities	Other securities
Banks	-	2,511	20,724
Financial intermediaries	1,059,331	4,597	3,269

Securities guaranteed by cash lent to *(in thousands of euro)*	Security type (par value as at 31-12-2011)		
	Government securities	Bank securities	Other securities
Banks	72,500	7,849	12,199
Financial intermediaries	9,500	1,610	7,555

Securities guaranteed by other securities lent to *(in thousands of euro)*	Security type (par value as at 31-12-2011)		
	Government securities	Bank securities	Other securities
Banks	11,600	9	877
Financial intermediaries	24,731	-	160

PART C – INCOME STATEMENT DATA

Section 1 – Interest – Items 10 and 20

1.1. Interest income and similar revenues: breakdown

Items *(in thousands of euro)*	Debt securities	Loans	Other transactions	2011	2010
1. Financial assets held for trading	62,390	-	-	62,390	44,551
2. Available-for-sale financial assets	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-
4. Due from banks	-	40,955	-	40,955	37,378
5. Due from customers	-	15,482	-	15,482	38,114
6. Fair value financial assets	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	-	-	-
Total	**62,390**	**56,437**	**-**	**118,827**	**120,043**

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 479 thousand euro (944 thousand euro as at 31 December 2010) and refers to current accounts and deposits in other currencies.

1.4 Interest expense and similar charges: breakdown

Items/Type *(in thousands of euro)*	Payables	Securities	Other transactions	2011	2010
1. Due to central banks	-	X	-	-	-
2. Due to banks	29,635	X	-	29,635	49,671
3. Due to customers	29,543	X	-	29,543	41,593
4. Securities in issue	X	11,222	-	11,222	6
5. Financial liabilities held for trading	32	-	-	32	5
6. Fair value financial liabilities	-	-	-	-	-
7. Other liabilities and provisions	X	X	-	-	-
8. Hedging derivatives	X	X	-	-	-
Total	**59,210**	**11,222**	**-**	**70,432**	**91,275**

1.6.1 Interest expense on liabilities in foreign currency

Interest expense on financial liabilities in foreign currency totalled 305 thousand euro (13,190 thousand euro as at 31 December 2010) and refers to current accounts and deposits in other currencies.

Section 2 – Commissions – Items 40 and 50

2.1 Commission income: breakdown

Security type/Values *(in thousands of euro)*	**2011**	**2010**
a) Guarantees granted	-	-
b) Credit derivatives	-	-
c) Management, intermediation and advisory services:	**146,156**	**155,364**
1. Financial instrument trading	7,697	9,437
2. Foreign currency trading	72	101
3. Portfolio management	41,773	53,665
3.1 individual	41,773	53,665
3.2 collective	-	-
4. Securities custody and administration	3,255	1,514
5. Custodian bank	-	-
6. Securities placement	84,623	85,106
7. Order receipt and transmission	1,998	1,856
8. Advisory services	1,292	1,142
8.1 on investments	1,292	1,142
8.2 on financial structuring	-	-
9. Third party service distribution	5,446	2,543
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	4,021	1,659
9.3 other products	1,425	884
d) Collection and payment services	**84**	**84**
e) Securitisation servicing	-	-
f) Factoring services	-	-
g) Tax authority/agency collection services	-	-
h) Multilateral trading system operations	-	-
i) Current account record-keeping and management	**162**	**265**
j) Other services	**1,523**	**1,419**
Total	**147,925**	**157,132**

“Commission income – Securities placement” primarily consists of:

- commission income for debt security placement of 71,175 thousand euro;
- commission income for placement of funds and other financial products of 12,841 thousand euro;
- commission income for equity instrument placement of 31 thousand euro;
- commission income for certificates placement of 324 thousand euro;
- commission income for takeover bids/share capital increases of 175 thousand euro;

The “Other services” item mainly includes support services for low-liquidity securities for 358 thousand euro and 812 thousand euro for securities lending transactions guaranteed by securities.

2.2 Commission income: product and service distribution channels

Channels/Values *(in thousands of euro)*	2011	2010
a) At own branches:	**131,842**	**141,314**
1. portfolio management	41,773	53,665
2. securities placement	84,623	85,106
3. third party products and services	5,446	2,543
b) Off-premises sales:	**-**	**-**
1. portfolio management	-	-
2. securities placement	-	-
3. third party products and services	-	-
c) Other distribution channels:	**-**	**-**
1. portfolio management	-	-
2. securities placement	-	-
3. third party products and services	-	-

2.3 Commission expense: breakdown

Service type/Values *(in thousands of euro)*	2011	2010
a) Guarantees received	**5**	**21**
b) Credit derivatives	-	-
c) Management and intermediation services:	**103,203**	**119,356**
1. Financial instrument trading	3,767	5,156
2. Foreign currency trading	-	-
3. Portfolio management:	-	-
3.1 own assets	-	-
3.2 third party assets	-	-
4. Securities custody and administration	3,298	3,029
5. Financial instrument placement	81,727	89,158
6. Off-premises sale of financial instruments, products and services	14,411	22,013
d) Collection and payment services	**15**	**17**
e) Other services	**1,536**	**1,447**
Total	**104,759**	**120,841**

"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

Items/Revenue *(in thousands of euro)*	2011		2010	
	Dividends	Income from UCI units	Dividends	Income from UCI units
A. Financial assets held for trading	57,269	15	360,314	5
B. Available-for-sale financial assets	-	-	229	-
C. Fair value financial assets	-	-	-	-
D. Investments	-	X	-	X
Total	**57,269**	**15**	**360,543**	**5**

Dividends on financial assets held for trading are primarily the result of trading on the Italian and international equity markets and related market making on derivatives listed on regulated markets.

Section 4 – Trading gains/losses – Item 80

4.1 Trading gains/losses: breakdown

Transactions/Income component *(in thousands of euro)*	Capital gains (A)	Trading gains (B)	Capital losses (C)	Trading losses (D)	Net trading gains/losses (A+B)-(C+D)
1. Financial assets held for trading	**10,197**	**80,410**	**(52,606)**	**(216,651)**	**(178,650)**
1.1 Debt securities	6,681	44,952	(20,847)	(14,843)	15,943
1.2 Equity instruments	3,516	35,447	(31,346)	(201,179)	(193,562)
1.3 UCI units	-	11	(413)	(629)	(1,031)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**556**	**7,509**	**(146)**	**(1,910)**	**6,009**
2.1 Debt securities	-	-	-	-	-
2.2 Borrowings	556	7,509	(146)	(1,910)	6,009
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**7,501**
4. Derivatives	**4,192,905**	**4,657,106**	**(4,021,094)**	**(4,495,600)**	**331,883**
4.1 Financial derivatives	4,185,438	4,647,749	(4,020,579)	(4,488,302)	322,872
- On debt securities and interest rates	3,689,065	4,356,756	(3,596,539)	(4,203,639)	245,643
- On equity instruments and share indices	496,373	290,033	(423,824)	(283,709)	78,873
- On currencies and gold	X	X	X	X	(1,434)
- Other	-	960	(216)	(954)	(210)
4.2 Credit derivatives	7,467	9,357	(515)	(7,298)	9,011
Total as at 31/12/2011	**4,203,658**	**4,745,025**	**(4,073,846)**	**(4,714,161)**	**166,743**
Total as at 31/12/2010	**922,007**	**4,888,136**	**(693,325)**	**(5,273,600)**	**(135,581)**

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 31December 2011 totals 1,395 thousand euro and the residual differences still to be recognised amount to 658 thousand euro.

Section 5 – Hedging gains/losses – Item 90

5.1 Hedging gains/losses: breakdown

Income component/Values *(in thousands of euro)*		2011	2010
A.	**Income relating to:**		
A.1	Fair value hedging derivatives	145	-
A.2	Fair value hedging of financial assets	-	198
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)		**145**	**198**
B.	**Charges relating to:**		
B.1	Fair value hedging derivatives	-	(223)
B.2	Fair value hedging of financial assets	(114)	-
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)		**(114)**	**(223)**
C.	**Net hedging gains/losses (A-B)**	**31**	**(25)**

Micro hedging continued in 2011 for the credit risk related to the London Stock Exchange security classed as AFS financial assets, through a currency repurchase agreement (a fixed-rate GBP-Euro repo) until the security was sold in May. After the sale, the bank did not undertake new hedging transactions.

Section 6 – Gains (Losses) from disposals/repurchases – Item 100

6.1 Gains (Losses) from disposals/repurchases: breakdown

Item/Income component *(in thousands of euro)*	31-12-2011			31-12-2010		
	Gains	Losses	Net gains/ (losses)	Gains	Losses	Net gains/ (losses)
Financial assets						
1. Due from banks	446	-	446	-	-	-
2. Due from customers	910	-	910	-	-	-
3. Available-for-sale financial assets	2,944	-	2,944	-	-	-
3.1 Debt securities	-	-	-	-	-	-
3.2 Equity instruments	2,944	-	2,944	-	-	-
3.3 UCI units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**4,300**	**-**	**4,300**	**-**	**-**	**-**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

Item 1 – Gains on sale of amounts due from banks represents the gain from the sale of the entire receivable due from Kaupthing Banki HF that was included in the 2010 financial statements for a gross value of 10,770 thousand euro net of an write-down of 8,654 thousand euro. The entire position, that was classified as non-performing, was sold to Morgan Stanley International Limited for 2,562.5 thousand euro, resulting in a gain of 445.9 thousand euro.

Item 2 – Gain on sale on amounts due from customers represents the gain on the sale of the entire security Pillar Securitisation S.a.r.l. to Merrill Lynch for 910 thousand euro. As at 31 December 2010, the security was recognised at a value of 7,383 thousand euro, fully written down.

Item 3 – Gain on sale of other equity instruments represents the gain from the sale of the London Stock Exchange security (formerly Borsa Italiana) and recognised after the cancellation of the positive valuation reserve as previously described in Section B of these Notes to the financial statements.

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

Transactions/Income component *(in thousands of euro)*	Capital gains	Realised gains	Capital losses	Realised losses	Net profit/loss
	(A)	(B)	(C)	(D)	(A+B)-(C+D)
1. Financial assets	**-**	**-**	**(1,446)**	**-**	**(1,446)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	(50)	-	(50)
1.3 UCI units	-	-	(1,396)	-	(1,396)
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 31/12/2011	**-**	**-**	**(1,446)**	**-**	**(1,446)**
Total as at 31/12/2010	**236**	**-**	**(117)**	**-**	**119**

Section 8 – Net write-downs/reversals for impairment – Item 130

8.1 Net write-downs/reversals for impairment of loans: breakdown

Transactions/Income components *(in thousands of euro)*	**Write-downs**			**Reversals**				**2011**	**2010**
	Specific		**Portfolio**	**Specific**		**Portfolio**			
	Derecognitions	**Other**		**A**	**B**	**A**	**B**		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(539)**
- Loans	-	-	-	-	-	-	-	-	(539)
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers	**(40)**	**(25)**	**(18)**	**-**	**-**	**-**	**-**	**(83)**	**2,009**
- Loans	(40)	(25)	(18)	-	-	-	-	(83)	2,009
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(40)**	**(25)**	**(18)**	**-**	**-**	**-**	**-**	**(83)**	**1,470**

A = due to interest
B = other reversals

8.2 Net write-downs for impairment of AFS financial assets: breakdown

Transactions/Income component *(in thousands of euro)*	**Write-downs**		**Reversals**		**2011**	**2010**
	Specific		**Specific**			
	Derecognitions	**Other**	**A**	**B**		
A. Debt securities	-	-	-	-	-	-
B. Equity instruments	-	-	X	X	-	(862)
C. UCI units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**-**	**-**	**-**	**-**	**(862)**

A = due to interest
B = other reversals

In 2011, there were no impairments recognised on securities classified as available-for-sale financial assets.

Section 9 - Administrative Costs - Item 150

9.1 Personnel costs: breakdown

Expense type/Value *(in thousands of euro)*	**2011**	**2010**
1) Employees	**45,573**	**47,379**
a) wages and salaries	33,202	34,614
b) social security costs	8,659	9,004
c) employee termination indemnity	1,757	1,567
d) welfare costs	-	-
e) provisions for employee severance indemnity	67	118
f) provisions for pension funds and similar commitments:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary benefit plans:	932	1,052
- defined contribution plans	932	1,052
- defined benefit plans	-	-
h) costs deriving from share-based payments		
i) other employee benefits	956	1,024
2) Other personnel in service	**1,506**	**1,902**
3) Directors and Auditors	**739**	**709**
4) Staff laid off	**-**	**-**
5) Cost recoveries for employees seconded to other companies	**(2,772)**	**(3,463)**
6) Reimbursements for employees seconded to the company	**4,196**	**5,492**
Total	**49,242**	**52,019**

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” refers to interest expense on residual liabilities net of utilisation for contract termination of 126 thousand euro as well as 59 thousand euro for actuarial gains.

Item g) “payments to external supplementary benefit plans" refers to the amount of contributions due and paid by the Bank.

9.2 Average workforce by grade

	2011	2010
Employees	**431**	**435**
a) executives	23	22
b) total management grades	295	305
- grades 3 and 4	192	196
c) other employees	113	108
Other personnel	**23**	**29**
Total	**454**	**464**

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

Expense type/Value *(in thousands of euro)*		2011	2010
a)	real estate expense:	3,995	4,994
	- property rents and maintenance	3,667	4,536
	- cleaning costs	-	181
	- electricity, water and heating	328	277
b)	indirect taxes and duties	900	756
c)	postal, telephone, printing and other office costs	905	1,030
d)	furniture, machine and system maintenance and repayments	324	220
e)	professional and advisory services	2,876	3,264
f)	costs for searches and information	10	78
g)	surveillance and security transport	62	46
h)	third party provision of services	38,620	39,765
i)	advertising, entertainment and gift costs	1,972	2,110
l)	insurance premiums	294	113
m)	transport, vehicle rental and travel expenses	613	634
n)	Other costs and expense	1,697	1,046
Total		**52,268**	**54,056**

Through the creation of consortium centres in Banco Popolare Group, Banca Aletti, and the other consortium companies, Banca Aletti has been able to obtain a marked cost reduction and expert, specialised services.
Specifically, all technology and application developments services, information and physical security management and various administrative services from Banco Popolare Group have been centralised in Società Gestione Servizi BP S.C.p.A., while all real estate services have been centralised in BP Property Management S.C.p.A. Finally, though not in the form of a consortium, Banca Aletti makes use of various services performed by parent company departments (Risk Management, Audit, Administration and Financial Statements, Legal, Organisation, etc.).
This centralisation provides 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

(in thousands of euro)	Allocations	Reallocation of surplus	2011	2010
1. Retirement fund provisions	-	X	-	-
2. Provisions for other risks and charges:	**(710)**	**93**	**(617)**	**(1,200)**
a) legal disputes	-	-	-	-
b) personnel costs	-	-	-	-
c) other	(710)	93	(617)	(1,200)
Total	**(710)**	**93**	**(617)**	**(1,200)**

617 thousand euro in provisions for risks and charges were recognised to the income statement in 2011 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 2012.

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

Asset/Income component *(in thousands of euro)*	Depreciation	Write-downs for impairment	Reversals	Net gains/(losses)
	(a)	(b)	(c)	(a+b-c)
A. Property, plant and equipment				
A.1 Owned	(601)	-	-	(601)
- for operational use	(601)	-	-	(601)
- as investments	-	-	-	-
A.2 Acquired through finance leases	-	-	-	-
- for operational use	-	-	-	-
- as investments	-	-	-	-
Total as at 31/12/2011	**(601)**	**-**	**-**	**(601)**
Total as at 31/12/2010	**(598)**	**-**	**-**	**(598)**

Section 12 - Net write-downs/reversals on intangible assets – Item 180

12.1 Net write-downs/reversals on intangible assets: breakdown

Asset/Income component *(in thousands of euro)*	Amortisation	Write-downs for impairment	Reversals	Net gains/(losses)
	(a)	(b)	(c)	(a+b-c)
A. Intangible assets				
A.1 Owned	(3)	-	-	(3)
- generated in-house	-	-	-	-
- other	(3)	-	-	(3)
A.2 Acquired through finance leases	-	-	-	-
Total as at 31/12/2011	**(3)**	**-**	**-**	**(3)**
Total as at 31/12/2010	**(4)**	**-**	**-**	**(4)**

Section 13 – Other operating income and expense – Item 190

13.1 Other operating expense: breakdown

Items/Values *(in thousands of euro)*	2011	2010
a) Depreciation of improvements to third party assets	(451)	(525)
b) Other operating expense	(86)	(84)
Total	**(537)**	**(609)**

13.2 Other operating income: breakdown

Items/Values *(in thousands of euro)*	2011	2010
a) Tax recoveries	787	606
b) Cost recoveries	40	436
c) Services provided to Group companies	8,287	6,612
d) Other operating income	338	253
Total	**9,452**	**7,907**

Item c) "Services provided to Group companies" 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 component/Values (*in thousands of euro*)	2011	2010
A. Income	**-**	**3**
1. Revaluations	-	-
2. Disposal gains	-	3
3. Reversals	-	-
4. Other income	-	-
B. Charges	**-**	**-**
1. Write-downs	-	-
2. Write-downs for impairment	-	-
3. Disposal losses	-	-
4. Other charges	-	-
Net result	**-**	**3**

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 2011.

Section 17 – Gains (Losses) in investment disposals – Item 240

During 2011, gains on investment disposals were recognised for a total of 85 euro.

Section 18 – Income tax for the year on current operations – Item 260

18.1 Income tax for the year on current operations: breakdown

Income component/Values (*in thousands of euro*)		2011	2010
1. Current taxes (-)		(69,579)	(54,958)
2. Change in current taxes for previous years (+/-)		-	3,006
3. Reduction in current taxes for this year (+)		-	-
4. Change in prepaid taxes (+/-)		(6,073)	(1,665)
5. Change in deferred taxes (+/-)		(283)	(33)
6. Income tax for the year (-)	(-1 +/- 2 + 3 +/- 4 +/- 5)	(75,935)	(53,650)

For 2011, note that the IRAP base rate increased (from 3.9% to 4.65%), introduced in art. 23 of Legislative Decree no. 98/2011, bringing the weighted average rate (including a 0.92% increase) to 5.57%. The rate change generated a negative impact on the income statement of 1,615 thousand euro.

18.2 Reconciliation between theoretical and actual balance sheet tax charges

IRES *(in thousands of euro)*		**2011**	**2010**
Profit/(loss) on current operations before tax	(I)	224,574	190,152
Negative income statement items not fully significant (+):	(II)	3,525	7,832
> non-deductible interest expense		2,277	3,474
> capital losses from realisation/valuation of investments		-	841
> other (telephone costs, entertainment costs, transport costs, sundry costs, non-deductible contingency liabilities, etc.)		1,248	3,517
Positive income statement items not fully significant (-):	(III)	(5,396)	(1,682)
> insignificant portion of gains from realisation/valuation on investments		(2,826)	(2)
> insignificant portion of dividends		-	(218)
> other (non-taxable contingent assets, etc.)		(2,570)	(1,462)
Increases in taxable amounts not linked to income statement items (+):	(IV)	324	289
> other (primarily taxes on Italian UCIs)		324	289
Decreases in taxable amounts not linked to income statement items (-):	(V)	(537)	(702)
> other (primarily tax effect on Italian UCIs)		(537)	(702)
IRES taxable amount	(I)+(II)+(III) +(IV)+(V)	222,490	195,889
IRES tax rate		27.50%	27.50%
Total IRES	**(A)**	**61,185**	**53,869**
Actual tax rate		**27.24%**	**28.33%**

IRAP *(in thousands of euro)*		**2011**	**2010**
Profit/(loss) on current operations before tax	(I)	224,574	190,152
Negative income statement items not fully significant (+):	(II)	44,528	49,434
> non-deductible interest expense		2,715	3,670
> non-deductible portion of depreciation of operating assets		60	60
> other administrative expenses not fully deductible		5,227	85
> non-deductible portion of residual administrative costs		-	5,315
> personnel costs net of permitted deductions (wedge reductions, invalidity, introductory contracts, etc.)		35,764	39,104
> write-down of loans net of reversals		83	-
> net provisions for risks and charges		617	1,200
> other		62	-
Positive income statement items not fully significant (-):	(III)	(29,988)	(183,358)
> insignificant portion of dividends		(28,634)	(180,270)
> other operating income		(1,354)	(1,614)
> other		-	(1,474)
Increases in taxable amounts not linked to income statement items (+):	(IV)	1,330	1,498
> other		1,330	1,498
Decreases in taxable amounts not linked to income statement items (-)	(V)	(18,464)	-
> other		(18,464)	-
IRAP taxable amount	(I)+(II)+(III) +(IV)+(V)	221,980	57,726
IRAP tax rate		5.57%	4.82%
Total IRAP	**(B)**	**12,364**	**2,782**
Actual tax rate		**5.51%**	**1.46%**

Non-current IRES and IRAP and other taxes		**2011**	**2010**
IRES – Current, prepaid and deferred taxes from previous years		2,435	(2,531)
IRAP – Current, prepaid and deferred taxes from previous years		(49)	(472)
Other		-	1
Total	**(C)**	**2,386**	**(3,002)**
Total taxes on profit/(loss) from current operations before tax	**(A)+(B)+(C)**	**75,935**	**53,650**
Tax rate	**((A)+(B)+(C))/(I)**	**33.81%**	**28.21%**

Section 21 – Earnings per share

Earnings per Share	**2011**	**2010**
Profit for the year (in euro)	148,639,337	136,502,237
Weighted average of shares in issue	23,481,306	23,481,306
Basic EPS for the year	**6.33**	**5.81**

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	31/12/2011			31/12/2010		
	Before tax	Income tax	After tax	Before tax	Income tax	After tax
10 Profit (Loss) for the year			**148,639**			**136,502**
Other income items						
20 Available-for-sale financial assets	(2,787)	53	(2,734)	1,056	(67)	989
a) changes in fair value	(271)	17	(254)	1,197	(75)	1,122
b) reversal to the income statement	(2,516)	36	(2,480)	(141)	8	(133)
- write-downs for impairment	-	-	-	(141)	8	(133)
- realised gains/losses	(2,516)	36	(2,480)	-	-	-
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	**(2,787)**	**53**	**(2,734)**	**1,056**	**(67)**	**989**
120 Comprehensive income (Items 10+110)			**145,905**			**137,491**

The breakdown of the change in fair value before tax is as follows:

- SIA-SSB SpA for -275 thousand euro;
- GROUP Srl for 4 thousand euro.

The reversal to the income statement refers to the realised gain on the sale of the London Stock Exchange security. For more information, refer to the discussion in Part B – Section 4 – “Available-for-sale financial assets”.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

In Section 1, the data is provided in reference solely to the Banking Group, unless otherwise indicated. In the tables, the figures provided are gross amounts for transactions undertaken with companies included in the financial statement consolidation.

Section 1 – Banking Group risks

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 Group 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 on a quarterly basis to the Boards of Directors of the Group 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;
- changes to organisational structures, which are currently underway and will be completed by the end of the first half of 2012, will further strengthen and expand risk management in the operating areas.

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.
In the latter months of 2011, the criteria and logic underlying the calculation of the assignment of authorised delegates were redesigned, enhancing the effect of the rating in order to rationalise competencies assigned to the various individuals in the credit network.
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 the 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.

During 2011, the management process for problem loans was reviewed and enhanced.
A new procedure was implemented that anticipates the factors that may potentially result in positions becoming critical at a later stage, identifying them in advance. There are several indicators that are differentiated by importance and their correct interpretation allows the bank to forecast credit impairment and implement all actions to remove the causes.
The credit network was reviewed, strengthening the guidance role played by the parent company.
In reference to private customers a 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.

As regards the credit risk estimation models, in 2011 a well-defined project to update the PD and LDG models was undertaken, as part of activities aimed at obtaining authorisation from the Supervisory Authority to use Internal Ratings Based (IRB) methodologies. Specifically, the update involved:

- the segmentation “thresholds” for business customers (for the models’ assessment);
- the “definition of default” when the models’ make assessments or are calibrated;
- the historical information based on the estimation and/or calibration process;
- the model design, or when the modular elements of said models are structured and integrated.

Credit risk monitoring at portfolio level is performed through a default model applied monthly, mainly for credit exposures of Banco Popolare Group, on performing, cash and unsecured loans to customers residing 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 “Monte Carlo" approach, which simulates a sufficiently high number of scenarios to provide a good conjectural approximation of theoretical credit portfolio losses.
During 2011, a project to develop a system to define and monitor credit policy guidelines was refined.
These development and credit portfolio redefinition guidelines aim to contain to cost of credit risk and 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 applications 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 for loan transactions 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 should there be a significant drop in guarantee value.
For guarantees consisting of pledged securities, an automatic alarm system has been implemented that reports drops in value of the guarantee beneath a certain threshold, so that the manager can take specific actions on the criticality.
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.
Impaired loan classifications follow specific prudent criteria based on objective risk parameters.
In general, the impaired loan classification includes loans with severely anomalous performance in relation to Group banks, serious irregularities in reports sent to the National Risk Database, troubling 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.
During 2011, the dedicated control network procedure was reviewed and strengthened.

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)

Portfolio/quality *(in thousands of euro)*	Non-performing	Problem	Restructured exposures	Past due exposures	Other assets	Total
1. Financial assets held for trading	-	-	-	-	6,070,973	6,070,973
2. Available-for-sale financial assets	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-
4. Due from banks	-	-	-	-	4,589,123	4,589,123
5. Due from customers	4,029	26	-	12	1,413,837	1,417,904
6. Fair value financial assets	-	-	-	-	-	-
7. Discontinued financial assets	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total as at 31/12/2011	**4,029**	**26**	**-**	**12**	**12,073,933**	**12,078,000**
Total as at 31/12/2010	**6,142**	**48**	**-**	**12**	**9,485,065**	**9,491,267**

A.1.2 Breakdown of credit exposures by portfolio and by credit quality (gross and net values)

Portfolio/quality *(in thousands of euro)*	Impaired assets			Performing assets			Total
	Gross exposure	Specific write-downs	Net exposure	Gross exposure	Portfolio write-downs	Net exposure	
1. Financial assets held for trading	918	(918)	-	X	X	6,070,973	6,070,973
2. Available-for-sale financial assets	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	4,589,123	-	4,589,123	4,589,123
5. Due from customers	21,187	(17,120)	4,067	1,413,901	(64)	1,413,837	1,417,904
6. Fair value financial assets	-	-	-	X	X	-	-
7. Discontinued financial assets	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total as at 31/12/2011	**22,105**	**(18,038)**	**4,067**	**6,003,024**	**(64)**	**12,073,933**	**12,078,000**
Total as at 31/12/2010	**32,874**	**(26,672)**	**6,202**	**3,284,323**	**(46)**	**9,485,065**	**9,491,267**

Past-due performing assets

Distribution of past-due assets *(in thousands of euro)*	31-12-2011				
	Not past due	1 day to 1 month past due	1 to 3 months past due	3 to 6 months past due	Total
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	6,070,973	-	-	-	**6,070,973**
2. Available-for-sale financial assets	-	-	-	-	**-**
3. Financial assets held to maturity	-	-	-	-	**-**
4. Due from banks	4,589,123	-	-	-	**4,589,123**
5. Due from customers	1,413,775	9	48	4	**1,413,836**
6. Fair value financial assets	-	-	-	-	**-**
7. Discontinued financial assets	-	-	-	-	**-**
8. Hedging derivatives	-	-	-	-	**-**
Total other performing assets	**12,073,871**	**9**	**48**	**4**	**12,073,932**

Note that as at 31 December 2011, there were no positions under renegotiation and the past due positions have been presented above.

A.1.3 Cash and off-balance sheet credit exposures to banks: gross and net values

2011

Exposure type/Values *(in thousands of euro)*	Gross exposure	Specific write-downs	Portfolio write-downs	Net exposure
A. CASH EXPOSURES				
a) Non performing	-	-	X	-
b) Problem	-	-	X	-
c) Restructured exposures	-	-	X	-
d) Past due exposures	-	-	X	-
e) Other assets	5,705,108	X	-	5,705,108
Total A	**5,705,108**	**-**	**-**	**5,705,108**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	-	-	X	-
b) Other	2,247,394	X	-	2,247,394
Total B	**2,247,394**	**-**	**-**	**2,247,394**
Total A+B	**7,952,502**	**-**	**-**	**7,952,502**

2010

Exposure type/Values *(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**
Total A+B	**5,200,439**	**(8,660)**	**-**	**5,191,779**

A.1.4 Cash credit exposures to banks: performance of gross impaired exposures

Causes/Categories *(in thousands of euro)*	**Non-performing**	**Problem**	**Restructured exposures**	**Past due exposures**
A. Gross exposure – opening balance	**10,770**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**
B.1 amounts collected on performing exposures	-	-	-	-
B.2 transfers from other impaired exposure categories	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**(10,770)**	**-**	**-**	**-**
C.1 amounts paid on performing exposures	-	-	-	-
C.2 derecognitions	(8,207)	-	-	-
C.3 amounts collected	-	-	-	-
C.4 gains from disposals	(2,563)	-	-	-
C.5 transfers to other impaired exposure categories	-	-	-	-
C.6 other decreases	-	-	-	-
D. Gross exposure – closing balance	**-**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-

A.1.5 Cash credit exposures to banks: performance of total write-downs

Causes/Categories *(in thousands of euro)*	**Non-performing**	**Problem**	**Restructured exposures**	**Past due exposures**
A. Total write-downs – opening balance	**8,653**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**
B.1 write-downs	-	-	-	-
B.2 transfers from other impaired exposure categories	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**(8,653)**	**-**	**-**	**-**
C.1 reversals due to valuation	-	-	-	-
C.2 reversals due to amounts collected	(446)	-	-	-
C.3 derecognitions	(8,207)	-	-	-
C.4 transfers to other impaired exposure categories	-	-	-	-
C.5 other decreases	-	-	-	-
D. Total write-downs – closing balance	**-**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-

A.1.6 Cash and off-balance sheet credit exposures to customers: gross and net values

2011

Exposure type/Values *(in thousands of euro)*	**Gross exposure**	**Specific write-downs**	**Portfolio write-downs**	**Net exposure**
A. CASH EXPOSURES				
a) Non performing	22,067	(18,038)	X	4,029
b) Problem	26	-	X	26
c) Restructured exposures	-	-	X	-
d) Past due exposures	12	-	X	12
g) Other assets	1,502,671	X	(64)	1,502,607
Total A	**1,524,776**	**(18,038)**	**(64)**	**1,506,674**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	-	-	-	-
b) Other	747,775	X	-	747,775
Total B	**747,775**	**-**	**-**	**747,775**
Total A+B	**2,272,551**	**(18,038)**	**(64)**	**2,254,449**

2010

Exposure type/Values *(in thousands of euro)*	**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**
Total A+B	**2,788,936**	**(18,012)**	**(46)**	**2,770,878**

A.1.7 Cash credit exposures to customers: performance of gross impaired exposures

Causes/Categories *(in thousands of euro)*	**Non-performing**	**Problem**	**Restructured exposures**	**Past due exposures**
A. Gross exposure – opening balance	**22,037**	**9**	**-**	**12**
- of which: exposures transferred but not derecognised	-	-	-	-
B. Increases	**30**	**45**	**-**	**47**
B.1 amounts collected on performing loans	-	-	-	27
B.2 transfers from other impaired exposure categories	-	34	-	8
B.3 other increases	30	11	-	12
C. Decreases	**-**	**(28)**	**-**	**(47)**
C.1 amounts paid on performing loans	-	(14)	-	-
C.2 derecognitions	-	-	-	-
C.3 amounts collected	-	(6)	-	(13)
C.4 gains from disposals	-	-	-	-
C.5 transfers to other impaired exposure categories	-	(8)	-	(34)
C.6 other decreases	-	-	-	-
D. Gross exposure – closing balance	**22,067**	**26**	**-**	**12**
- of which: exposures transferred but not derecognised	-	-	-	-

A.1.8 Cash credit exposures to customers: performance of total write-downs

Causes/Categories *(in thousands of euro)*	**Non-performing**	**Problem**	**Restructured exposures**	**Past due exposures**
A. Total write-downs – opening balance	**18,012**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-
B. Increases	**26**	**-**	**-**	**-**
B.1 write-downs	26	-	-	-
B.2 transfers 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 transfers to other impaired exposure categories	-	-	-	-
C.5 other decreases	-	-	-	-
D. Total write-downs – closing balance	**18,038**	**-**	**-**	**-**
- 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

2011

Exposures *(in thousands of euro)*	**External rating classes**						**Unrated**	**Total**
	AAA/ AA-	**A+/A-**	**BBB+/ BBB-**	**BB+/ BB-**	**B+/B-**	**Lower than B-**		
A. Cash exposures	**94,568**	**3,152,755**	**3,390,869**	**5**	**-**	**4**	**573,581**	**7,211,782**
B. Derivatives	**236,419**	**493,208**	**1,410,531**	**-**	**-**	**-**	**308,188**	**2,448,346**
B.1 Financial derivatives	233,677	492,189	1,410,531	-	-	-	304,402	2,440,799
B.2 Credit derivatives	2,742	1,019	-	-	-	-	3,786	7,547
C. Guarantees granted	**-**	**-**	**-**	**-**	**-**	**-**	**645**	**645**
D. Commitments to disburse funds	**105,092**	**233,416**	**94,757**	**-**	**-**	**-**	**112,914**	**546,179**
Total	**436,079**	**3,879,379**	**4,896,157**	**5**	**-**	**4**	**995,328**	**10,206,952**

2010

Exposures *(in thousands of euro)*	**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**

A.2.2 Breakdown of cash and off-balance sheet credit exposures by internal rating class

2011

Exposures *(in thousands of euro)*	Internal rating classes							Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC		
A. Cash exposures	**-**	**32,127**	**220,563**	**39,660**	**117**	**-**	**-**	**5,412,640**	**5,705,107**
B. Derivatives	**-**	**56,570**	**643,993**	**111,520**	**2,469**	**7**	**-**	**1,384,625**	**2,199,184**
B.1 Financial derivatives	-	54,568	638,914	111,520	2,469	7	-	1,384,625	2,192,103
B.2 Credit derivatives	-	2,002	5,079	-	-	-	-	-	**7,081**
C. Guarantees granted	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**645**	**645**
D. Commitments to disburse funds	**-**	**432**	**2,408**	**523**	**337**	**-**	**-**	**43,866**	**47,566**
Total	**-**	**89,129**	**866,964**	**151,703**	**2,923**	**7**	**-**	**6,841,776**	**7,952,502**

2010

Exposures *(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**

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)	Total (1)+(2)
					Credit derivatives					Unsecured loans					
						Other derivatives									
		Real estate	Securities	Other assets	CLN	Governments	Other public authorities	Banks	Other entities	Governments	Other public authorities	Banks	Other entities	31-12-2011	31-12-2010
1. Secured cash credit exposures:	**293,999**	-	**293,478**	**-**	-	-	-	-	-	-	-	-	-	**293,478**	**797,616**
1.1. fully secured	67,753	-	67,753	-	-	-	-	-	-	-	-	-	-	67,753	797,616
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. part-secured	226,246	-	225,725	-	-	-	-	-	-	-	-	-	-	225,725	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**725,817**	-	**-**	**714,360**	-	-	-	-	-	-	-	-	-	**714,360**	**890,710**
2.1. fully secured	43,462	-	-	49,410	-	-	-	-	-	-	-	-	-	49,410	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. part-secured	682,355	-	-	664,950	-	-	-	-	-	-	-	-	-	664,950	890,710
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,019,816**	**-**	**293,478**	**714,360**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,007,838**	**1,688,326**

As envisaged by IFRS 7, section 15, the fair value of the securities received as guarantees for securities lending transactions guaranteed by securities carried out with banking counterparties totals 13,003 thousand euro.

A.3.2 Secured credit exposures to customers

(in thousands of euro)	Net exposure value	Collateral (1)			Personal guarantees (2)									Total (1)+(2)	Total (1)+(2)
					Credit derivatives					Unsecured loans					
						Other derivatives									
		Real estate	Securities	Other assets	CLN	Governments	Other public authorities	Banks	Other entities	Governments	Other public authorities	Banks	Other entities	31-12-2011	31-12-2010
1. Secured cash credit exposures:	**1,095,185**	-	**1,068,323**	**4,580**	-	-	-	-	-	-	-	-	-	**1,072,903**	**1,127,452**
1.1. fully secured	7,637	-	3,056	4,580	-	-	-	-	-	-	-	-	-	7,636	1,127,452
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. part-secured	1,087,548	-	1,065,267	-	-	-	-	-	-	-	-	-	-	1,065,267	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**224,983**	-	**-**	**222,120**	-	-	-	-	-	-	-	-	-	**222,120**	**3,060**
2.1. fully secured	32,797	-	-	34,420	-	-	-	-	-	-	-	-	-	34,420	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. part-secured	192,186		-	187,700	-	-	-	-	-	-	-	-	-	187,700	3,060
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,320,168**	**-**	**1,068,323**	**226,700**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,295,023**	**1,130,512**

As envisaged by IFRS 7, section 15, the fair value of the securities received as guarantees for securities lending transactions guaranteed by securities carried out with banking counterparties totals 33,772 thousand euro.

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	Total
	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	31-12-2011	31-12-2010
A. Cash exposures																				
A.1 Non performing	-	-	X	-	-	X	3,953	17,718	X	-	-	X	-	-	X	76	320	X	4,029	4,025
A.2 Problem	-	-	X	-	-	X	9	-	X	-	-	X	1	-	X	16	-	X	26	9
A.3 Restructured exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-
A.4 Past due exposures	-	-	X	-	-	X	9	-	X	-	-	X	1	-	X	2	-	X	12	12
A.5 Other exposures	2,170	X	-	28	X	-	1,460,281	X	-	3,269	X	-	18,940	X	1	17,919	X	63	1,502,607	2,403,777
Total A	**2,170**	**-**	**-**	**28**	**-**	**-**	**1,464,252**	**17,718**	**-**	**3,269**	**-**	**-**	**18,942**	**-**	**1**	**18,013**	**320**	**63**	**1,506,674**	**2,407,823**
B. Off-balance sheet exposures																				
B.1 Non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Problem	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	487,967	X	-	23	X	-	252,549	X	-	134	X	-	477	X	-	6,625	X	-	747,775	363,054
Total B	**487,967**	**-**	**-**	**23**	**-**	**-**	**252,549**	**-**	**-**	**134**	**-**	**-**	**477**	**-**	**-**	**6,625**	**-**	**-**	**747,775**	**363,054**
Total 31/12/2011	**490,137**	**-**	**-**	**51**	**-**	**-**	**1,716,801**	**17,718**	**-**	**3,403**	**-**	**-**	**19,419**	**-**	**1**	**24,638**	**320**	**63**	**2,254,449**	**-**
Total 31/12/2010	**906,391**	**-**	**-**	**361**	**-**	**-**	**1,770,245**	**17,692**	**6**	**15,765**	**-**	**-**	**53,620**	**-**	**1**	**24,495**	**320**	**39**	**-**	**2,770,877**

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
	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	31-12-2011
A. Cash exposures											
A.1 Non performing	77	320	2,722	14,357	1,230	3,361	-	-	-	-	4,029
A.2 Problem	17	-	9	-	-	-	-	-	-	-	26
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	12	-	-	-	-	-	-	-	-	-	12
A.5 Other exposures	1,224,976	64	219,225	-	51,222	-	-	-	7,184	-	1,502,607
Total A	**1,225,082**	**384**	**221,956**	**14,357**	**52,452**	**3,361**	**-**	**-**	**7,184**	**-**	**1,506,674**
B. Off-balance sheet exposures											
B.1 Non performing	-	-	-	-	-	-	-	-	-	-	-
B.2 Problem	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	508,187	-	236,128	-	3,320	-	-	-	140	-	747,775
Total B	**508,187**	**-**	**236,128**	**-**	**3,320**	**-**	**-**	**-**	**140**	**-**	**747,775**
Total 31/12/2011	**1,733,269**	**384**	**458,084**	**14,357**	**55,772**	**3,361**	**-**	**-**	**7,324**	**-**	**2,254,449**
Total 31/12/2010	**2,105,504**	**365**	**501,171**	**14,270**	**147,432**	**3,423**	**-**	**-**	**16,770**	**-**	**2,770,877**

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
	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	31-12-2011
A. Cash exposures											
A.1 Non performing	-	-	-	-	-	-	-	-	-	-	-
A.2 Problem	-	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	5,268,303	-	305,987	-	130,818	-	-	-	-	-	5,705,108
Total A	**5,268,303**	**-**	**305,987**	**-**	**130,818**	**-**	**-**	**-**	**-**	**-**	**5,705,108**
B. Off-balance sheet exposures											
B.1 Non performing	-	-	-	-	-	-	-	-	-	-	-
B.2 Problem	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	1,468,712	-	706,910	-	69,889	-	-	-	1,883	-	2,247,394
Total B	**1,468,712**	**-**	**706,910**	**-**	**69,889**	**-**	**-**	**-**	**1,883**	**-**	**2,247,394**
Total 31/12/2011	**6,737,015**	**-**	**1,012,897**	**-**	**200,707**	**-**	**-**	**-**	**1,883**	**-**	**7,952,502**
Total 31/12/2010	**3,622,604**	**6**	**1,496,786**	**8,653**	**70,849**	**1**	**-**	**-**	**1,539**	**-**	**5,191,778**

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 value. Furthermore, the separate financial statements must now consider infragroup exposures in determining large risks (which were previously weighted at 0%).

(in thousands of euro)	31-12-2011	31-12-2010
Number (in units)	20	24
Exposure (in thousands of euro)	10,852,872	8,887,568
Risk position (in thousands of euro)	1,072,146	1,154,837

C. Securitisations and Asset disposals

C.1 Securitisations

QUALITATIVE INFORMATION

There are no investments in securities originating from securitisation transactions by Banco Popolare Group in Banca Aletti’s trading portfolio.

QUANTITATIVE INFORMATION

C.1.1 Securitisation-related exposures with breakdown by underlying asset quality

Underlying asset quality/Exposure *(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	**7,409**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) impaired	7,409	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.3 Exposure originating from the main third-party securitisations with breakdown by underlying asset type and exposure type

(in thousands of euro)		CASH EXPOSURES						GUARANTEES GRANTED						CREDIT FACILITIES					
ISIN code	Underlying asset quality / Exposures	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Book value	Write-downs / reversals	Book value	Write-downs / reversals	Book value	Write-downs / reversals	Book value	Write-downs / reversals	Book value	Write-downs / reversals	Book value	Write-downs / reversals	Book value	Write-downs / reversals	Book value	Write-downs / reversals	Book value	Write-downs / reversals
LU0447905216	PILLAR SECURITISATION S.A.R.L. 10/07/09/PERP.TV-BRANCHE B IB Other assets	-	7,409	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.4 Securitisation-related exposures with breakdown by portfolio and type

Exposure/ portfolio *(in thousands of euro)*	HFT assets	Fair value assets	AFS assets	HTM assets	Loans	31-12-2011	31-12-2010
1. Cash exposures	**7,409**	**-**	**-**	**-**	**-**	**7,409**	**27,410**
- Senior	7,409	-	-	-	-	7,409	27,410
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-
2. Off-balance sheet exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Senior	-	-	-	-	-	-	-
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-

C.2 Disposals

C.2.1. Financial assets sold but not derecognised

Type/ portfolio *(in thousands of euro)*	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	Total
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31-12-2011	31-12-2010
A. Cash assets																				
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	91,725
2. Equity instruments	29,174	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	29,174	7,058
3. UCI units	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31-12-2011	**29,174**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,174**	**-**
of which impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31-12-2010	**98,783**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**98,783**
of which impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A = financial assets sold that were recognised at full value (book value)
B = financial assets sold that were recognised at partial value (book value)
C = financial assets sold that were recognised at partial value (full value)

C.2.2. Financial liabilities from financial assets sold but not derecognised

Liability/Asset portfolio *(in thousands of euro)*	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 31-12-2011	Total 31-12-2010
A. Due to customers	**1,867**	**-**	**-**	**-**	**-**	**-**	**1,867**	**-**
a) from fully recognised assets	1,867	-	-	-	-	-	1,867	-
b) from partially recognised assets	-	-	-	-	-	-	-	-
B. Due to banks	**28,283**	**-**	**-**	**-**	**-**	**-**	**28,283**	**-**
a) from fully recognised assets	28,283	-	-	-	-	-	28,283	-
b) from partially recognised assets	-	-	-	-	-	-	-	-
Total 31-12-2011	**30,150**	**-**	**-**	**-**	**-**	**-**	**30,150**	**-**
Total 31-12-2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

D. Credit risk measurement models

For loan portfolio risk measurement, the Risk Management Department uses an econometric model equipped 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 on an annual basis with a specific confidence level.

Specifically, to determine the breakdown the model's calculation engine uses a "Monte Carlo" 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 extreme (albeit plausible) changes, 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 management and proprietary portfolio management into the parent company. The structures provides for the coordination:
  - by the Group for managing short-term interest rate and liquidity risk positions and exchange rate risk,
  - optimisation of the overall risk/return profile, diversifying risks between different assets classes of financial instruments;
- of risk and operating cash flow positions relating to securities, currency, OTC derivative and other financial asset trading, into 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 derivatives markets, both listed and OTC, and OTC structured products, covered by the Structured Products Department.

The former Banca Italease Group is excluded from the model, as at present there are no significant positions with an impact on market risk.
Credito Bergamasco continues to hold certain positions, residual compared to the aforementioned portfolios, which were not centralised at parent company level, as they are held for specific needs and purposes of the individual bank 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.
Furthermore, the parent company Finance Department has been assigned additional 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 to be 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 400 million euro, of which 91% is in financial securities and the remainder in corporate securities. The resulting overall risk exposure totals around -3,000 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 213 million euro. The risk exposure of the credit spread totals approximately 33,000 euro, considering a 1 b.p. shock, generated mainly by financial securities.
- transactions in structured instruments and listed and unlisted derivatives, also including secondary market trading of structured products issued or placed by Group banks. The destructuring 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. 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 -20,000 euro, assuming a parallel change in the rate curve of 1 b.p. This exposure also depends on the structured bond portfolio, for 586 million euro, including those deriving from Group Securities Market activities for 410 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 (continual exposure of buy/sell proposals), 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 activity 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. The destructuring of complex transactions according to their underlying assets allows the centralised management of interest rate, exchange rate and share price risk management by specific offices of this Department, which 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 equivalent to a long position of around 7.2 million euro countervalue, 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.

Additional residual portfolios of Banco Popolare and Credito Bergamasco, monitored and managed by Banca Aletti or by the parent company Finance Department

For information on these portfolios, refer to the banks' respective financial statements, which are then summarised at a consolidated level.

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 section 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 for all Group banks.
Risk monitoring for Banca Italease is performed by the standard method envisaged by supervisory regulations, given the reduced tangibility of the portfolio.
For the specific identification, measurement, management and operating control of the risk positions of Group banks, the parent company Finance Department and Banca Aletti make use of a sophisticated position-keeping and risk control system that provides constant monitoring of exposure levels and prompt confirmation of compliance with the operating limits defined by the parent company's Board of Directors and the Boards of Directors of Group banks.
With regard to trading in unlisted derivatives and structured products, risk control is centralised in 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 is automatically updated for transactions in cash and in listed derivatives by the market platforms and the commercial networks. In addition, it is constantly aligned with the accounting procedures and ensures continuous recognition and control of the position indicators, sensitivity and operating results. Moreover, the position keeping system is closely linked with the Value at Risk control systems developed by the parent company's 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 for regulatory purposes.
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 2011 the Group continued its efforts to improve market risk management, in terms of technology, methodology and organisational processes.

From the methodology perspective, new risk measures envisaged by Basel 3 were implemented, such as the Stressed VaR and IRC (Incremental Risk Charge, or the additional VaR risk considering the effect of an upgrade/downgrade of an issuer).

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 (distinctly 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.
This report is sent to the Senior Management of the banks, to Finance Department and to Internal Audit.
During the year, stress testing was conducted, both historical and hypothetical, which was repeated on a monthly basis.
Additional impact analyses were conducted with regard to the new rules for calculating capital absorption, which will became effective 31 December 2011.
Also during 2011, the certification process for the internal market risk model was initiated, which led to the official submission of the certification request to the Supervisory Authority in February 2012.

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	**1,175**	**400,583**	**124,440**	**217,513**	**438,281**	**11,031**	**110**	**-**
1.1 Debt securities	1,175	400,583	124,440	217,513	438,281	11,031	110	-
- with early redemption option	-	5,709	4,713	2,094	71,652	4,880	-	-
- other	1,175	394,874	119,727	215,419	366,629	6,151	110	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**9,739**	**-**	**10**	**-**	**-**	**-**	**-**	-
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	9,739	-	10	-	-	-	-	-
3. Financial derivatives	**9,539,071**	**137,310,262**	**61,228,203**	**22,230,863**	**133,821,981**	**27,867,612**	**3,463,924**	**-**
3.1 With underlying security	77	1,360,601	719,557	177,401	516,596	39,579	42,763	-
- Options	-	253,936	159,190	163,907	98,729	-	-	-
+ Long positions	-	147,823	54,952	76,560	11,573	-	-	-
+ Short positions	-	106,113	104,238	87,347	87,156	-	-	-
- Other derivatives	77	1,106,665	560,367	13,494	417,867	39,579	42,763	-
+ Long positions	26	559,660	279,359	6,864	205,231	18,582	21,366	-
+ Short positions	51	547,005	281,008	6,630	212,636	20,997	21,397	-
3.2 Without underlying security	9,538,994	135,949,661	60,508,646	22,053,462	133,305,385	27,828,033	3,421,161	-
- Options	176,246	3,174,659	1,384,090	1,165,168	7,607,776	1,404,301	182,638	-
+ Long positions	86,283	1,156,042	937,736	787,266	4,032,869	416,195	131,048	-
+ Short positions	89,963	2,018,617	446,354	377,902	3,574,907	988,106	51,590	-
- Other derivatives	9,362,748	132,775,002	59,124,556	20,888,294	125,697,609	26,423,732	3,238,523	-
+ Long positions	4,699,986	69,710,604	28,353,615	9,842,993	61,870,282	12,395,830	1,806,920	-
+ Short positions	4,662,762	63,064,398	30,770,941	11,045,301	63,827,327	14,027,902	1,431,603	-

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	-	**960**	**104**	**79**	**845**	**334**	**121**	-
1.1 Debt securities	-	960	104	79	845	334	121	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	960	104	79	845	334	121	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**40**	-	-	-	-	-	-	-
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	40	-	-	-	-	-	-	-
3. Financial derivatives	**292,040**	**1,620,084**	**924,487**	**409,611**	**907,143**	**61,350**	**207**	-
3.1 With underlying security	-	271,393	204,534	127,556	41,537	958	207	-
- Options	-	263,651	203,756	127,016	37,248	-	-	-
+ Long positions	-	111,334	120,713	63,278	25,591	-	-	-
+ Short positions	-	152,317	83,043	63,738	11,657	-	-	-
- Other derivatives	-	7,742	778	540	4,289	958	207	-
+ Long positions	-	4,383	389	265	1,819	363	43	-
+ Short positions	-	3,359	389	275	2,470	595	164	-
3.2 Without underlying security	292,040	1,348,691	719,953	282,055	865,606	60,392	-	-
- Options	-	457	62	-	519	-	-	-
+ Long positions	-	-	62	-	457	-	-	-
+ Short positions	-	457	-	-	62	-	-	-
- Other derivatives	292,040	1,348,234	719,891	282,055	865,087	60,392	-	-
+ Long positions	177,510	716,156	334,477	186,886	413,821	36,433	-	-
+ Short positions	114,530	632,078	385,414	95,169	451,266	23,959	-	-

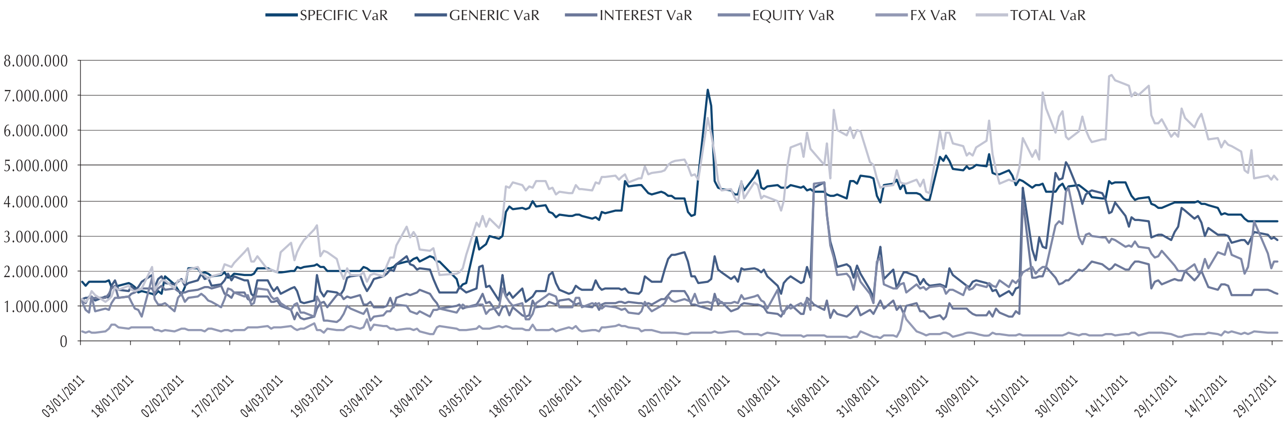
2. Regulatory trading book: breakdown of exposures in equity instruments and share indices by major country of listing

Transaction type/Share index *(in thousands of euro)*	Listed		Unlisted
	Italy	*Other countries*	
A. Equity instruments	**118,788**	**83,530**	**54**
- long positions	108,746	77,993	54
- short positions	10,042	5,537	-
B. Sales/purchases of equity instruments not yet settled	**7,777**	**3,782**	**-**
- long positions	2,279	1,898	-
- short positions	5,498	1,884	-
C. Other derivatives on equity instruments	**162,944**	**528**	**131,912**
- long positions	76,689	495	55,501
- short positions	86,255	33	76,411
D. Derivatives on share indices	**317,984**	**860,926**	**1,203,810**
- long positions	151,935	525,919	583,189
- short positions	166,049	335,007	620,621

3. Regulatory trading book: internal models and other sensitivity analysis methods

The 2011 VaR figures for the Banca Aletti regulatory trading book are provided below.

BANCA ALETTI daily VaR trend and trend by risk factor: Regulatory trading book

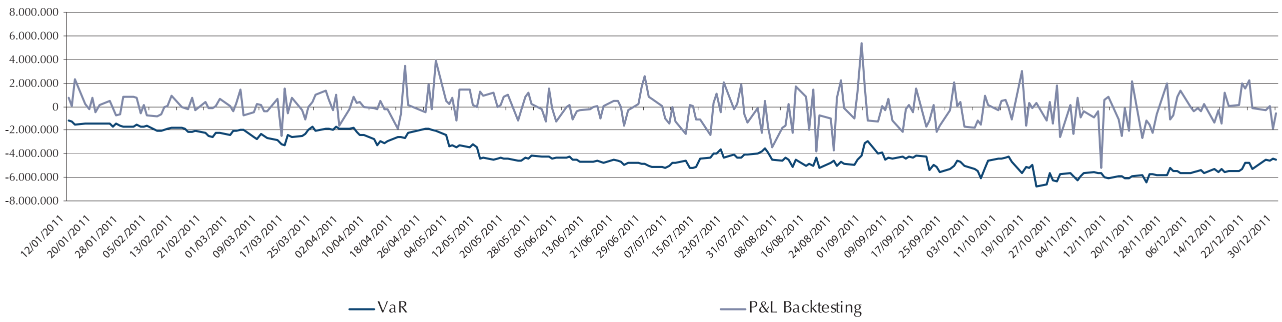


Regulatory trading book *(in millions of euro)*	31-December		2011		
	2010	2011	Average	Maximum	Minimum
Interest rate risk	1.240	1.337	1.226	4.002	0.609
Share price risk	0.916	2.261	1.497	4.533	0.550
Exchange rate risk	0.250	0.226	0.266	0.795	0.087
Total not correlated	**2.406**	**3.824**			
Effect of diversification	-1.180	-0.967			
Total Generic Risk	**1.226**	**2.857**	**2.086**	**5.077**	**1.073**
Risk Specific to Debt Securities	**1.766**	**3.403**	**3.419**	**7.142**	**1.291**
Combined risk	**2.991**	**4.592**	**4.155**	**7.591**	**1.122**

The fluctuations seen in 2011 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 new transactions.

The chart below indicates the backtesting of the VaR methodology on the Banca Aletti portfolio for 2011.

Banca Aletti Backtesting - 2011



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 parent company's Treasury Department.
The main exposures to price risk on the Banca Aletti banking book concern the strategic portfolio, comprising units of hedge funds and private equity funds for a total countervalue of 16 million euro.

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	**3,577,992**	**347,845**	**58,236**	**2,797**	**1,876,113**	**4,029**	**-**	**-**
1.1 Debt securities	-	-	19,184	-	1,876,113	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	19,184	-	1,876,113	-	-	-
1.2 Loans to banks	2,245,954	329,675	39,052	2,797	-	-	-	-
1.3 Loans to customers	1,332,038	18,170	-	-	-	4,029	-	-
- current accounts	9,846	-	-	-	-	-	-	-
- other loans:	1,322,192	18,170	-	-	-	4,029	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,322,192	18,170	-	-	-	4,029	-	-
2. Cash liabilities	**3,147,405**	**1,039,056**	**38,100**	**2,777**	**1,876,614**	**3,640**	-	-
2.1 Due to customers	733,419	153,396	38,100	2,777	-	-	-	-
- current accounts	664,826	-	-	-	-	-	-	-
- other liabilities:	68,593	153,396	38,100	2,777	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	68,593	153,396	38,100	2,777	-	-	-	-
2.2 Due to banks	2,413,986	885,660	-	-	-	3,640	-	-
- current accounts	1,522,409	-	-	-	-	-	-	-
- other liabilities	891,577	885,660	-	-	-	3,640	-	-
2.3 Debt securities	-	-	-	-	1,876,614	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	1,876,614	-	-	-
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

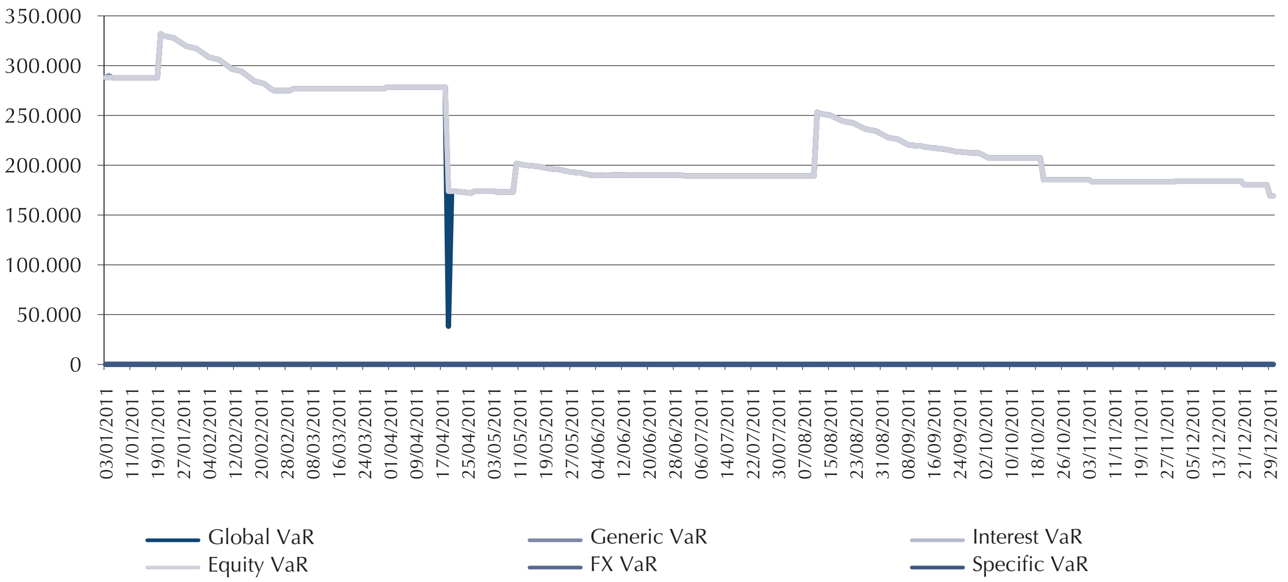
Type/Residual life	On demand	Up to 3 months	3 - 6 months	6 months – 1 year	1 – 5 years	5 – 10 years	Over 10 years	Infinite life
	Other currencies	Other currencies	Other currencies	Other currencies	Other currencies	Other currencies	Other currencies	Other currencies
1. Cash assets	**131,865**	**4,084**	**4,036**	**28**	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	68,199	4,084	4,036	28	-	-	-	-
1.3 Loans to customers	63,666	-	-	-	-	-	-	-
- current accounts	921	-	-	-	-	-	-	-
- other loans:	62,745	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	62,745	-	-	-	-	-	-	-
2. Cash liabilities	**375,884**	**4,079**	**4,036**	**28**	**-**	**-**	**-**	**-**
2.1 Due to customers	59,834	-	-	-	-	-	-	-
- current accounts	59,833	-	-	-	-	-	-	-
- other liabilities:	1	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1	-	-	-	-	-	-	-
2.2 Due to banks	316,033	-	-	-	-	-	-	-
- current accounts	316,033	-	-	-	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
2.3 Debt securities	17	4,079	4,036	28	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	17	4,079	4,036	28	-	-	-	-
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 2011 VaR figures for the Banca Aletti banking book, limited to positions concerning transactions classified as AFS, FV, L&R and HTM.
The figures depend primarily on positions in Hedge Funds classified as FV.

BANCA ALETTI daily VaR trend and trend by risk factor:



"No trading" book *(in millions of euro)*	31-December		2011		
	2010	2011	Average	Maximum	Minimum
Interest rate risk	0.000	0.000	0.000	0.000	0.000
Share price risk	0.288	0.169	0.224	0.332	0.169
Exchange rate risk	0.000	0.000	0.000	0.000	0.000
Total not correlated	**0.288**	**0.169**			
Effect of diversification	0.002	0.000			
Total Generic Risk	**0.290**	**0.169**	**0.224**	**0.332**	**0.169**

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 1 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

Items (in thousands of euro)		Currency					
		US Dollar	Japanese Yen	Swiss Franc	GB Pound	Chinese (Yuan) Renminbi	Other currencies
A.	**Financial assets**	**75,612**	**67,173**	**53,967**	**2,864**	**2,507**	**23,184**
A.1	Debt securities	1,822	116	-	97	-	405
A.2	Equity instruments	15,886	10,957	5,857	40	2,507	1,114
A.3	Loans to banks	7,186	55,679	750	1,302	-	11,415
A.4	Loans to customers	50,718	421	47,360	1,425	-	10,250
A.5	Other financial assets	-	-	-	-	-	-
B.	**Other assets**	**9**	**-**	**-**	**-**	**-**	**-**
C.	**Financial liabilities**	**200,119**	**4,422**	**94,026**	**28,721**	**-**	**28,746**
C.1	Due to banks	178,514	-	91,761	25,036	-	20,722
C.2	Due to customers	20,654	4,422	2,244	3,685	-	847
C.3	Debt securities	951	-	21	-	-	7,177
C.4	Other financial liabilities	-	-	-	-	-	-
D.	**Other liabilities**	**-**	**-**	**-**	**-**	**-**	**-**
E.	**Financial derivatives**	**41,645**	**(6,285)**	**5,011**	**19,225**	**-**	**8,382**
	- Options	**(19,589)**	**(6,284)**	**5,006**	**19,222**	**-**	**8,381**
	+ long positions	184,831	41,015	24,115	56,773	-	10,757
	+ short positions	204,420	47,299	19,109	37,551	-	2,376
	- Other derivatives	**61,234**	**(1)**	**5**	**3**	**-**	**1**
	+ long positions	182,447	3,032	778	2,419	-	328
	+ short positions	121,213	3,033	773	2,416	-	327
Total assets		**442,899**	**111,220**	**78,860**	**62,056**	**2,507**	**34,269**
Total liabilities		**525,752**	**54,754**	**113,908**	**68,688**	**-**	**31,449**
Imbalance (+/-)		**(82,853)**	**56,466**	**(35,048)**	**(6,632)**	**2,507**	**2,820**

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 Derivatives

QUALITATIVE 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 related to match trading, 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, which is a trading activity in which the operator never keep open risk positions. 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 expected 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 *(fair value in thousands of euro)*		**No. of contracts/lots (in units)**	**Fair value**	**Positive fair value**	**Negative fair value**
Total		**182,700**	**(286,774)**	**4,853,089**	**(5,169,864)**
of which:	Listed derivatives	169,604	(602,804)	73,703	(676,507)
of which:	OTC derivatives measured using proprietary Front Office system models	12,340	302,066	4,613,279	(4,311,213)
of which:	OTC derivatives measured using Banca Aletti's internal financial engineering models	746	(16,036)	148,225	(164,261)
of which:	OTC derivatives measured by external contributors	10	-	17,882	(17,882)

A. Financial derivatives

A.1 Regulatory trading book: year-end and average notional values

Underlying assets/Derivative type	Total 2011		Total 2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**237,480,223**	**3,379,059**	**214,349,780**	**7,501,121**
a) Options	50,499,761	-	47,184,247	1,200,000
b) Swaps	186,980,462	-	166,697,634	-
c) Forward contracts	-	-	467,899	59
d) Futures	-	3,379,059	-	6,301,062
e) Other	-	-	-	-
2. Equity instruments and share indices	**14,248,317**	**2,881,374**	**18,609,642**	**2,756,128**
a) Options	14,232,317	2,651,345	18,609,292	2,468,355
b) Swaps	16,000	-	-	-
c) Forward contracts	-	-	350	15,150
d) Futures	-	230,029	-	272,623
e) Other	-	-	-	-
3. Currencies and gold	**1,229,538**	**-**	**1,549,622**	**-**
a) Options	1,066,671	-	1,353,478	-
b) Swaps	-	-	-	-
c) Forward contracts	162,867	-	196,144	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**9,719**	**113,356**	1,908	146,957
5. Other underlying assets	-	-	-	-
Total	**252,967,797**	**6,373,789**	**234,510,952**	**10,404,206**
Average values	**243,739,375**	**8,388,998**	**101,645,099**	**739,657**

A.3 Financial derivatives: gross positive fair value – breakdown by product

Book/Derivative type	Positive fair value			
	Total 2011		Total 2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**4,784,969**	**73,703**	**4,156,039**	**58,260**
a) Options	468,406	73,703	709,754	58,260
b) Interest rate swaps	4,303,405	-	3,444,191	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	28	-	-	-
e) Forward contracts	13,130	-	2,094	-
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	**4,784,969**	**73,703**	**4,156,039**	**58,260**

A.4 Financial derivatives: gross negative fair value – breakdown by product

Book/Derivative type	Negative fair value			
	Total 2011		Total 2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**4,494,000**	**676,507**	**3,989,396**	**809,833**
a) Options	888,163	676,507	1,018,851	809,833
b) Interest rate swaps	3,605,818	-	2,966,415	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	19	-	-	-
e) Forward contracts	-	-	4,130	-
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	**4,494,000**	**676,507**	**3,989,396**	**809,833**

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	-	-	65,818,572	-	1,945,764	-	3,869,540
- positive fair value	-	-	1,382,961	-	-	-	-
- negative fair value	-	-	1,506,829	-	190,521	-	26,263
- future exposure	-	-	414,304	-	8,361	-	34,729
2) Equity instruments and share indices							
- notional value	-	-	2,133,221	10,101	5,144,629	71,336	151,141
- positive fair value	-	-	20,438	162	-	-	-
- negative fair value	-	-	56,592	403	64,214	3,000	658
- future exposure	-	-	168,854	606	394,490	4,280	10,737
3) Currencies and gold							
- notional value	-	-	516,762	-	-	-	819
- positive fair value	-	-	20,282	-	-	-	-
- negative fair value	-	-	11,094	-	-	-	-
- future exposure	-	-	6,420	-	-	-	17
4) Other values							
- notional value	-	-	-	-	-	-	8,328
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	7,860
- future exposure	-	-	-	-	-	-	999

A.6 OTC financial derivatives – regulatory trading book: notional values, gross positive and negative fair values by counterparty – contracts 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	-	-	141,176,756	24,669,590	-	-	-
- positive fair value	-	-	2,649,856	562,264	-	-	-
- negative fair value	-	-	2,118,389	355,159	-	-	-
2) Equity instruments and share indices							
- notional value	-	-	6,408,090	329,799	-	-	-
- positive fair value	-	-	131,821	3,122	-	-	-
- negative fair value	-	-	137,594	4,400	-	-	-
3) Currencies and gold							
- notional value	-	-	625,568	86,388	-	-	-
- positive fair value	-	-	12,892	1,149	-	-	-
- negative fair value	-	-	10,006	1,019	-	-	-
4) Other values							
- notional value	-	-	1,391	-	-	-	-
- positive fair value	-	-	22	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional values

Underlying assets /Residual life *(in thousands of euro)*	Up to 1 year	1 – 5 years	Over 5 years	Total
A. Regulatory trading book	**36,413,560**	**173,953,039**	**42,601,199**	**252,968,318**
A.1 Financial derivatives on debt securities and interest rates	32,354,876	162,524,148	42,601,199	237,480,223
A.2 Financial derivatives on equity instruments and share indices	2,873,615	11,374,702	-	14,248,837
A.3 Financial derivatives on exchange rates and gold	1,183,678	45,861	-	1,229,539
A.4 Financial derivatives on other values	1,391	8,328	-	9,719
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 31/12/2011	**36,413,560**	**173,953,039**	**42,601,199**	**252,967,798**
Total 31/12/2010	**43,517,877**	**155,306,974**	**35,686,102**	**234,510,953**

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 Supervisory Authorities.
For management and capital adequacy assessment purposes (ICAAP), the Group 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.
In the second half of 2011, an overall maximum risk level for the Group was established, based on the metrics described above. This maximum is subject to monitoring 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	262,500	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2011	**262,500**	**-**	**-**	**-**
AVERAGE VALUES	**214,000**	**-**	**-**	**-**
Total 31/12/2010	**165,500**	**-**	**-**	**-**
2. Protection sales				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2011	**-**	**-**	**-**	**-**
AVERAGE VALUES	**-**	**-**	**-**	**-**
Total 31/12/2010	**-**	**-**	**-**	**-**

B.2 OTC credit derivatives: gross positive fair value – breakdown by product

Book/Derivative type	Positive fair value	
	Total 2011	Total 2010
A. REGULATORY TRADING BOOK	**7,546**	**1,131**
a) Credit default products	7,546	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	**7,546**	**1,131**

B.3 OTC credit derivatives: gross negative fair value – breakdown by product

Book/Derivative type	Negative fair value	
	Total 2011	Total 2010
A. REGULATORY TRADING BOOK	**-**	**536**
a) Credit default products	-	536
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
B. BANKING BOOK	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**-**	**536**

B.5 OTC credit derivatives: 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
Regulatory trading book							
1) Protection purchases	**-**	**-**	**239,581**	**30,466**	**-**	**-**	**-**
- notional value	-	-	232,500	30,000	-	-	-
- positive fair value	-	-	7,081	466	-	-	-
- negative fair value	-	-	-	-	-	-	-
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	**120,000**	**142,500**	**-**	**262,500**
A.1 Credit derivatives on loans with reference obligation - qualified	-	-	-	-
A.2 Credit derivatives on loans with reference obligation - unqualified	120,000	142,500	-	262,500
B. Banking book	**-**	**-**	**-**	**-**
B.1 Credit derivatives on loans with reference obligation - qualified	-	-	-	-
B.2 Credit derivatives on loans with reference obligation - unqualified	-	-	-	-
Total 31/12/2011	**120,000**	**142,500**	**-**	**262,500**
Total 31/12/2010	**65,500**	**100,000**	**-**	**165,500**

B.7 Credit derivatives: counterparty risk/financial risk – Internal models

The internal model used for estimating counterparty risk for derivatives was 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

(in thousands of euro)	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	-	-	482,492	32,797	-	-	-
- negative fair value	-	-	160,545	18,621	-	-	-
- future exposure	-	-	231,674	36,857	-	-	-
- net counterparty risk	-	-	243,486	35,234	-	-	-
2) Bilateral credit derivative agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) Cross-product agreements							
- positive fair value	-	-	243,324	192,186	-	-	-
- negative fair value	-	-	29,588	-	-	-	-
- future exposure	-	-	274,363	43,131	-	-	-
- net counterparty risk	-	-	276,108	47,617	-	-	-

Section 3

Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods for liquidity risk

Liquidity risk is generated by the mismatch between expected incoming and outgoing cash flows in a time frame that can be very brief. 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.
In 2011 Banco Popolare Group committed to implementing the new supervisory regulations issued in December 2010, defining the risk tolerance thresholds that then determine the risk control and measurement systems as well as the structure of the limits. Additionally, the Group carried out two measurements (QIS) of the new indicators envisaged by Basel 3 regulation.

The updating of the liquidity risk limit system carried out during the year to comply with new prudential regulation provides a first level of oversight represented by the daily monitoring and control system for cumulative liquidity imbalances according to the metrics required by Bank of Italy and a second level with monitoring every 10 days of operating liquidity – generated by imbalances in the banking book – on the following time frames: 14 days, 1 month, 3 months, 6 months and 12 months.
Operating liquidity risk monitoring according to regulatory metrics, as a first level control, is handled by the ALM Department and Asset Backed Funding in the Group's Finance Department. The Interest Rate and Liquidity Risk Department of the parent company's Risk Management Department is responsible for the second level control as well as monitoring operating liquidity imbalances through the Asset & Liability Management procedure, also used to measure interest rate risk.
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.

QUANTITATIVE INFORMATION

1.1 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in euro

(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
		EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO
Cash assets		**3,597,329**	**12,608**	**71,967**	**238,298**	**224,401**	**125,942**	**292,444**	**2,489,852**	**35,800**	**-**
A.1	Government securities	-	-	-	-	2	-	2	1,421	161	-
A.2	Other debt securities	-	203	16,824	85,219	97,179	86,890	289,645	2,488,431	31,610	-
A.3	UCI units	19,325	X	X	X	X	X	X	X	X	X
A.4	Loans:	3,578,004	12,405	55,143	153,079	127,220	39,052	2,797	-	4,029	-
	- Banks	2,245,954	12,405	55,143	134,919	127,220	39,052	2,797	-	-	-
	- Customers	1,332,050	-	-	18,160	-	-	-	-	4,029	-
Cash liabilities		**3,147,405**	**3,267**	**905,133**	**38,078**	**92,579**	**38,123**	**2,782**	**1,886,337**	**3,644**	**-**
B.1	Deposits and current accounts	2,898,305	-	-	-	-	-	-	-	3,640	-
	- Banks	2,233,479	-	-	-	-	-	-	-	3,640	-
	- Customers	664,826	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	1,876,614	-	-
B.3	Other liabilities	249,100	3,267	905,133	38,078	92,579	38,123	2,782	9,723	4	-
Off-balance sheet transactions		**8,752,813**	**1,682,458**	**67,583**	**72,497**	**167,180**	**776,217**	**209,680**	**536,336**	**86,619**	**-**
C.1	Financial derivatives with equity swap	-	1,135,670	67,583	72,497	167,180	776,217	209,680	536,336	86,619	-
	- Long positions	-	574,364	36,007	32,048	74,549	347,006	94,639	285,845	42,271	-
	- Short positions	-	561,306	31,576	40,449	92,631	429,211	115,041	250,491	44,348	-
C.2	Financial derivatives without equity swap	8,752,168	-	-	-	-	-	-	-	-	-
	- Long positions	4,573,073	-	-	-	-	-	-	-	-	-
	- Short positions	4,179,095	-	-	-	-	-	-	-	-	-
C.3	Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
	- Long positions		-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Irrevocable commitments to disburse funds	-	546,788	-	-	-	-	-	-	-	-
	- Long positions	-	546,788	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees granted	645	-	-	-	-	-	-	-	-	-

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
Cash assets		**56,960**	**-**	**-**	**885**	**247**	**524**	**165**	**626**	**342**	**-**
A.1	Government securities	-	-	-	-	-	35	-	-	-	-
A.2	Other debt securities	-	-	-	-	181	489	165	626	342	-
A.3	UCI units	-	X	X	X	X	X	X	X	X	X
A.4	Loans:	56,960	-	-	*885*	66	-	-	-	-	-
	- Banks	6,235	-	-	885	66	-	-	-	-	-
	- Customers	50,725	-	-	-	-	-	-	-	-	-
Cash liabilities		**215,591**	**-**	**-**	**885**	**66**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	215,590	-	-	-	-	-	-	-	-	-
	- Banks	178,514	-	-	-	-	-	-	-	-	-
	- Customers	37,076	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	885	66	-	-	-	-	-
B.3	Other liabilities	1	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions		**28,071**	**39,018**	**9,299**	**43,782**	**112,386**	**219,377**	**137,362**	**33,716**	**572**	**-**
C.1	Financial derivatives with equity swap	-	39,018	9,299	43,782	112,386	219,377	137,362	33,716	572	-
	- Long positions	-	19,803	2,335	21,450	64,360	154,717	78,775	22,811	116	-
	- Short positions	-	19,215	6,964	22,332	48,026	64,660	58,587	10,905	456	-
C.2	Financial derivatives without equity swap	28,071	-	-	-	-	-	-	-	-	-
	- Long positions	13,699	-	-	-	-	-	-	-	-	-
	- Short positions	14,372	-	-	-	-	-	-	-	-	-
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 Japanese Yen

(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
		JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY
Cash assets		**56,102**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**116**	**-**
A.1	Government securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	116	-
A.3	UCI units	-	X	X	X	X	X	X	X	X	X
A.4	Loans:	56,102	-	-	-	-	-	-	-	-	-
	- Banks	55,680	-	-	-	-	-	-	-	-	-
	- Customers	422	-	-	-	-	-	-	-	-	-
Cash liabilities		**11,150**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	11,150	-	-	-	-	-	-	-	-	-
	- Banks	-	-	-	-	-	-	-	-	-	-
	- Customers	11,150	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions		**4,519**	**7,074**	**40,385**	**-**	**15,714**	**18,828**	**1,045**	**944**	**112**	**-**
C.1	Financial derivatives with equity swap	-	7,074	40,385	-	15,714	18,828	1,045	944	112	-
	- Long positions	-	3,992	20,192	-	1,431	17,538	1,016	837	49	-
	- Short positions	-	3,082	20,193	-	14,283	1,290	29	107	63	-
C.2	Financial derivatives without equity swap	4,519	-	-	-	-	-	-	-	-	-
	- Long positions	2,444	-	-	-	-	-	-	-	-	-
	- Short positions	2,075	-	-	-	-	-	-	-	-	-
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
Cash assets		**1,565**	**-**	**-**	**-**	**21**	**-**	**-**	**-**	**-**	**-**
A.1	Government securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCI units	-	X	X	X	X	X	X	X	X	X
A.4	Loans:	1,565	-	-	-	*21*	-	-	-	-	-
	- Banks	730	-	-	-	21	-	-	-	-	-
	- Customers	835	-	-	-	-	-	-	-	-	-
Cash liabilities		**94,023**	**-**	**-**	**-**	**21**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	94,023	-	-	-	-	-	-	-	-	-
	- Banks	91,761	-	-	-	-	-	-	-	-	-
	- Customers	2,262	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	21	-	-	-	-	-
B.3	Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions		**8,006**	**2,373**	**19,174**	**-**	**2,069**	**8,091**	**15,103**	**-**	**238**	**-**
C.1	Financial derivatives with equity swap	-	2,373	19,174	-	2,069	8,091	15,103	-	*238*	-
	- Long positions	-	1,101	9,582	-	1,018	3,382	10,181	-	117	-
	- Short positions	-	1,272	9,592	-	1,051	4,709	4,922	-	121	-
C.2	Financial derivatives without equity swap	8,006	-	-	-	-	-	-	-	-	-
	- Long positions	3,439	-	-	-	-	-	-	-	-	-
	- Short positions	4,567	-	-	-	-	-	-	-	-	-
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
Cash assets		**17,225**	**-**	**-**	**1,041**	**2,091**	**4,107**	**28**	**422**	**-**	**-**
A.1	Government securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	19	-	71	-	422	-	-
A.3	UCI units	-	-	-	X	X	X	X	X	X	X
A.4	Loans:	17,225	-	-	*1,022*	*2,091*	*4,036*	*28*	-	-	-
	- Banks	5,542	-	-	1,022	2,091	4,036	28	-	-	-
	- Customers	11,683	-	-	-	-	-	-	-	-	-
Cash liabilities		**55,108**	**-**	**-**	**1,017**	**2,090**	**4,036**	**28**	**41**	**-**	**-**
B.1	Deposits and current accounts	55,103	-	-	-	-	-	-	-	-	-
	- Banks	45,758	-	-	-	-	-	-	-	-	-
	- Customers	9,345	-	-	-	-	-	-	-	-	-
B.2	Debt securities	5	-	-	1,017	2,090	4,036	28	-	-	-
B.3	Other liabilities	-	-	-	-	-	-	-	41	-	-
Off-balance sheet transactions		**7,359**	**10,315**	**-**	**32,337**	**33,569**	**35,461**	**6,631**	**6,996**	**252**	**-**
C.1	Financial derivatives with equity swap	-	10,315	-	32,337	33,569	35,461	6,631	6,996	252	-
	- Long positions	-	5,320	-	21,733	18,648	19,239	6,193	3,792	124	-
	- Short positions	-	4,995	-	10,604	14,921	16,222	438	3,204	128	-
C.2	Financial derivatives without equity swap	7,359	-	-	-	-	-	-	-	-	-
	- Long positions	2,447	-	-	-	-	-	-	-	-	-
	- Short positions	4,912	-	-	-	-	-	-	-	-	-
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 model is administered under a specific Group Regulation approved by Corporate Governance.
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, 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 includes 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; Banco Popolare Group has been 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 (risk self-assessment).
Banco Popolare Group has implemented a capital requirement calculation model in compliance with the standard approach rules envisaged in new supervisory regulations.
In 2011, the in-house operational risk calculation model was subject to normal functional methodological analyses in order to continually refine and calibrate the tool. The model's Group results are used at management level.
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 operational 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 methodology, 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 size envisaged in the regulatory provisions (specifically, former Italease Group companies).
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 Banca Aletti’s 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 after 1 January 2011, 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.

Only one event entered into the scope of the analysis, related to process errors.

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

(in thousands of euro)		2011	2010
1.	**Share capital**	**121,164**	**121,164**
2.	**Share premium reserve**	**72,590**	**72,590**
3.	**Reserves**	**250,371**	**243,486**
	- profit	24,233	243,486
	a) legal	24,233	24,233
	b) statutory	-	-
	c) own shares	-	-
	d) other	226,138	219,253
	- other	-	-
4.	**Equity instruments**	-	-
5.	**(Own shares)**	-	-
6.	**Valuation reserves:**	**(10)**	**2,724**
	- Available-for-sale financial assets	(10)	2,724
	- 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**	**148,639**	**136,502**
	Total	**592,754**	**576,466**

B.2 Valuation reserves – available-for-sale financial assets: breakdown

(in thousands of euro)		Total 2011		Total 2010	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	-	-	-	-
2.	Equity instruments	5	(15)	2,724	-
3.	UCI units	-	-	-	-
4.	Loans	-	-	-	-
	Total	**5**	(15)	**2,724**	-

The net positive reserve can be broken down as follows:

- SIA-SSB for -15 thousand euro;
- Sivori – UnicaSim for 1 thousand euro;
- GROUP S.r.l. for 4 thousand euro.

As previously discussed in Part B of the notes to the financial statements, during 2011 the London Stock Exchange security was sold, hence, the existing reserve as at 31 December 2010 was charged to the income statement.

B.3 Valuation reserves – available-for-sale financial assets: annual changes

(in thousands of euro)		Debt securities	Equity instruments	UCI units	Loans
1.	**Opening balances**	**-**	**2,724**	**-**	**-**
2.	**Positive changes**	**-**	**59**	**-**	**-**
2.1	Increases in fair value	-	4	-	-
2.2	Reversal of negative reserves to the income statement:	-	-	-	-
	due to impairment	-	-	-	-
	due to realisation	-	-	-	-
2.3	Other changes	-	55	-	-
3.	**Negative changes**	**-**	**(2,793)**	**-**	**-**
3.1	Decreases in fair value	-	(274)	-	-
3.2	Write-downs for impairment	-	-	-	-
3.3	Reversal of positive reserves to the income statement: due to realisation	-	(2,517)	-	-
3.4	Other changes	-	(2)	-	-
4.	**Closing balances**	**-**	**(10)**	**-**	**-**

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 Directive 2010/76/EC, known as “CRD III” that aims to continue the strengthening of prudential regulation undertaken following the financial crisis. With the recent Circular no. 263, the changes introduced in CRD III has been implemented in Italy, particularly for those aspects regarding prudential treatment of the regulatory trading portfolio, transactions of re-securitisation and guaranteed bank bonds.

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 equity 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.

Effective 30 June 2011, the Group, and by extension our bank, adopted the framework envisaged in the Bank of Italy Measure dated 18 May 2010, that permits the portion of the valuation reserve associated with government securities for European Union countries, included in the “available-for-sale financial assets” portfolio, to be excluded from the regulatory capital calculation.

Specifically, as opposed to the “asymmetric” approach (full deduction of net losses from Tier 1 and partial inclusion of 50% of net gains in Tier 2) already envisaged in Italian regulations, the aforementioned Measure recognised the possibility of completely offsetting the gains and losses recognised in the valuation reserves (“symmetric” approach). This option must be extended to all securities of the types held in said portfolio, must be applied in a standardised manner across the Group and maintained in the future.

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 companies, 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

(in thousands of euro)	Total 2011	Total 2010
A. Tier 1 capital prior to application of prudential filters	**575,305**	**425,981**
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)	**575,305**	**425,981**
D. Items to be deducted from Tier 1 capital	**995**	**27,195**
E. Total Tier 1 capital (C-D)	**574,310**	**398,786**
F. Tier 2 capital prior to application of prudential filters	**10**	**2,724**
G. Tier 2 prudential filters	**(5)**	**(1,362)**
G.1 Positive IAS/IFRS prudential filters	-	-
G.2 Negative IAS/IFRS prudential filters	(5)	(1,362)
H. Tier 2 capital gross of items to be deducted (F+G)	**5**	**1,362**
I. Items to be deducted from Tier 2 capital	500	14,279
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)	**574,310**	**398,786**
O. Tier 3 capital	-	-
P. Regulatory capital including Tier 3 (N+O)	**574,310**	**398,786**

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 part of the “standardised method” for credit risk, the option of using creditworthiness ratings issued by external valuation agencies (ECAI), recognised by Bank of Italy, was utilised.
Last fall, certain of these ECAIs downgraded the ratings for Italy.
Based on Bank of Italy’s classification tables, Italy passed from “Creditworthiness Class 1” to “Class 2”. For this reason, given the same weighted amounts, an increase in risk-weighted assets occurred in reference to “supervised intermediaries” of countries subject to downgrading, including Italy.

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 inverse 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	
			2011	2010 (*)	2011	2010
A.	**RISK ASSETS**					
A.1	**Credit risk and counterparty risk**					
	1.	Standardised approach	9,190,398	5,429,195	413,392	389,786
	2.	Method based on internal ratings (1)				
		2.1 Basic approach	-	-	-	-
		2.2 Advanced measurement approach	-	-	-	-
	3.	Securitisations	-	-	-	-
B.	**REGULATORY CAPITAL REQUIREMENTS**					
B.1	**Credit risk and counterparty risk**				**33,063**	**31,183**
B.2	**Market risk (2)**				**210,100**	**182,539**
	1.	Standardised approach			210,100	182,539
	2.	Internal models			-	-
	3.	Concentration Risk			-	-
B.3	**Operational risk**				**53,081**	**50,741**
	1.	Basic approach			-	-
	2.	Standardised approach			53,081	50,741
	3.	Advanced measurement approach			-	-
B.4	**Other prudential requirements**				-	-
B.5	**Other calculation components**				**(74,061)**	**(66,116)**
B.6	**Total prudential requirements (3)**				**222,183**	**198,347**
C.	**RISK ASSETS AND REGULATORY RATIOS**					
C.1	Risk-weighted assets				2,777,293	2,479,337
C.2	Tier 1 capital ratio				20.68%	16.08%
C.3	Total capital ratio				20.68%	16.08%

(*) Subsequent to the publication in February 2011 of the 13th update to Bank of Italy Circular no. 155 (“Regulatory capital and prudential ratios”), a change was made in “unweighted amounts” for credit and counterparty risks, standardising the “derivative/SFT/long-term settlement transaction” component with the criteria previously adopted for other types of exposures.
As such, the unweighted amount in line A.1 (“Credit risk and counterparty risk, standardised approach”) for 31 December 2010 was recalculated, from 4,774,512 to 5,429,195.
Note that this change does not impact the calculation of risk-weighted assets and the solvency ratio, which remain unchanged with respect to that which was previously published.
(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 belonging 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 compensation for directors and strategic managers

Following Consob Resolution no. 18049 of 23 December 2011, which resulted in changes to the implementation regulation of Legislative Decree no. 58 of 24 February 1998, concerning the governance of issuing entities (adopted under Resolution no. 11971 of 14 May 1999 and subsequent amendments, articles 78 and 79 of the aforementioned decree were abolished.

Compensation for strategic managers

The table below presents the disclosure related to directors and strategic executives.

(in thousands of euro)	2011		2010	
	Directors	Executives	Directors	Executives
Gross annual remuneration	806	609	632	695
Short-term benefits	6	5	82	18
Post-employment benefits	4	9	4	9
Severance indemnity	-	-	22	25
Share payments	119	-	-	-
Total	**935**	**623**	**740**	**747**

2. Information on related party transactions

Based on IAS 24 and specifically in reference to Banca Aletti, related parties are defined as:
a) the parent company Banco Popolare Soc. Coop., which acts as the parent company of the Banking Group of the same name;
b) the companies subject to significant influence from Banca Aletti;
c) other Group companies;
d) strategic executives for Banca Aletti (directors, executives and auditors), the parent Company (directors and auditors) and Group companies (directors, executives and auditors);
e) other related parties, or immediate family members of strategic executives, as well as executives and their immediate family members for subsidiaries or associates and pension funds for Banco Popolare employees (or pensions funds for Group employees and any other related entity).

The following table presents the balance sheet and income statement transactions undertaken with the related parties defined above.

Transactions with Group companies

(in thousands of euro)	Parent company	Other group companies	Subsidiaries	Associates	Strategic executives	Other related parties	TOTAL	% impact on financial statements
Financial assets held for trading	1,343,518	685,933	-	-	-	2,394	2,031,845	32.5%
Due from banks	4,291,561	5,900	-	-	-	63	4,297,524	93.6%
Due from customers	-	994	-	3,704	-	-	4,698	0.3%
Other asset items	7,428	2,971	198	-	-	-	10,597	7.7%
Due to banks	2,211,793	521,948	-	-	-	73	2,733,814	75.5%
Due to customers	-	-	2,351	41,252	1,355	17,666	62,624	6.3%
Securities in issue	1,876,614	-	-	17,266	-	425	1,894,305	n/a
Financial liabilities held for trading	993,555	550,537	-	248,228	-	4,965	1,797,285	34.6%
Fair value financial liabilities	-	-	-	8,923	-	3,386	12,309	n/a
Other liability items	54,835	13,020	907	5	162	44	68,973	9.6%
Guarantees granted and commitments	91,930	2,827	-	-	-	-	94,757	10.9%
Direct deposits	-	-	-	-	742	6,749	7,491	0.3%
Indirect deposits	-	-	-	-	15,397	371,534	386,931	2.8%

(in thousands of euro)	Parent company	Other group companies	Subsidiaries	Associates	Strategic executives	Other related parties	TOTAL	% impact on financial statements
Interest income and similar revenues	38,008	5,363	-	-	-	-	43,371	37.3%
Interest expense and similar charges	(27,007)	(827)	(18)	-	-	-	(27,852)	41.0%
Interest margin	**11,001**	**4,536**	**(18)**	**-**	**-**	**-**	**15,519**	**32.1%**
Commission income	1,209	13,891	-	5,475	-	-	20,575	13.9%
Commission expense	(7)	(93,019)	-	-	-	-	(93,026)	88.8%
Net commissions	**23,204**	**(70,056)**	**(36)**	**5,475**	**-**	**-**	**(41,413)**	**-95.9%**
Administrative expense	(9,532)	(29,285)	(247)	-	1,968	-	(37,096)	36.5%
- Personnel costs	(747)	(1,171)	503	-	1,968	-	553	-1.1%
- Other administrative expense	(8,785)	(28,114)	(750)	-	-	-	(37,649)	72.0%
Other operating income/expense	7,154	1,151	6	(62)	(1)	-	8,248	92.5%

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

(in thousands of euro)	Investment Banking	Wealth Management & Sales	Total 31/12/2011	Total 31/12/2010
1) EARNINGS MARGIN	42,959	3,051	46,010	30,105
2) Other operating income	170,924	101,331	272,255	260,184
3) OPERATING INCOME (1+2)	213,883	104,382	318,265	290,289
4) Operating costs	(35,623)	(57,794)	(93,417)	(99,547)
5) OPERATING PROFIT (3+4)	178,260	46,588	224,848	190,742
6) Write-downs, provisions and gains/(losses) from measurement/disposal of investments	387	(661)	(274)	(589)
7) PROFIT/(LOSS) ON CURRENT OPERATIONS BEFORE TAX	178,647	45,927	224,574	190,152

Breakdown by business segment – Balance sheet data

(in thousands of euro)	Investment Banking	Wealth Management & Sales	Total 31/12/2011	Total 31/12/2010
Due from customers	1,407,419	10,485	1,417,904	1,510,030
Total Assets	12,372,502	32,735	12,405,237	9,939,987
Due to customers	468,137	519,388	987,525	1,164,400
Total Liabilities	10,001,074	2,404,163	12,405,237	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.


19
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21
22
23
24

ANNEXES

Reconciliation of the 2010 Balance Sheet and the 2010 Restated Balance Sheet

Assets	31/12/10	Adjustments for Bank of Italy "flyer"	Restated 31/12/2010
10 Cash and cash equivalents	24,061	-	24,061
20 Financial assets held for trading	6,488,385,319	-	6,488,385,319
30 Fair value financial assets	18,298,967	-	18,298,967
40 Available-for-sale financial assets	8,611,621	-	8,611,621
60 Due from banks	1,780,410,140	(303,912,105)	1,476,498,035
70 Due from customers	1,510,029,782	(99,897,602)	1,410,132,180
100 Investments	21,030,734	-	21,030,734
110 Property, plant and equipment	1,677,267	-	1,677,267
120 Intangible assets	21,083,667	-	21,083,667
of which: goodwill	*21,080,270*	-	*21,080,270*
130 Tax assets	18,803,023	-	18,803,023
a) current	7,546,916	-	7,546,916
b) prepaid	11,256,106	-	11,256,106
150 Other assets	71,632,512	-	71,632,512
Total	**9,939,987,094**	**(403,809,707)**	**9,536,177,386**

Liabilities and shareholders' equity	31/12/10	Adjustments for Bank of Italy "flyer"	Restated 31/12/2010
10 Due to banks	3,303,363,222	(303,912,105)	2,999,451,117
20 Due to customers	1,164,399,850	(99,897,602)	1,064,502,248
30 Securities in issue	-	-	-
40 Financial liabilities held for trading	4,811,004,443	-	4,811,004,443
80 Tax liabilities	3,873,970	-	3,873,970
a) current	394,086	-	394,086
b) deferred	3,479,883	-	3,479,883
100 Other liabilities	65,592,667	-	65,592,667
110 Employee termination indemnity	2,816,653	-	2,816,653
120 Provisions for risks and charges	12,470,638	-	12,470,638
b) other provisions	12,470,638	-	12,470,638
130 Valuation reserves	2,724,227	-	2,724,227
160 Reserves	243,485,444	-	243,485,444
170 Share premium reserve	72,590,205	-	72,590,205
180 Share Capital	121,163,539	-	121,163,539
200 Profit for the year	136,502,237	-	136,502,237
Total	**9,939,987,094**	**(403,809,707)**	**9,536,177,386**

Reconciliation of the 2010 Income Statement and the 2010 Restated Income Statement

Income Statement items	2010	Adjustments for Bank of Italy "flyer"	2010 restated
10 Interest income and similar revenues	120,988,800	(946,343)	120,042,457
20 Interest expense and similar charges	(91,743,485)	468,781	(91,274,704)
30 Interest margin	**29,245,315**	**(477,562)**	**28,767,753**
40 Commission income	156,185,707	946,343	157,132,050
50 Commission expense	(120,371,578)	(468,781)	(120,840,359)
60 Net commissions	**35,814,129**	**477,562**	**36,291,691**
70 Dividends and similar revenues	360,547,741	-	360,547,741
80 Trading gains/losses	(135,581,371)	-	(135,581,371)
90 Hedging gains/losses	(24,530)	-	(24,530)
100 Gains (Losses) from disposal or repurchase of:	-	-	-
a) loans	-	-	-
b) available-for-sale financial assets	-	-	-
110 Net profit/loss from fair value financial assets and liabilities at fair value	118,800	-	118,800
120 Earnings margin	**290,120,084**	**-**	**290,120,084**
130 Net write-downs/reversals for impairment of:	607,755	-	607,755
a) loans	1,469,518	-	1,469,518
b) available-for-sale financial assets	(861,763)	-	(861,763)
140 Net profit from financial management	**290,727,839**	**-**	**290,727,839**
150 Administrative costs:	(106,074,758)	-	(106,074,758)
a) personnel costs	(52,901,868)	883,435	(52,018,433)
b) other administrative expense	(53,172,890)	(883,435)	(54,056,325)
160 Net provisions for risks and charges	(1,200,000)	-	(1,200,000)
170 Net write-downs/reversals on property, plant and equipment	(597,815)	-	(597,815)
180 Net write-downs/reversals on intangible assets	(4,326)	-	(4,326)
190 Other operating income (expense)	7,297,956	-	7,297,956
200 Operating costs	**(100,578,943)**	**-**	**(100,578,943)**
210 Gains (Losses) on investments	3,409	-	3,409
240 Gains (Losses) on investment disposals	10	-	10
250 Profit (Loss) on current operations before tax	**190,152,315**	**-**	**190,152,315**
260 Income tax for the year for current operations	(53,650,078)	-	(53,650,078)
270 Net profit (loss) on current operations	**136,502,237**	**-**	**136,502,237**
290 Profit for the year	**136,502,237**	**-**	**136,502,237**

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

	31/12/2010	31/12/2009	Changes
Income statement *(in millions of euro)*			
Earnings margin	239.5	593.5	(59.6%)
Net commissions	21.0	15.0	40.0%
Operating income	635.9	770.5	(17.5%)
Operating costs	(269.0)	(271.1)	(0.8%)
Operating profit	366.9	499.4	(26.5%)
Profit/(loss) on current operations before tax	327.8	296.2	10.7%
Profit for the year	288.9	240.0	20.4%
Balance sheet *(in millions of euro)*			
Total assets	79,508.2	71,317.5	11.5%
Direct deposits	50,563.3	39,212.2	28.9%
Gross loans to customers	11,340.6	14,550.7	(22.1%)
Financial assets and hedging derivatives	12,488.2	9,611.7	29.9%
Shareholders' equity	10,476.5	10,355.3	1.2%
Organisation and operating performance			
Average workforce (*)	1,444	1,388	4.0%
Number of branches	2	2	-

(*) weighted average calculated monthly.

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	221
Other services (tax return signoff)	Reconta Ernst & Young Spa	6
Other services (compliance with global investment performance standards – GIPS)	Ernst & Young Spa Financial Business Advisory Spa	48

(*) the amounts stated do not include expenses and VAT

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