

BANCA ALETTI. ANNUAL REPORT 2012.







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

<i>Chairman:</i>	Vittorio Coda
<i>Deputy Chairman:</i>	Mario Minoja
<i>Chief Executive Officer</i>	Maurizio Zancanaro
<i>Directors:</i>	Alberto Bauli Bruno Bertoli Davide Maggi Giorgio Olmo Bruno Pezzoni Francesco Saita

Board of Statutory Auditors

<i>Chairman:</i>	Alfonso Sonato
<i>Standing Auditors:</i>	Franco Valotto Angelo Zanetti
<i>Alternate Auditors(*):</i>	Marco Bronzato

Deputy General Manager

Franco Dentella

Manager responsible for the preparation of corporate accounting documents

Roberto Gori

Independent Auditors

Reconta Ernst & Young S.p.A.

(*) Note that Alternate Auditor Alberto Tron-Alvarez resigned from office effective 26 November 2012



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FINANCIAL HIGHLIGHTS

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

	31-12-2012	31-12-2011	Changes
Income statement (in millions of euro)			
Interest margin	67.5	46.0	46.7%
Net commissions	22.3	43.2	(48.4%)
Operating income	318.0	318.3	(0.1%)
Operating costs	(90.1)	(93.5)	(3.6%)
Operating profit	227.9	224.8	1.4%
Profit/(loss) on current operations before tax	227.2	224.5	1.2%
Net profit/(loss) on current operations	113.4	148.6	(23.7%)
Profit for the year	113.4	148.6	(23.7%)
Balance sheet (in millions of euro)			
Total assets	14,578.6	12,405.2	17.5%
Net loans to customers	1,932.9	1,417.9	36.3%
Financial assets and hedging derivatives	8,347.3	6,278.8	32.9%
Shareholders' equity	705.4	592.8	19.0%
Customer financial assets (in millions of euro)			
Direct deposits	2,490.8	2,583.3	(3.6%)
Indirect deposits	14,676.0	13,710.6	7.0%
- Asset management	12,846.1	11,265.8	14.0%
- Mutual funds and Sicavs	514.6	478.9	7.4%
- Securities and fund management	12,246.2	10,705.5	14.4%
- Insurance policies	85.4	81.3	5.0%
- Administered assets	1,829.9	2,444.8	(25.2%)
Organisation and operating performance			
Average workforce	440	431	2.0%
Number of branches	35	35	-
Net loans to customers per employee (€/1000)	4,396	3,290	33.6%
Operating income per employee (€/1000) (*)	721	738	(2.3%)
Operating costs per employee (€/1000) (*)	204	217	(5.8%)
Operating profit per employee (€/1000) (*)	517	522	(0.9%)
Profitability ratios (%)			
ROE	19.1%	33.5%	(42.8%)
Interest margin / Operating income	21.2%	14.5%	46.8%
Net commissions / Operating income	7.0%	13.6%	(48.4%)
Operating costs / Operating income	28.3%	29.4%	(3.6%)



POWER

ERON

REPORT ON OPERATIONS

OUTCOME OF POLICIES AND STRATEGIES

The economic context

Global scenario

2012 closed with a decline in the global growth rate, which dropped to 3% from 3.9% in 2011, as a result of continued weakness in the economic scenario in both emerging and industrialised countries.

At the beginning of the year, and for all of the first quarter, the expansion of the U.S. economy at a higher than expected rate, positive economic trends in Japan and the effective response to economic policies in the Eurozone gave rise to faint hopes of a slow but progressive acceleration in global growth. However, in the second quarter tensions resurfaced regarding government debt in peripheral European countries, while budget politics in the United States influenced recovery prospects. Hence, in the spring, economic activity weakened and international trade declined due to contraction in both developed and emerging countries and the global economy began to slowdown. In the second half of the year, the slowdown became more evident: Japanese exports dropped and had a marked effect on the GDP; in the Eurozone, the economic slowdown, as a result of the sovereign debt crisis, involved even the more solid economies and the key central banks had to take expansive actions. However, in the fourth quarter, the Chinese economy began to recover, the U.S. "fiscal cliff" was temporarily avoided, the problems in Greece were held in check, the process for consolidating the single European Banking Supervisory Board was launched and the constraint on liquidity requirements for banks was delayed until 2015.

Tensions in international markets were thereby eased, although manufacturing activity was also affected by the global contraction.

More specifically, according to initial estimates, the U.S. GDP grew 2.3% annually in 2012, compared to 1.8% in 2011. This growth is attributable to the positive contributions of consumer spending, non-residential fixed investments, exports, residential fixed investments and private sector investments in inventory, while negative components include local and federal public spending as well as the increase in imports. The labour market also improved: in December 2012 the unemployment rate was 7.8%, compared to 8.5% at the end of 2011. Along with the economic slowdown, the trend in consumer prices showed a significant drop, from 3% in 2011 to 1.7% in 2012 (from 2.2% to 1.9% excluding the more volatile components of energy and food expenditures).

In Japan, the initial estimates show the GDP having grown 1.9%, confirming the growth rate of the previous year related to unfavourable trends in investments and exports. The inflation figure is slightly negative (-0.1% trend rate), an improvement from -0.3% in 2011. At the end of the year, important expansionary fiscal measures were adopted and the objective inflation rate was set at 2.0%.

Growth in emerging countries reflected the lethargy in the more developed, industrialised economies in the first part of 2012, but then showed signs of recovery in the second part of the year. Specifically, a recovery in growth for China in the fourth quarter (+7.9% trend rate compared to +7.4% in the third quarter), leading to an increase in the 2012 GDP of 7.8%, down from 9.3% in 2011. Consumer prices reflected the stabilisation in growth, closing 2012 at a rate of 3.5%, a sharp drop from 9% in 2011. India's GDP grew 4.7% (+7.3% in 2011), Pacific countries grew at 3.1% (4.1% in 2011) and Latin American countries posted a result of 2.4% (4.7% in 2011).

The 2012 trend in raw material prices reflected the trend in the global economy: until late in the spring, the combination of factors led to a notable decline in the prices of key raw materials. However, from the end of the third quarter, which was characterised by a markedly expansive outlook on the part of policy makers, prices for raw materials returned to values seen at the beginning of the year and remained at those levels through December.

European and Italian Scenario

2012 growth in the EMU was penalised by a decline in production investments associated with weak growth forecasts. Economic activity during the year was once again influenced by the events in peripheral European countries and, in particular, by political uncertainties in Greece and difficulties in the Spanish banking system, with obvious repercussions on sovereign debt. The perception that the governments were not effective in guiding the mechanisms of crisis management and governance in the Eurozone contributed to deteriorating uncertainty. This had a negative impact on credit conditions and on forecasts for households and businesses, weakening consumer spending and, particularly, manufacturing investments. In addition, feeble internal demand and high unemployment made the process of stabilising accounts in the public sector even more difficult, especially in peripheral European countries. Beginning in the summer, the depressive effects were felt in even the most solid economies, undermining the possibility of growth in the EMU GDP.

Specifically, the Eurozone GDP, according to currently available data, declined 0.6% (+1.4% in 2011), with a slowdown in growth for the "Core Europe" countries and recession for the peripheral countries (excluding Ireland). Germany's GDP increased 0.7% in 2012 (+3.0% in 2011), while France remained unchanged (+1.7% in 2011). Inflation eased in the EMU, despite rising energy prices and the effect of fiscal manoeuvres: 2012 closed with an increase in consumer prices balanced at a 2.2% trend rate, down from 2.7% in December 2011.

Throughout the year, the Italian economy was in a distinctly recessionary phase, following the contraction that began at the end of 2011. In fact, GDP did not show growth in any of the quarters (-0.8% in the first quarter, -0.7% in the second, -0.2% in the third and -0.9% in the fourth). The moderate improvement in net exports, largely due to the sharp drop in imports (-7.7% for 2012), only partially offset the considerable decline in internal demand, associated with the slump in household spending for consumption (-4.3%) and gross fixed investments (-8.0%). According to available estimates, the overall decline in the annual GDP was 2.4% compared to 0.4% growth in 2011. The additional decline in available income, influenced by

both higher taxes associated with fiscal manoeuvres to shore up public accounts as well as the fragile conditions in the labour market, kept consumption at very low levels. The presence of high unutilised production capacity and the drop in orders led businesses to postpone investments and reduce inventory levels. The unemployment rate in December 2012 was 11.2%, up 1.8 percentage points over the twelve months. Added to the decline in available income was the negative wealth effect from the real estate sector: in 2012 the number of real estate transactions dropped 22% compared to 2011, while average values declined 4%. Compared to the peaks reached during the expansionary phase, the average values fell 12-12.5% for the residential segment and 10% for the commercial segment.

Despite the lack of economic growth, inflation remained high, reflecting the trend in energy prices and the greater burden of indirect taxes: at the end of the year, consumer prices grew 3.3% (+2.9% in 2011).

However, in the area of public finances, net debt for government administrations as a ratio of the GDP was -3.0% against -3.8% in 2011. The ratio of the primary balance to GDP was 2.5%, compared to 1.2% in 2011.

Monetary and economic policy interventions and the situation in financial markets

In response to the deterioration of the economic situation and the fact that inflationary factors were under control, monetary policies in 2012 were decidedly expansionary in both industrialised and emerging countries.

At the end of February, the ECB conducted the second long-term refinancing transaction, or LTRO, (including the auction in December 2011), which provided European banks liquidity for 1,018 billion euro. After having expanded the number of assignable securities in June, at the beginning of July the ECB set the rate on the main refinancing transaction at 0.75% and cancelled the payment on deposits in order to compel the European banking system to reactivate financing channels to the economy. At the beginning of September, as the risk premium remained high for the reversability of the Euro, the ECB launched the OMT programme (Outright Monetary Transaction), despite the opposing vote by the German member of the Board of Governors. As such, if a Eurozone country submits a formal request for assistance to the ESM (European Stability Mechanism), the Central Bank will purchase that government's securities of up to three years' duration on the secondary market without time or quantity limits, with the objective of attaining price stability in the Eurozone, provided that the government agrees to rigorous conditions. The announcement help to stabilise the market for government securities of peripheral countries with a resulting extended and marked closing of the spread between the BTP and the Bund. The scenario further improved in mid-September when the German Constitutional Court rejected the appeal presented by a Member of Parliament against German membership in the ESM, thereby allowing the start-up of operations for the new European rescue mechanism in October.

For its part, the Federal Reserve expanded the portfolio recomposition programme toward longer maturities in June (which was then extended until the end of the year), and continued its programme of reinvesting payments on Mortgage Backed Securities in other, similar instruments. In the second half of September, with the explicit goal of stimulating the economic recovery and substantially increasing the employment figures in the U.S., the Federal Reserve launched a monetary expansion programme (QE3), involving the purchase of mortgage backed securities for approximately 85 million US Dollars per month. In addition, it announced the maintenance of an objective Fed Funds rate between 0% and 0.25% through 2015.

In April, the Bank of Japan expanded its programme to purchase financial assets, postponing the expiration to June 2013. Given the deterioration in the country's economic conditions, the Chinese central bank reduced the percentage of mandatory reserve by 50 bps, the reference loan rate by 66 bps and the deposit rate by 50 bps in May. Brazil's central bank further reduced the official rates in the second quarter by a total of 175 bps.

With respect to sovereign debt politics, the authorities in the countries that were most exposed to the Eurozone crisis committed to more decisive measures to balance public accounts and correct structural gaps as an offset to the increase in the Euro reversability premium. In Italy, the consolidation measures for public accounts launched at the beginning of the second half of 2011 and the massive structural reform programme underway have halted the loss of investor confidence.

Actions taken by European political authorities have also been critical and relevant. On 2 March, the Fiscal Compact was approved, which became effective at the beginning of 2013. It represents a European financial agreement that envisages the requirement that budgets must be balanced, to be included in the constitutions of countries that have signed the agreement, and to not exceed the structural debt threshold of 0.5% and to work toward achieving a debt to GDP ratio of 60% within twenty years. With the objective of breaking the vicious cycle of sovereign risk, fragility of the banking system and growth, an agreement was reached at the end of June to create a single European Supervisory Board, as part of the ECB, as well as the creation of the so-called Banking Union. At the same time, the European Commission decided to provide financial assistance to the Spanish banking system through the EFSF and subsequently the ESM. In November, the European Commission approved the restructuring plans of four nationalised Spanish banks and allocated 37 billion euro to recapitalise them. Finally, on 12 December, the Council of Economic and Finance Ministers of the EU countries (ECOFIN) reached an agreement on the proposed single European banking supervisory mechanism (known as Single Supervisory Mechanism, or SSM), a key preliminary step in achieving the Banking Union, which in the medium-term will also include a common mechanism for crisis resolution and standardised systems for deposit guarantees.

In the fourth quarter of 2012, the "Greek debt" risk was contained: on 27 November European authorities set less ambitious budget objectives for Greece, while the Greek government committed to a new repurchase of its outstanding debt securities. The success of this transaction, completed 11 December 2012, resulted in the approval of the second contribution from EFSF, for 49.1 billion euro, which had previously been suspended.

The severity of budget policies in peripheral European countries and the aforementioned decisions taken at the European level, managed to stabilise the scenario surrounding the real economic activity, and beginning in July, the divestiture of Italian securities in the portfolios of foreign operators ceased. In the second half of the year, the credibility acquired from the actions of national governments significantly eased tensions associated with the sovereign debt crisis, reflected in a decline

in volatility in the international equities markets and favouring a renewed influx of capital to peripheral European countries. The government bond yield for these countries declined, the spread with respect to the Bund dropped, in varying degrees but nonetheless notably, despite the fluctuating conditions during the year. Specifically, the spread between the BTP and the Bund reached 550 bps at the beginning of the year and then slowly declined, reaching a minimum of 280 bps in the second ten day period of March. At the beginning of March, fears regarding the stability of the Spanish banking system began, which increased in the second quarter, while political tensions in Greece escalated. Thus, the spread began to widen through the end of July, exceeding 500 bps once again. Following the ECB measure and the other, aforementioned developments, the trend began to reverse, bringing the yield differential between the BTP and Bund back down to 300 bps at the end of year, and further declining in January to a minimum of 250 bps. A similar trend was seen in the Euro/Dollar exchange rate. After opening the year around 1.30 and strengthening to a level of 1.34, the European currency dropped to level of 1.20 during the worst period of the crisis in the summer months, then recovering to reach a level of around 1.32 at the end of the year.

On the European and international equities markets, as a result of the massive liquidity injected by central banks during the year, performance was more consistent, despite a period of uncertainty in the middle of the year, related to Eurozone tensions. The S&P 500 index closed the year at 1426, up 13% from 2011, the Eurostoxx 50 index grew more than 15% in the same period and the FTSE MIB index grew slightly more than 10%. The improvement in the economic situation, after having overcome the difficulties in the summer months, was positively reflected in trends for bonds issued by corporations, particularly for the most risky, as well as for banks. The risk premium for senior financial issuers, reflected in the Itraxx Senior Financials Index dropped from 284 at the end of 2011 to 143 at the end of 2012, a decline of 49.6%. Some Italian banks began once again to issue bonds on foreign markets.

Domestic banking industry

During 2012, the credit market continued to be dominated by considerable weakness in demand and by protracted restrictions on the supply side. Credit quality and banking profitability reflected the worsening of the economic situation, but banks' capitalisation levels were further strengthened. This was necessary in order to comply with EBA requirements for European banks to reach a Core Tier 1 ratio of 9.0%. The requirement was met by both increasing the level of share capital as well as reducing risk-weighted assets.

The slowdown in loan volumes continued the trend that began in the last months of 2011. In terms of credit demand from businesses, the protracted economic recession affected short-term maturities as well as medium- and long-term, which were penalised by weak investment forecasts. The contraction in household credit was particularly evident in demand of financing to assist with the purchase of a home. In terms of supply, despite the improvement of disbursement conditions due to the drop in short-term rates, the spread on loans granted to customers increased, specifically for the riskiest borrowers, in light of the deterioration of credit quality and uncertainty regarding the economic recovery.

Based on initial results from ABI (Italian Banking Association), the factors listed above contributed to a drop of 2.5% in the trend rate in December for bank loans to households and non-financial companies. This figure combines the less negative trend in short-term loans (-1.7%) with the sharper reduction in medium-long term loans (-2.8%). Household loans were down 1.4% in December, while loans to non-financial companies were down 3.3%.

Bank deposits reflected the real economic performance in 2012 and, specifically, difficulties in generating savings, closing the year with a trend rate of 1.6% and reflecting a change in composition towards deposits, specifically, time deposits.

Difficulties in accessing credit were contrasted by the liquidity supplied by the ECB and loans rates, while remaining higher than the average for the Eurozone, gradually reduced, reflecting the drop in the spreads on sovereign debt and the gradual removal of liquidity restrictions that were weighing down Italian banks.

Specifically, the rate on loans to households and businesses dropped 45 bps, from an average of 4.23% in December 2011 to 3.78% in 2012. However, the cost of funding in the banking system was affected by more intense competition to retain ordinary customer deposits. Hence, bank interest rates payable increased: total funding increased by 8 bps, from 2% at the end of 2011 to 2.08% in 2012, while those for deposits in euro increased 16 bps, from 1.08% in 2011 to 1.24% in 2012. The 3-month Euribor dropped from 1.43% at the end of 2011 to 0.19% at the end of 2012, a decline of 124 bps. The mark-up (or difference between the average loan rate to households and businesses and the 3-month Euribor) grew by 78 bps, from 2.81% to 3.59% from December 2011 to December 2012. The mark-down (difference between the 3-month Euribor and the average funding rate) deteriorated by 132 bps, from -57 bps to -189 bps in the same period.

As regards credit quality, gross non-performing loans reached 125 billion euro in December, compared to 107 billion euro in 2011 (+16.6%), with a ratio of loans of 6.3%, reflecting the marked deterioration in the economic situation. Net of write-downs, non-performing loans amounted to 64.3 billion euro in December compared to 51.4 billion euro at the end of 2011 (+25%).

Finally, the asset management sector closed 2012 with net deposits in Italian and foreign mutual funds showing a positive balance of 1.2 billion euro. The total balance of Italian and foreign mutual funds totalled 482.2 billion euro in December 2012, against 419.1 billion at the end of the previous year.

SIGNIFICANT EVENTS

Audit by the Milan Finance Police

In the period between February 2011 and February 2013, the Finance Police performed an audit on Banca Aletti regarding the single stock futures transactions (listed derivative contracts that use as the reference value a single stock, also listed) and, to a lesser extent, loans of equity securities carried out from 2005 to 2009, or, in other words, the transactions associated with equity securities that are included in typical investment banking activities. For more detail on the audit results, refer to Section 13.7 “Other information” in Part B - Balance Sheet data in the Notes to the Financial Statements.

Valuation of the equity investment in Aletti Fiduciaria

As at 31 December 2012 the equity investment in Aletti Fiduciaria was written down for impairment for 821 thousand euro, owing to the fact that, as a result of the financial market crisis, the book value of the equity investment was greater than its recovery value. This value was estimated to be equal to the current value of cash flows to be generated by the investment, based on the most recent financial plans approved by management, and calculated by applying a market rate representing the current value of money and specific investment-related risks. For more information, refer to section 10.1 “Equity investments in subsidiaries, companies subject to common control (measured at equity) or subject to significant influence: information on investment relations” in Part B - Balance Sheet data in the Notes to the Financial Statements.

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 <i>(in thousands of euro)</i>	31/12/2012	31/12/2011	Changes	
Cash and cash equivalents	20	19	1	4.2%
Financial assets and hedging derivatives	8,347,251	6,278,785	2,068,466	32.9%
Due from banks	4,123,892	4,589,122	(465,230)	(10.1%)
Due from customers	1,932,875	1,417,904	514,971	36.3%
Equity investments	20,460	21,031	(571)	(2.7%)
Property, plant and equipment	974	1,293	(319)	(24.7%)
Intangible assets	20,938	20,938	-	-
of which: goodwill	20,938	20,938	-	-
Other asset items	132,173	76,145	56,028	73.6%
Total	14,578,583	12,405,237	2,173,346	17.5%

BALANCE SHEET Reclassified liabilities <i>(in thousands of euro)</i>	31/12/2012	31/12/2011	Changes	
Due to banks	4,560,402	3,619,320	941,082	26.0%
Due to customers and debt securities in issue	2,737,312	2,872,300	(134,988)	(4.7%)
Financial liabilities	6,396,678	5,195,883	1,200,794	23.1%
Provisions	9,674	11,932	(2,258)	(18.9%)
Other liability items	169,141	113,048	56,093	49.6%
Shareholders' equity	705,377	592,754	112,623	19.0%
- Share capital and reserves	592,017	444,158	147,859	33.3%
- Profit for the year	113,359	148,596	(35,237)	(23.7%)
Total	14,578,583	12,405,237	2,173,346	17.5%

Income Statement Data

Banca Aletti closed 2012 with a decrease in net profit of 23.7%, from 148.60 million euro as at 31 December 2011 to 113.36 million euro as at 31 December 2012.

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)	31/12/2012	31/12/2011	Abs. change	% change
Interest margin	67,481	46,010	21,471	46.7%
Net commissions	22,265	43,166	(20,901)	(48.4%)
Net other operating income	89	236	(147)	(62.3%)
Net financial income	228,159	228,852	(693)	(0.3%)
Other operating income	250,514	272,254	(21,740)	(8.0%)
Operating income	317,995	318,264	(269)	(0.1%)
Personnel costs	(45,596)	(50,115)	4,519	(9.0%)
Other administrative expense net of recoveries	(43,736)	(42,304)	(1,432)	3.4%
Net write-downs on property, plant, equipment and intangible assets	(746)	(1,055)	309	(29.3%)
Operating costs	(90,078)	(93,474)	3,396	(3.6%)
Operating profit	227,917	224,790	3,127	1.4%
Net write-downs for impairment of loans	(18)	363	(381)	(105.0%)
Write-downs on other assets	-	(20)	20	(100.0%)
Net provisions for risks and charges	91	(617)	708	(114.7%)
Gains (Losses) on investments	(821)	-	(821)	-
Profit (Loss) on current operations before tax	227,169	224,516	2,653	1.2%
Income tax	(113,810)	(75,919)	(37,891)	49.9%
Profit (Loss) on current operations after tax	113,359	148,596	(35,237)	(23.7%)
Profit for the year	113,359	148,596	(35,237)	(23.7%)

The year just concluded was characterised by a series of events that made it a particularly difficult one for companies in the financial sector. Despite this situation, Banca Aletti substantially confirmed the financial results of previous years: in particular, the earnings margin was 318 million euro, more or less unchanged from the previous year.

The overall income was achieved by the following lines of business: OTC derivative transactions, trading in listed securities and derivatives, capital markets transactions, and finally, investment management and private banking.

Derivative transactions contributed significantly to Banca Aletti's overall income, in the amount of 221.1 million euro, against placements totalling 9.3 billion euro.

This item includes the core activities of Investment Banking involving OTC derivative transactions resulting from placements of investment products and hedging by Group Banks and Banca Aletti. More specifically, revenues derive mainly from structuring of products for retail, corporate and institutional customers of Banco Popolare Group and trading on financial markets associated with risk management resulting from the sale of said products. In reference to product structuring, Banca Aletti provides to the Group's distribution network, not only the product concept, but a "maximum duration" placement service on all types of products in order to ensure price stability during the placement window and release the distribution network from the risk of unsold products.

For these activities, Banca Aletti receives revenues for the structuring and placement margin, which compensates for the structuring activities and the market risk inherent in "maximum duration" placements.

Trading in listed securities and derivatives (including proprietary trading, market making on single stock futures, trading and market making on supernational governments and corporate bonds) generated revenues of 45.5 million euro, a considerable increase over the 16.7 million euro from the prior year. This operating segment benefitted in 2012 from the reduction of the spread between Italian debt securities and banking securities, which had a positive impact on Banca Aletti's results.

Capital Markets activities and trading on behalf of third parties together generated operating income of 11.1 million euro, essentially in line with the results from 2011.

However, difficulties in relaunching asset management, particularly in relation to the retail segment, limited the results for Investment Management and Private Banking, while still achieving impressive results. Operating income was 40.3 million euro, against 23.9 billion euro of assets under management.

In total, due to both the contribution from institutional and private customers as well as positive trends in markets, deposits managed by Banca Aletti grew 14% and generated net commissions of 34.6 million euro. Administered deposits and direct deposits contributed 5.7 million euro.

With income consistent with the previous year and lower operating costs, due to containment of personnel costs, the results for current operations improved.

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 expense rather than recognised to other operating income.

Analysis of financial highlights

Customer deposits

(in millions of euro)	31-12-2012	31-12-2011	31-12-2010	Change since 31/12/2011	Change since 31/12/2010
Customer financial assets	17,167	16,294	17,769	5.4%	(3.4%)
Direct deposits	2,491	2,583	747	(3.6%)	233.5%
Indirect deposits	14,676	13,711	17,023	7.0%	(13.8%)
- Asset management	12,846	11,266	14,112	14.0%	(9.0%)
- Mutual funds and Sicavs	515	479	554	7.4%	(7.1%)
- Securities and fund management	12,246	10,706	13,472	14.4%	(9.1%)
- Insurance policies	85	81	86	5.0%	(1.1%)
- Administered assets	1,830	2,445	2,910	(25.2%)	(37.1%)

The performance of customer deposits shows an improvement in 2012, due both to the positive impact of stock and bond performance on the values of indirect deposits, as well as the net positive deposits for institutional customers.

Productivity and profitability ratios

	31-12-2012	31-12-2011	31-12-2010	Change since 31/12/2011	Change since 31/12/2010
Productivity ratios					
Net loans to customers per employee (€/1000)	4,396	3,290	3,256	33.6%	35.0%
Operating income per employee (€/1000)	721	738	670	(2.3%)	7.6%
Operating costs per employee (€/1000)	204	217	230	(5.8%)	(11.1%)
Operating profit per employee (€/1000)	517	522	440	(0.9%)	17.4%
Profitability ratios (%)					
ROE	19.1%	33.5%	31.0%	(42.8%)	(38.3%)
Interest margin / Operating income	21.2%	14.5%	10.2%	46.8%	107.8%
Net commissions / Operating income	7.0%	13.6%	12.5%	(48.4%)	(44.0%)
Operating costs / Operating income	28.3%	29.4%	34.3%	(3.6%)	(17.4%)

The productivity and profitability ratios as at 31 December 2012 continued to show excellent results. Specifically, the Cost / Income ratio declined to 28.3% (29.4% as at 31 December 2011).

ECONOMIC, FINANCIAL AND RISK MANAGEMENT POLICIES

Main risks and uncertainties

The negative trends in the macroeconomic context and continued uncertainty in monetary and financial markets led to further reinforcement of capital adequacy, constant and rigorous safeguarding of risks and the maintenance of higher liquidity reserves.

During the year, the Group determinedly pursued a strategy of fortifying its financial position. Specifically, in 2012, the Group took steps to develop the “core” component of regulatory capital. This objective was realised by carrying out a repurchase transaction by Banco Popolare of Tier 1 and Tier 2 securities it had issued for more than 1.2 billion euro in nominal value, which was concluded on 20 February 2012.

The capital ratios were also improved through the adoption of internal models for calculating regulatory requirements. On 18 May 2012, the Group obtained approval from Bank of Italy to use internal models to measure market and credit risks to be used in regulatory reporting effective 30 June 2012.

In order to provide timely and rigorous safeguarding for the risks to which it is exposed, Banco Popolare Group makes use of a detailed set of policies, processes, methodologies and tools, which are briefly explained below, while more thorough discussion is provided in the Notes to the Financial Statements in Part E.

As regards the processes and tools for managing and controlling the quality of the loan portfolio, an important element is the internal ratings that are calculated using differentiated models, estimated specifically for each customer segment. The rating represents the assessment of a borrower or potential borrower’s capacity to honour contractual obligations, in reference to a 12 month time horizon, carried out on the basis of all reasonably accessible information – both qualitative and quantitative – and expressed through classification on an ordinal scale. The rating plays a central role in the disbursement, performance monitoring and management processes. In particular, the rating is used by the relevant bodies in decisions regarding loans, affects application of the automatic renewal mechanism for cancelled loan positions and guides the decision of account managers in classifying position performance.

Management control of credit risks is performed through a model portfolio for estimating VaR risk, belonging to the “default model” category, applied monthly to credit exposures of the Group’s banks, limited to performing, cash and unsecured loans to ordinary and other customers resident in Italy. The model allows estimation of the working capital compared to credit risk, taking into account the portfolio concentration and the probability of joint default by the counterparties, in a pre-established context of significant macroeconomic variables. The confidence interval used is 99.9% and the reference time horizon is one year. After completing the model simulation process, the maximum potential loss for the loan portfolio is divided into the following two components. For exposures other than those related to performing loans to ordinary and financial customers residing in Italy, management control of risks is carried out through the use of supervisory metrics (Standard/IRB).

Specific organisational units in the Group are responsible for managing impaired loans, to which pre-established management and recovery methodologies are applied, differentiated for each loan type by amount and risk classes. Impairment of a loan refers to the possible loss in value of the loan for events that occurred after it was recognised.

Impaired loan classifications follow specific prudent criteria based on objective risk parameters. 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.

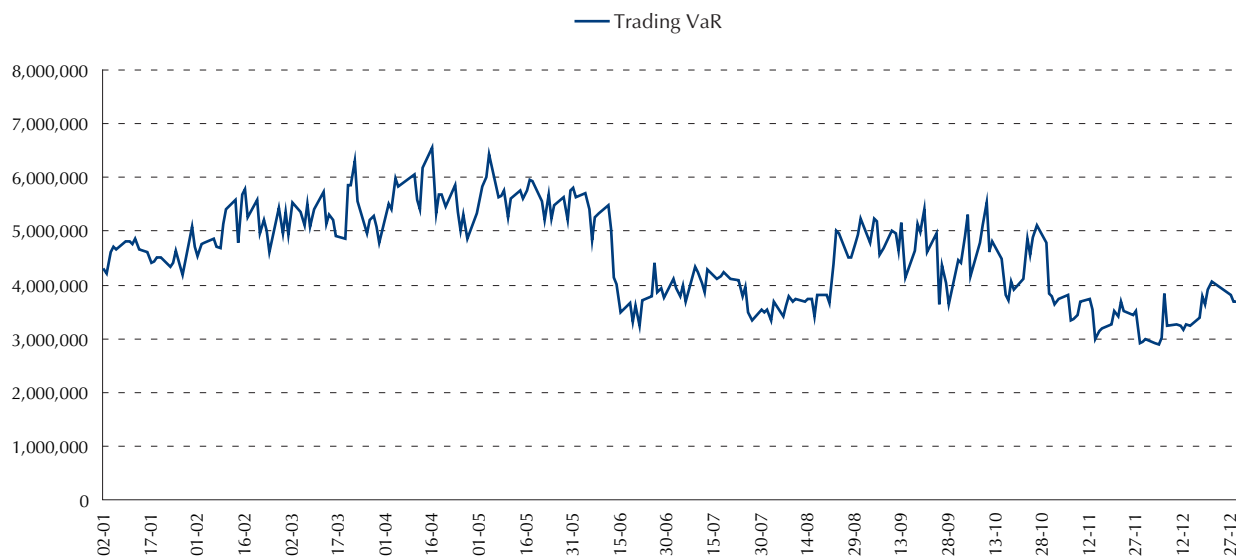
All categories of impaired loans are prudently evaluated, to take into consideration the consequences of negative trends in the economic situation in a timely and appropriate manner.

As regards financial risk management, the identification, measurement, management and operating control of the risk positions of Banca Aletti are carried out through 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.

Financial risk monitoring is performed on a daily basis and makes use of deterministic (sensitivity to market risk factors) and probability (Value at Risk - VaR) indicators. VaR is a synthetic risk measurement and expresses the maximum potential loss from market movements under normal conditions. The VaR calculation method used is historic simulation. The values are calculated with a confidence level of 99% and a 1-day time horizon. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of the trading book’s values.

The graph below shows the trend in the 2012 VaR for the Banca Aletti regulatory trading book. There were no particular changes in the risk profile during the year.

BANCA ALETTI daily VaR trend Regulatory trading book



In order to implement adequate management policies for operational risk, and to comply with special regulatory requirements, specific roles were defined in terms of governance, management and control of the operational risk model.

The defined risk is measured using an internal methodology according to VaR logic, which is based on quantitative and qualitative analyses. The quantitative analysis is based on internal loss data, obtained through the loss collection process. This data is then supplemented with external loss data available to the Group, particularly with regard to DIPO consortium back flows, which was set up as part of the ABI (Italian Banking Association) by the major Italian Banking Groups. Qualitative risk assessments seek to augment and supplement the available quantitative data and are periodically carried out through a structured process involving the managers of the various departments (risk self-assessment), a process also used to make quantitative forecasts of operational risk exposure.

Trend data at the Group level from recent years show a reduction in exposure to this type of risk. Total operational losses recognised in the Group's 2012 Income Statement, which are relatively low compared to the banking system, are for the most part related to past events (mainly pre-2009), attributable to commercial practices (placement of financial products in the distribution network and tax disputes) as well as loan and financial processes (errors, lack of documentation, anti-money laundering violations, and capitalisation of interest due). Banca Aletti shows a lower exposure to operational risk, and the impact on the income statement was very limited again in 2012.

As regards liquidity, Banco Popolare Group, in addition to the typical periodic measurements, carried out quarterly measurements on new indicators provided for in Basel III and required by Bank of Italy and the EBA.

The Group's liquidity profile was decidedly reinforced through both the issuing of covered bonds as well as self-securitisation transactions. Additionally, between the end of 2011 and the beginning of 2012, the Group participated in 3-year LTRO transactions promoted by the European Central Bank, along with the entire European banking system. As at 31 December 2012, the exposure to the ECB totalled 13.9 billion euro. This allowed the Group to attain a liquidity profile that is able to pass the most severe stress tests and enabled the positioning at more than 100% of the LCR (Liquidity Coverage Ratio, a short-term indicator) envisaged by Basel III effective in 2015.

For more information on specific credit, financial and operational risks of Banca Aletti, refer to Part E of the Notes to the Financial Statements related to risk management. The section also includes detailed information for structured loan products, exposures to Special Purposes Entities, securitisation transactions and derivative transactions.

Other risk factors

Outlook for risks and Group objectives

The continued uncertainty in the economy and in financial markets make it difficult to establish an outlook for risks. In general, Group objectives are aimed at constant management of business activities to limit the impact of possible adverse events, including unexpected developments, in the economic scenario.

Thus, as regards credit risk, data arising from recent trends, together with goals in terms of total loan amounts, suggest that credit risk is essentially stable, as a result of the combined effect of the containment of said risk on performing loans and greater volatility in the impaired portfolio.

The Group has a bullish profile in interest rate risk that, should market rates rise, would result in an increase in the interest margin. Based on current interest rates, the risk of a further decline seems highly unlikely.

For liquidity risk, the reinforcement measures that the Group has undertaken for some time have resulted in a solid position that provides a certain degree of reassurance in looking toward the future, despite the uncertainty in the markets regarding developments in the current economic crisis.

As regards operational risks, the organisational and technology safeguards that were put in place at the Group level in the past and the specific mitigation actions implemented in recent years have brought about an organisational and operational environment characterised by a low risk profile, as evidenced by the limited operational losses recognised in the financial statements for new risk events. It is expected that this trend will continue in the near future.

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

Project activities and technology investments

Basel 2 and other Risk Management projects

As regards the estimation models for credit and market risks and the project underway to validate operational risks, refer to Part E of the Notes to the Financial Statements, in the section ‘Basel 2 Internal Project’.

Other Risk Management projects

Liquidity risk

In 2012 the Group undertook activities in the new area of quarterly reporting of the Basel III indicators required by Bank of Italy and the EBA. Note that at the beginning of 2013, the competent European authorities reviewed the timing in which the new rules become effective and reformulated the limits on LCR (Liquidity Coverage Ratio, a short-term indicator). This ratio will become effective in 2015 at a level that represents 60% of the envisaged limit, and will then increase annually by 10 percentage points, reaching 100% in 2019.

Technologies for monitoring the Group’s interest rate and liquidity risk

In 2012, at the conclusion of the Liquidity and Interest Rate Project, the new ALM*Pro* ERMAS application by Prometeia was released and implemented, with the objective of measuring interest rate and liquidity risk, and includes the calculation of ratios envisaged in Basel III regulations.

In addition to the technology and methodology components, the project involved an organisational change that includes a wider user base as well as specific management against qualitative controls of the database.

Furthermore, in 2013 a new parameterisation, “Mean Life” will be introduced as part of the annual calibration of the model for on-demand entries. This new parameterisation represents an evolution in the estimation methodology of the behavioural amortisation horizon of the liquidity and repricing profile of entries that are contractually on-demand and allows greater consistency between the margin and value metrics in measuring interest rate risk.

Counterparty risk

Processes for monthly management reporting and monitoring of risk ceilings at the overall Group level were completed during 2012, providing trends in counterparty risk and its key elements, through aggregate and detailed views.

In February 2012, a project to develop a Contract Archive with the counterparties was launched, which will provide all salient parameters and elements of risk mitigation contracts for the OTC derivative department (ISDA/CSA), including to front-office departments, and is integrated with Risk Management system for the control of counterparty risk.

Furthermore, the Group participated in a Quantitative Impact Study (QIS) relative to the new regulations envisaged by Basel III for counterparty risk and related capital requirements, with particular reference to effects deriving from variability in the credit component of the counterparty (CVA Risk).

Finally, a feasibility study was completed on the development of processes and refinement of methodologies to calculate counterparty risk from a management perspective and relative to Basel 3 regulations.

Revision of calculation methodology for collective write-downs of performing loans

During 2012, the metrics used to calculate collective write-downs on performing loans were updated.

Banco Popolare’s adoption of internal models to calculate capital requirements for credit risk made it an appropriate time to review a change in the approach that had been used to calculate the collective write-down.

This change consists of the use of an “incurred loss” metric (consistent with IASB international accounting standards), based on “Basel 2” risk factors subject to validation (PD and LGD) and on a corrective factor (loss confirmation period) used to “transform” expected loss from a management to an accounting concept (loss that is “incurred but not reported”).

Rating

Rating agency	Short-term borrowings	Long-term borrowings	Credit Watch / Outlook
Standard & Poor's	A-3	BBB -	Negative

On 10 February 2012, Standard & Poor's lowered its long-term rating of Banco Popolare and its subsidiaries Credito Bergamasco and Banca Aletti from BBB to BBB- and the short-term rating from A-2 to A-3. This downgrade was part of an overall downgrading of the Italian banking system, which involved 37 other financial institutions.

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 Company.

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 adopted the "Group Regulation for the Manager responsible for the preparation of corporate accounting documents" (see § 11).

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

The corporate accounting manager is guaranteed:

- free access to the accounting data necessary to produce Banca Aletti financial reports, without the need for authorisation;

- free access to operating data linked to events that could have a significant impact on Banca Aletti performance;
- freedom to perform controls, through the relevant company departments, on corporate procedures with a direct or indirect impact on financial disclosures;
- the right to communicate directly with the Board of Directors and Internal Control Bodies;
- in agreement with the Chairman of the Board of Directors, the power to submit proposals to the corporate accounting manager of the Parent Company, Banco Popolare, on the implementation of plans to improve the administrative accounting organisation.

With regard to operating tools, the corporate accounting manager:

- makes use of an adequate, specifically dedicated group business unit;
- may call for external advice on problems of an accounting, tax or legal-administrative nature, and obtain professional services necessary to perform his duty in compliance with current regulations and the assigned budget;
- makes use of the full cooperation and support of other Parent Company departments in order to perform his duties in compliance with regulatory provisions;
- receives suitable 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 having been 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

The reference model identified by Banca Aletti (hereinafter the "Model") to comply with legislative measures is based on the COSO and COBIT framework and provides for:

- the existence of an adequate internal control system at entity level designed to reduce the risk of errors and improper conduct for accounting and financial reporting purposes;
- the establishment and subsequent maintenance of adequate financial reporting processes, verifying over time their suitability and effective application.

This Model was developed to ensure the reliability, accuracy and timeliness of financial reporting.

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

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

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

Assessment of entity level control

The assessment of the control system at the entity level is based on the more extensive evaluation at entity level periodically carried out by Internal Audit

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 the relevant 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 corporate accounting manager tests the effective operation of key controls based on a testing plan that is prepared every half-year.

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 actions taken to overcome criticalities and on the adequacy and effective application of procedures related to financial statements. 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 and with documentation, 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 the 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 actions are coordinated by the relevant Parent Company 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 action was taken in 2012:

Supervision of Delegated Activities

With the goal of better and continuous compliance with audit requirements that are the responsibility of Supervision of Delegated Activities both for Banca Aletti and its subsidiaries Aletti Fiduciaria and Aletti Trust, this department was reorganised as follows:

- establishing an office within the department known as “Supervision of Delegated Activities and Audits”, which is responsible for first-and second-level audit controls as well as for the audits related to delegated activities;
- renaming the department “Operations Coordination”, and assigning it, among other duties, the audit activities pursuant to Legislative Decree no. 231/07 for Banca Aletti and its subsidiaries Aletti Fiduciaria and Aletti Trust.

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

	Workforce	%.	Employees	%	Seconded In	%	Seconded Out	%
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
31/12/2012	445	2.5	440	3.2	38	(17.3)	33	(13.1)

and certain statistics of a general nature:

	2010	%	2011	%	2012	%
Grades						
Area 2	2	0.4	1	0.2	1	0.2
Area 3 – grades 1 and 2	56	13	62	14.3	59	13.3
Area 3 – grades 3 and 4	50	11.6	52	12	62	13.9
Managers – levels 1 and 2	106	24.7	102	23.5	103	23.2
Managers – levels 3 and 4	192	44.7	193	44.5	196	44
Executives	24	5.6	24	5.5	24	5.4
	430		434		445	
Gender						
M	275	64	271	62.4	271	60.9
F	155	36	163	37.6	174	39.1
Education						
University degree	234	54.4	242	55.7	248	55.7
High school diploma	190	44.2	187	43.1	190	42.7
Other	6	1.4	5	1.2	7	1.6
Average age	41 Y 1 M		41 Y 7 M		42 Y 3 M	
Average seniority	5 Y 2 M		5 Y 9 M		6 Y 2 M	

Selection, Recruitment and HR Management

Approximately 300 CVs were received during the year.

30 recruitments were arranged, 27 of which involving personnel from Group companies.

There were 16 terminations, 9 of which involving personnel from Group Companies.

Also during the year, 27 employees were seconded in from the Group, 29 secondments were terminated, whilst 8 were seconded out to Group companies and 15 were terminated.

During the year 26 transfers/changes were arranged within the Bank and new responsibilities assigned to 10 colleagues.

Recourse was made to temporary work contracts during the year to cover staff absences, temporary office support needs or needs arising from reorganisations.

Hence, 13 new temp contracts were arranged, whilst 1 temporary agency employee was hired under an employment contract.

At 31 December the number of temporary employees was 3.

During the year a total of 10 new work experience and orientation schemes were implemented.

Training

Particular attention was given in 2012 to planning training initiatives designed to raise employee awareness of specific issues such as anti-money laundering, market abuse, administrative liability of companies, workplace safety and business continuity.

This training involved a total of 393 resources for a total of 578 training days.

Additional attention was given to refresher courses for employees related to insurance product placement, which involved 98 resources for a total of 196 training days.

The initiative launched in 2011 with SDA Bocconi continued during the year, addressing the issues of the business crisis and financial solutions for its recovery. The "Pricorp" training programme was also important during the year, aimed at the Private Network, and related to the creation of greater synergies between the Private and Corporate segments.

These programmes involved 116 resources for 232 training days and 105 resources for 105 training days, respectively.

A specific investment was made in junior employees recently hired as private bankers, who took part in a training programme lasting 15 days and covered topics such as financial analysis tools and logic, tax planning, commercial development and the work methodology. This project involved a total of 12 resources for 180 training days.

The need for a more thorough handling of very specific issues was met by the participation of certain employees in courses delivered by external organisations whilst, for cross-company needs, courses included in the internal "training catalogue" were reconfirmed, particularly in terms of language skills, with the completion of courses that began at the end of 2011. These initiatives involved a total of 131 resources for a total of 409 training days.

With the agreement of Group Human Resources Management and through collaboration with specialised external companies, managerial development meetings were held for managers in the Private Area regarding skills coaching, for a total of 7 resources over 28 training days.

Finally, for certain topics, distance learning tools were used (web-based courses on Administrative Liability of Banks, Anti-Money Laundering, Privacy, and Workplace Safety, the Payment Service Directive and MiFID), which involved 452 resources for a total of 4,700 hours.

Relations with Trade Unions

During 2012, meetings with trade union representatives took place as part of Group meetings with union delegations on matters under their competence.

Internal Audit

Internal auditing in Banca Aletti is delegated to the Group Audit Department of Banco Popolare. As part of the related organisational structure, the Finance 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 Banco Popolare 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 Banco Popolare Audit Department manages for Banca Aletti the reporting and compliance with the Banco Popolare Internal Control and Risk Committee and to the Surveillance Body pursuant to Legislative Decree no. 231/01, through activating periodic control and audit procedures on its related protocols. Recently, the Audit Department also took on internal auditing activities according to the provisions of the "New prudential supervisory instructions for banks" (Bank of Italy Circular no. 263 of 27 December 2006 and subsequent amendments).

Compliance

The Banco Popolare Group places great importance on 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.

In 2012, the compliance units were consolidated under the Risk Department. Specifically, beginning in March, the role of Compliance Manager was taken on by the Compliance Division Manager, who reports directly to the Chief Risk Officer.

The Compliance Division continued the support measures began in 2011 by integrating it with:

- the offices already responsible for 2nd level controls with regards to transparency and usury prevention, as well as remote audits on investment services;
- the pre-existing Anti-Money Laundering Department.

With the aim of increasing efficiency and effectiveness, initiatives to centralise the pre-existing compliance units of SGR Aletti Gestielle into the compliance units of the parent company continued during 2012, and the Collective Management and Trust Services Compliance Department was established, reporting to the Compliance Manager.

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 Division was particularly important in the following activities:

- strengthening and refining the control methodologies and reporting of the risk exposure for non-compliance;
- second-level assessment and controls for the rendering of investment services according to the MiFID directives. During 2012, along with directed measures already taken through the use of indices of potential anomalies, audit activities were developed for central processes, with particular reference to processes associated with providing advisory services;
- second-level assessments and controls for the rendering of banking services, with specific reference to carrying out audits on central processes associated with transparency and usury prevention;
- continued participation in activities to better implement the provisions of Legislative Decree no. 231/2007 and subsequent amendments in the business regulations; as part of these efforts, the Anti-Money Laundering Department, within the Compliance Division, focused on strengthening second-level controls for the prevention of money laundering risks, specifically enhancing the area of remote audits;
- continued participation in activities to strengthen risk management in relation to market abuse and confidential information;
- validation of auditing activities for the Order Execution and Transmission Policy, carried out by the Risk Management Department, for 2010 and 2011;
- participation in the project to expand the use of derivatives in portfolio management Banca Aletti and preparation of a specific request to Consob on the matter;
- providing training to the operating units of Banca Aletti and the Group on issues on specific topics (e.g., market abuse, managing confidential information);
- 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 the complaint handling process is managed by the Parent Company's Customer Care Department.

During 2012, a service agreement was signed with the Audit Department, in which the Audit Department will perform the auditing activities, on behalf of the Compliance Division, based on a shared checklist and following a shared planning process.

Marketing

Banca Aletti's Marketing Department develops and manages the tools and activities to support the commercial network, in accordance with Group objectives and based on guidelines defined by the Bank's Commercial Division. These tools and activities are aimed at acquiring new customers and retaining existing customers as well as promoting and enhancing the company's image.

Its main activities cover External Relations, Operations Marketing, Communication Tools, Internal Communications and Media Relations.

External Relations

In 2012 External Relations organised and managed approximately 60 different events for both institutional and private customers, in collaboration with Local Banks. Specifically, there were exclusive visits to the artistic treasures of the cities in which our units operate and golf and sailing events. For institutional customers, sector trade shows were organised and managed with stands presenting our products and services.

Operations Marketing

Management of Operations Marketing activities in terms of analytical and strategic marketing.

Continual analysis and monitoring of Market Shares for the segments served, with specific reference to Private and Institutional quotes; timely reporting to the Commercial Division and the network.

Analysis and monitoring of CRM (data input, quality control, data extraction, etc.) to support commercial activities, in collaboration with units of the Commercial Division.

Communication Tools

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, brochures regarding Wealth Management and Investment Advisory services were developed in 2012 to complete the set of communication tools. A demo of Wealth Management

services was also designed to support the commercial network.

The re-styling of the Aletti Inside newsletter was completed, as was the 2012 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, two new communication tools were created for the Certificate area, known as “Multipremium Certificate” and “Target Cedola Certificate”, in addition to its traditional newsletter, “Il punto sui Mercati” [Market Perspectives]. As regards on-line communications, the institutional site “alettibank.it” and the product site “aletticertificate.it” continued to be monitored and updated by SGS BP.

Internal Communications

The publishing of Aletti News continued, an internal communication tool e-mailed to all colleagues as a quick, regular information update.

Several internal presentations were created.

Media Relations

External communications are managed through the Group Press Office.

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

Articles, mostly 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

The rationalisation of the investment lines were completed in February 2012, according to plan. Following the production release of the necessary application modules, transactions in financial derivatives were launched, which was formalised with the inclusion of certain euro option management lines listed on regulated markets. Activities to allow account managers to carry out repurchase transactions in foreign currencies were completed during the year. As a result, application enhancements were made with the release of the related module. The launch of these transactions is dependent on the amendment of customer contracts, which is expected to be completed in the first quarter of 2013.

To support commercial growth, adjustments were made to systems and organisational procedures to expand the use of external depositories for institutional asset management. As regards the Advisory Desk (advanced consultancy for key customers), application enhancements were aimed at optimising efficiency for the platform in use, with the goal of continual improvement in customer service, particularly in terms of the timing of information and advice sent as part of the service. These enhancements were carried out in compliance with regulatory changes and with a specific focus on containing operational risk. With the agreement of the Group units responsible for application development, work on enhancing the calculation for performance of portfolios from the “balances” model to the “movements” model was suspended, but will be taken up again in 2013.

“Private” Customer Division

Having completed the testing period on the pilot units, the new application developed for the advanced portfolio advisory service was extended throughout the Bank’s Private Network at the beginning of the year. The adoption of a project approach based on continual interaction with private bankers provided excellent results: several versions were released into production, contributing to the strengthening of the platform, which is set at the industry’s highest standards.

The service provided through the use of the dedicated platform is primarily characterised by:

- daily control of portfolio risk through quantitative indicators;
- adoption of model portfolios that entail the Bank’s view of the market, as a result of using a proprietary model to optimise asset allocation;
- the possibility of thoroughly analysing thousands of financial instruments and products in a manner that is entirely consistent with the open architecture model adopted by the Bank;
- integration with the key operating procedures.

Structured Products Division

During the year, activities to refine the Risque application (developed by Sophis) continued, aimed at managing new products and/or introducing supervisory regulations and requirements, combining greater efficiency with continuously more incisive management of operational risk resulting from certain manual operations in the data entry process. Some of the releases this year include:

- automatic price management of the new “Target Cedola” certificate;
- automatic sending of predetermined bases for Securities Lending transactions between the Equity Structured Products Desk and the Securities Lending Desk;
- implementation of Risque patch 5.3.5.27 in preparation for automation of certain “uploaders” in use by the Equity Derivatives Desk to manage “market parameters”;

- automatic management of “hard and soft fees”;
- automatic accounting management of certificate commitments and covered warrants.
- completion of the automatic integration between Risque and the Finance Department with the inclusion of Certificates, Covered Warrants and Funds.

Trading & Brokerage Division

This area has implemented the new “Millenium” market platform of Borsa Italiana. While migrating to the new platform, the Sphera platform connection to domestic markets was activated. This activity made the order collection flow more efficient, both from interrelated institutional customers and asset managers, for which the “Care Order” module was also introduced.

As part of the continuous search for new business (encompassing new customers, products and markets), several different application enhancements were made:

- modifications made during the year to stabilise the connections to various financial markets as well as continual improvement for the applications in use;
- activation, at the end of September, of the connection to the Equiduct market to ensure, to all Banco Popolare Group customers, dynamic “best execution” service on domestic equity securities listed on various markets;
- activation of the link to the BrokerTec circuit (reference platform for trading in global bond markets), which ensures efficiency and transparency for order forwarded electronically from all market participants;
- development of a direct link with the Cedacri Service Centre (completed at the end of the year) that offers better service to existing, non-captive customers as well as prospective customers.

Finally, note the passage from JPMorgan to HSBC for derivative transactions listed on regulated external markets, following the lower rates applied by the new Broker.

Aletti Fiduciaria

Despite the persistent climate of uncertainty, Aletti Fiduciaria S.p.A. confirmed once again in 2012 that it is a leading Italian trust company, with administered deposits of 2 billion euro for 1,700 customers and more than 2000 existing relationships. The reference economic scenario for the sector reflects, firstly, the effect of the “scudo fiscale”, that resulted in a reduction of administered deposits following a change in the placement within the system of repatriated financial resources. In addition, the legislature issued new regulations that directly affected the trust sector, including the introduction of the stamp duty, which induced some customers to renounce their right to confidentiality, and resulted, in the majority of cases, in the termination of the trust relationship.

Against this backdrop, the company closed the year with essentially the same volume as the prior year, posting a decline on the order of 4%.

The new legislation resulted in changes to the electronic management procedure, Softrust3, by Unione Fiduciaria, that were immediately carried out, together with other changes associated with refining the procedure’s functionality.

The support provided by the company to Banca Aletti’s Private Network, the networks of Banco Popolare and Creberg and to the “Pri-Corp” project was significant, allowing the continued development and consolidation of Aletti Fiduciaria S.p.A.’s role as qualified professional in providing trust services to the Group’s private and corporate customers.

Aletti Trust

The year just ended was characterised by two principal actions, which the company conducted in synergy: the redefinition of the organisational structure and the renewal of commercial growth.

The company has completed a series of actions to define the new organisational structure, with specific attention to allocating certain activities to outsourcing, while ensuring the parent company Banca Aletti’s network has constant, qualified assistance in protecting and transmitting assets.

As regards electronic procedures, Aletti Trust implemented the Softrust3 management application, currently being reconfigured in light of a series of customisations requested by both the company and the outsourcers involved in the business processes. These customisations will be released by the end of the first quarter of 2013.

Research and Development

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

Privacy Protection

Italian Law Decree no. 5 of 9 February 2012, containing “Urgent simplification and growth provisions”, published in the Official Gazette no. 33 of 9 February 2012, converted into Law no. 35/2012, enacted certain simplifications regarding the handling of personal data. Specifically, the main innovation is the express repeal of the paragraphs from 19 to 19.8 and 26 of Annex B of the Privacy Code, as well as paragraph g), subsection 1 and subsection 1) bis of art. 34 of the Code, resulting in the repeal of the requirement to draft and update the Security Policy Document by 31 March of each year.

However, this legislative repeal does not in any way imply the exemption, for the owner of the data handling process, from the requirement to observe the minimum security measures provided for in Section II, art. 33 and subsequent of the Code.

EVENTS AFTER THE FINANCIAL STATEMENTS DATE

Sale of all ordinary shares in Unipol Gruppo Finanziario S.p.A. classified as at 31 December 2012 as “Available-for-sale financial assets”

As at 31 December 2012, 1,925,577 ordinary shares of Unipol Gruppo Finanziario S.p.A remained on the balance sheet, purchased at a price of 2.00 euro per share following guarantee commitments, assumed within the Underwriting Syndicate, as part of the increase in share capital of Fondiaria Sai and Unipol Gruppo Finanziario for the remaining unsubscribed portion. The market price for these shares at the end of the year was 1.52 euro per share, resulting in a book value of 2,927 thousand euro and a negative valuation reserve, before tax effects, of 924 thousand euro.

Note that on 25 January 2013, this position was derecognised following the sale by Banca Aletti in January through a “shared procedure” managed by Mediobanca. The sale took place at an average price of 1.9865 euro, for a total countervalue of 3,825 thousand euro. Hence, in January 2013, the valuation reserve was derecognised, with a simultaneous recognition of a net loss of 26 thousand euro in the 2013 Income Statement.

Completion of the audit by the Finance Police

On 21 February 2013, the audit carried out by the Milan tax Unit of the Finance Police was completed. For more detail on the audit results, refer to Section 13.7 “Other information” in Part B - Balance Sheet data in the Notes to the Financial Statements.

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 2012 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 2012 with global AUM (administered and managed assets) of 13.6 billion euro.

This year was characterised by the substantial maintenance of the earnings margin in the private segment (at the Group level), compared to the previous year. This result should be considered within the context of the situation in financial markets, which displayed various criticalities that have been ongoing for several quarters.

The continuous volatility in equity markets - marked by differentiated performance in the primary global markets - and recurring tensions about several sovereign debt situations in the Eurozone, which was particularly intense in the first half of the year, led many customers to maintain defensive positions, while taking advantage of selective restructuring opportunities for diversified portfolios.

The decisive action by the Italian banking system to attract direct deposits continued to attract short-term investments, despite the considerable drop in the interbank monetary rate.

Despite the combination of factors described above, performance in asset management, whose growth trend was interrupted in the second half of 2011, showed a positive change in the first part of the year and an increasing consolidation in the second half.

The year was also characterised by contraction in financial availability due to the continued stagnation in the real economy and lower credit availability. As a result of these factors, banking assets were used to finance business or real estate investments. As such, the actions aimed at increasing AUM in the medium-term and expanding the customer base partially offset the aforementioned negative influences.

The cross selling private-corporate project, "Pri-Corp", is now in its sixth year, with fully synchronised cooperation with the Corporate Network. The results show constant and continual growth: since the launch of the project (2006) 3.7 billion euro have been raised, 290 million euro of which in 2012.

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 2012).

A specific shared training course designed for the Group's entire Private and Corporate Network continued during the year, following the re-launch of Pri-Corp activities in 2011.

At the end of 2012, the Banca Aletti network comprised 8 Area Offices, 35 Units and 185 Private Bankers.

Investment Management

The global economic situation remained weak (estimated average growth in 2012 of 3%), with the Eurozone in recession, modest growth in the U.S. and growth slightly above 5% for emerging countries. Initial growth estimates were subsequently lowered on numerous occasions. However, in the second half of the year there was an increase in confidence, due to positive news regarding the risks and unknowns that had been the most critical to investors during the year: the European financial crisis (giving rise to a recession in the real economy), the slowdown in the Chinese economy, and the American "fiscal cliff". In fact, considerable progress was made in the Eurozone toward greater economic and financial integration (firm statements made by the ECB, beginning of the European Stability Mechanism (ESM), agreement on banking unification and a centralised supervisory body and the new Greek bailout). Growth forecasts improved for the Chinese economy, due to economic programmes introduced by the new Authorities. In the U.S., the last-minute agreement reached in Congress meant that a probable immediate recession was avoided, however, questions remained unanswered regarding public expenditures and the debt ceiling. The actions taken by the principal central banks with non-conventional instruments had a decisive impact in reducing investors' risk aversion. In addition to the QE3 programme (40 billion US dollars of purchases each month of MBS securities, linked to mortgages) the Federal Reserve introduced a programme to purchase 45 billion US dollars per month of medium- to long-term Treasury securities, after the conclusion of the "Operation Twist" programme (rolling of maturities of portfolio securities). In July the ECB announced that it "ready to do everything it takes to save the euro", a statement that was subsequently formalised in the OMT programme (conditioned and unlimited purchases of Government Securities). The Bank of Japan launched numerous expansionary measures.

Lower risk aversion brought about positive performance in equity markets. The MSCI World Index in US dollars posted a 13% increase in 2012, consistent with the S&P 500 Index and the Euro Stoxx 50. Performance was even better than the global indices for the German DAX Index (+29%) and the Japanese TOPIX (+18%, but slightly more than 3% when converted to euro). The Spanish IBEX Index posted negative performance (-4.7%), while the Italian FTSEMIB Index closed the year up 9%. The MCSI Index for emerging countries in local currencies posted positive results of 14%.

In the bond market, the global JPM GBI Global Unhedged showed results of -0.3% in euro, but +4% in local currencies.

Yields on both U.S. and German government securities were down in the first part of 2012. Government securities of peripheral European countries showed a considerable decline, bringing the spread between 10-year Italian and German securities to more than 500 bps at the beginning of the year, but finishing the year at values around 300 bps. The narrowing of the yield differential on securities issued by emerging countries and governments securities in dollars was also significant (-270 bps).

In reference to the foreign exchange market, note that the yen declined against both the euro and the U.S. dollar, a change which was emphasised with the change in the government and the victory for the liberal democratic party, who are determined to increase inflation rates and return Japan to competitiveness by weakening the currency and pursuing a monetary policy of nominal interest rates at zero. The euro/dollar exchange rate saw a succession of strong and weak periods over the course of the year, closing the year with an appreciation of 1.7% over the U.S. dollar.

In this climate of higher uncertainty, portfolio management activities were guided by principles of prudence and careful strategic control of the various asset classes. Currency diversification was used as a hedge on the portfolio. The positioning of Securities on Italian debt had a positive effect on performance. Overall, the management lines closed the year with performance that was either essentially equal to or greater than the reference parameters. Total return on managed products showed positive results, around +5% on average.

As at 31 December 2012, AUM was 12,400 million euro, up 11% compared to 2011 volumes. Net deposits were positive for the institutional segment.

With regard to internal service activities, actions inherent in the project for the use of derivatives in asset management continued, resulting in the first application of options quoted in euro in certain management lines. Activities also continued in relation to currency forward transactions in individual management.

The Advisory Desk service, for direct and accredited Private customers, in collaboration with the commercial network, was able to slightly increase its AUM, despite the uncertainty in the market. As at 31 December 2012, 100 contracts are active, with a countervalue of 241 million euro (+3.5% compared to 31 December 2011). The growth and optimisation of procedures for internal service activities continued, with particular attention to changes in the regulatory context.

Investment Banking

Derivatives and Structured Products - Financial Engineering

The dominant theme in 2012 was the progressive recovery of credit risk on government securities of peripheral countries. ECB policies, especially the exceptional measures to encourage funding in the financial system (LTRO), and the actions of individual countries reduced the yields on “peripheral” government securities to less extreme levels from an historical standpoint, and the liquidity injected in the system by the central bank led to a sharp decrease in monetary and swap rates. For example, the 5-year IRS rate went from 1.70% in January 2012 to 0.80% in December. Note that swap rates are considered risk free in that they are typically guaranteed by collateral. Both the Euro market monetary rates (Eonia and Euribor) as well as short-term swap rates are at levels well below the discount rate, evidence of the amount of additional liquidity that the ECB transactions added to the interbank system.

The depth of the principal markets, both regulated and OTC, improved in comparison to the last months of 2011, particularly for plain vanilla products. Risk reduction policies that the primary banks have undertaken have led to a preference for transactions in simpler, more available instruments rather than more exotic products.

As regards cash flows, forecasts of low interest rates in 2012 decreased customers’ interest in hedging products, with volumes dropping from 3 billion euro to 1.4 billion, and sale of investment products (bond issues and insurance policies) fell from 10 billion euro to 5.7 billion.

After a first half characterised by greater uncertainty and absolute minimums for the year, in the second half of June, equity markets reversed their trend, and the second half of the year saw a marked growth, posting peak levels in the last days of the year. In the derivatives market, after a first half in which the effects were seen through the drastic reduction in liquidity, making it difficult to hedge risk positions in portfolios, the situation slowly returned to more normal levels, making both risk hedging activities and finding opportunities linked to the assumption of risk positions in the spot market and volatility and correlation positions easier, though still limited to more liquid underlyings.

Product structuring activities associated with the equity market saw, on the one hand, an expansion in the range of products with new certificates for retail and private customers, and on the other, a funding spread consistent with bond loans in these types of products. For these reasons, demand for products linked to equity markets showed a notable increase over the previous year.

Market making on the regulated IDEM and SEDEX markets also showed a considerable increase over the prior year.

However, demand for exchange rate risk hedging products from corporate customers was stable.

As regards development and improvement of pricing models for equity and hybrid transactions, the key activities in 2012 were the theoretical design and implementation of a new proprietary pricing model that is particularly advanced and flexible. This pricing model, in the medium-term, will constitute the single risk management tool for this category of financial instruments and will make use of dedicated grid computing technology. At the same time, for modelling of the effect of options on both equity derivatives and exchange rates, theories were developed and an innovative approach was taken, in line with the market’s most recent best practices.

As regards interest rate derivative transactions, important enhancements were made on the pricing models for instruments on inflation and on CMS indices, and mechanisms to automate daily transactions for calibrating the pricing models were integrated into the position keeping system.

In addition, in the second half, a complex project to develop a new quotation and control system for market data related to interest rate options was launched, which aims to optimise risk management in the current financial context, according to the most recent theoretical developments used in market practices.

Finally, in the last quarter of 2012, the procedures for updating the Bank’s position keeping system were initiated, which resulted in the necessity to revise and update the software for the proprietary pricing models developed by the Financial Engineering department.

Trading & Brokerage

The year just closed was full of events that greatly influenced the choices of international investors and, thus, movements in financial markets.

The difficulties of European countries in identifying shared solutions to combat the credibility crisis that affected the entire area, the recessionary phase that gripped the majority of European countries and the “fiscal cliff” risk that weighed over the American economy have made the activities of portfolio managers much more difficult.

Our preference to invest mainly in European markets meant that our attention was focused on changes in the European situation. An initial improvement in the overall scenario at the beginning of the year, which led to a reduction in yields for “peripheral” countries and an improvement in listings for the principal equity markets, was then reversed by a crisis that deepened in June and July, with investors “fleeing from” securities of these countries that were considered at a higher risk of default.

The decision taken by the European Central Bank (OMT) and the more convinced and cohesive attitude by European leaders brought about, in a relatively brief time, a recovery in credibility of government securities, bringing back part of the investments that had drained out in the preceding months. There was a decided recovery in the value of public debt securities for countries that had been most affected by the crisis, which led to a sharp reduction in yields on debt and improving the listing of securities in those countries’ equity markets.

These changes in the market meant that traders had to adopt investment strategies characterised by frequent changes in stocks, portfolio durations and asset compositions.

As a result of these strategies, the financial performance, particularly in the bond department, was extremely satisfying.

Bond markets

Despite the serious crisis across Europe in the middle of the year, Italian investors, both institutional and private, continually maintained domestic government securities even in the periods of greatest uncertainty. Acquisitions by customers in the most critical phases were primarily concentrated on the short-term portion of the curve, with a gradual lengthening of maturities at the first signs of improvement in the overall scenario.

Activities in corporate/financial securities suffered as a result of the situation, with a decline in volumes traded both in the primary and secondary markets. Extremely generous yields offered on peripheral government securities attracted investors that normally purchased corporate securities, weakening demand for these types of issuers. In the last part of the year, the reduction in yields on government securities saw a return of investors to the corporate segment who were seeking coupon flows that were more attractive than public debt paper.

Equity markets

Markets were characterised by greater volatility during the year, necessitating a more cautious approach in trading strategies and a gradual reduction in market exposure. This led to index-related and market-neutral strategies (Basket Trading on the Ibex35 and cash strategies vs. single stock futures on IDEM, MTA, SIBE and Eurex markets).

Securities Lending showed a notable increase over the prior year. The average countervalue of loans was around 1.5 billion euro, in large part for bond securities transactions. There was higher demand compared to the previous year for non-government securities that offered higher fees than public debt securities.

Brokerage

Investment choices made by our customers were in line with those of the majority of Italian investors. The contraction of volumes in the equities segment was counterbalanced by a decided increase in bond securities. The drop, in percentage terms, of trading on an annual basis in the former segment was more contained than that of the overall Market, while growth in the bond department was double that of the increase in the MOT.

Thus, despite a decline in traded volumes, we achieved higher market share on both the MTA (3.35% compared to 3.23% in the previous year) and the MOT (3.45% over 2.05% in the previous year).

Capital Markets

Equity Capital Markets

The continued difficult situation in financial markets gave rise to only one new listing on the MTA in 2012. There were, however, 14 share capital increases against payment and 6 takeover bids.

Banca Aletti participated in placement and guarantee consortiums related to the Brunello Cucinelli SpA and SEA SpA public offerings (the latter withdrawn due to insufficient demand), guarantee consortiums for share capital increases by Unicredit SpA (beginning in December 2011), Fondiaria SAI and Unipol Gruppo Finanziario SpA, as well as tender offers on shares of Gruppo Minerali Maffei SpA (in this case in the role of Financial Advisor and Intermediary appointed for coordinating the collection of subscriptions), Benetton SpA and Buongiorno SpA.

In light of the guarantee commitments assumed in the Fondiaria SAI and Unipol Gruppo Finanziario SpA (UGF) share capital increases, Banca Aletti subscribed to 3,553,835 Fondiaria SAI ordinary shares, 2,093,551 UGF ordinary shares and 2,195,510 UGF preferred shares on 13 September. Over the subsequent months, all the Fondiaria SAI ordinary shares and UGF preferred shares were sold, as well as 167,974 UGF ordinary shares, at prices that were not lower than the subscription price. The residual position as at 31 December 2012 was 1,925,577 UGF ordinary shares.

In July, Banca Aletti performed the role of Intermediary appointed for the scrip issue of FNM SpA and, in September, it was responsible for the share grouping of KR Energy SpA.

In October, Banca Aletti acquired the mandate of Intermediary appointed for coordinating the collection of subscriptions to the voluntary tender offer on RCF SpA shares, which began in December and is expected to close in the first quarter of 2013.

Debt Capital Markets

In the first half of 2012, Banca Aletti participated, as Co-Arranger, in the structuring of the securitisation of commercial loans of Agos Ducato S.p.A., for a total amount of 5 billion euro. The transaction was completed in July, with the issue of AAA-rated securities, subscribed by Agos Ducato, with the goal of using them for refinancing transactions with the ECB.

In February, Banca Aletti participated, as Dealer Manager, in the Tier 1 and Tier 2 bond buy-back transaction carried out by Banco Popolare Group for a total of 4 billion euro.

In September, the Bank participated as Co-Manager, in Buzzi Unicem's bond issue aimed at institutional investors.

Additionally, over the course of the year, Banca Aletti participated in the following bond placements for retail customers:

- public subscription offering of the fixed and floating rate bonds ENEL 2012-2018 for a total of 3 billion euro;
- public subscription offering of the fixed rate bonds ATLANTIA 2012-2018 for a total of 1 billion euro;

Equity Research

With higher levels of volatility in markets and asset classes due to both economic and political factors, research activities in 2012 were concentrated in developing hedges, which had begun in the previous year, and in further expanding the range of covered securities. In addition, the number of counterparties continued to be stabilised. 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

Distribution strategies and structuring and placement activities for investment products in the Group led to certain changes with respect to the trends that characterised 2010 and 2011, mainly the notable reduction in volumes issued by Banco Popolare and the focus on the placement "window" of collective asset management products.

Another new element was the considerable increase in certificates volumes, which nearly tripled compared to 2011, due to product placement, for the most part with protected capital.

Furthermore, placement of third-party bond issues continued successfully, which involved exclusively Italian bank issuers that offered more opportunities, in comparison to their European peers, following the continued higher levels of funding costs that were seen for most of the year.

As regards Bancassurance products, unit-linked policies were structured, for which Banca Aletti played the dual role of arranger and financial manager.

As regards interest rate risk hedging products, the Covered Warrant Euribor Cap offered to customers with floating rate mortgages experienced a slowdown during the year, due to, in particular, the drop in loan volumes and the gradual reduction of short-term interest rates over the year.

Asset management continued its trend of disinvestment in the retail segment.

Institutional Sales

As regards commercial activities for “non-captive” customers, the sovereign debt crisis and its repercussions on financial markets led to changes in 2012, compared with 2011, in commercial strategies for the distribution networks and in the portfolio choices of institutional customers.

The use of public issues by the Italian banking system, dedicated to institutional customers, was negatively impacted by debt tensions.

Banca Aletti participated as lead manager in the public buy-back of subordinated Tier 1 and Tier 2 securities of Banco Popolare Group launched in February.

Bond trading on the secondary market was assisted by certain market dynamics becoming drawn out, and led many institutional investors to reposition toward this asset class.

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, transactions were begun with two new customers and two intermediaries activated the link with Banca Aletti.

With respect to commercial activity carried out through the distribution networks outside the Group, the preference for direct deposit products and insurance content, as well as the elevated risk aversion, customers to prefer guaranteed capital products and translated into a drop in Certificates volume and asset management products (negative net deposits).

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 a new placer. However, volumes were down as a result of difficulties with customer loans in the banking sector.

Large Corporate Sales

In 2012, following the continued decline in the Euro interest rate curve, customers in the Large Corporate Sales Department maintained a high percentage of hedges on their medium/long-term financial liabilities. Interest rate risk management transactions were undertaken on almost all new disbursements and on the residual portion of loans stipulated in previous years. The instruments used continued to be predominantly plain vanilla, effective hedging products: corporations favoured interest rate swaps, in some cases, as a replacement for cap transactions made in the past.

Particular attention was paid to exchange rate risk exposures, considering the swings in the Euro with respect to other major currencies. In the first half, and consistent with the gradual depreciation of the Euro, hedges by companies exporting to US Dollar areas intensified, while in the latter half of the year, with the return to a Euro/Dollar exchange above 1.30, hedging was mainly performed by importers. The instruments used were mostly simple forward and flexible forward transactions or structured, plain vanilla options.

BUSINESS OUTLOOK

2012 closed on a generally positive note in European and international financial markets that did not, however, dismiss concerns about the overall slowdown in global growth or minimise the recessive phase in Europe. For 2013, forecasts show growth in global GDP on the order of 3%, in virtue of the signs of slowdown in the Chinese economy trailing off, a renewed impetus in emerging countries and potential support from Eurozone economic policies where, after an essentially stagnant first half, the first signs of recovery could begin to appear in the third quarter of 2013.

In Italy, the improved outlook of financial markets will not be sufficient to return to a positive phase in the economic cycle, which is still heavily affected by excessive public debt and efforts for its reabsorption. Only in the summer will signs of improvement in internal demand begin to be seen, in particular in business investments, along with exports, which will support GDP, however, without generating a significant improvement in the labour market. Inflation is expected to remain under control.

This scenario will directly reflect on trends in loan demand from the private sector and only in the last months of the year will slightly positive trends in macroeconomic conditions translate into less financial instability for households, a modest recovery in investments and a minor increase in demand for short-term loans from businesses to finance working capital.

The credit quality of banks' portfolios will continue to suffer a deterioration: non-performing loans, though improving slightly compared to the recent past, will continue to grow at high levels. In terms of deposits, it is expected that the process of recomposition in retail customers' financial assets will continue toward banking instruments at fixed maturities, which are more profitable.

Therefore, the scenario described does not indicate particularly favourable conditions for banking. In 2013, pressure on the interest rate spread and the modest increase in loans disbursed will not allow for an increase in the interest margin. As regards the service margin, the low level of household savings means that there will not yet be a significant improvement in managed and administered assets and related commission incomes, while difficulties, in terms of annual average, for entrepreneurial activities will limit revenues for commercial flows from businesses.

Hence, once again, banking profitability must hinge on attention to risk control, particularly credit risk, and containment of operating costs.

In this context, the Group based its actions for 2013 on pursuing a strategy of lightening its large corporate positions and of deposits, toward greater focus on household and small business customers, the traditional targets of our brokerage activities. Attention to operating costs will continue, both in terms of administrative and personnel costs, which could benefit from the optimisation of the organisation, economic benefits associated with leaving incentives and continued activities to move resources from central offices to branches.

In addition, a series of initiatives are envisaged to strengthen assessments for granting loans that, due to a drop in problem loans, would result in containment of loan costs incurred in 2012.

UNAVAILABLE PROFIT RESERVE PURSUANT TO ART. 6 OF LEGISLATIVE DECREE NO. 38 OF 28 FEBRUARY 2005

Based on the provisions of art. 6, subsection 1, paragraph a) and subsection 2 of the aforementioned legislation, the portion of the year's profit corresponding to unrealised gains, net of related taxes, recognised in the income statement as a result of their fair value assessment, cannot be distributed and must be recognised as an unavailable equity reserve. The article expressly excludes the following cases:

- Gains recognised in the income statement as a result of the fair value measurement of financial trading instruments;
- Gains recognised in the income statement associated with exchange rate and hedging transactions.

In particular, note that Banca Aletti includes in its financial statements only financial assets for which it has activated the fair value option rule, which are recognised in item 30 of assets.

Furthermore, in 2012, the valuation of financial assets held at fair value resulted in the recognition of a loss in the income statement and, therefore, no portion of the profit for the year was allocated to the unavailable reserve as at 31 December 2012. The same situation applied as at 31 December 2011.

PROFIT ALLOCATION PROPOSAL

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

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

<i>(in thousands of euro)</i>	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	374,734.19	488,093.50
Valuation reserves	(703.35)	(703.35)
Total Shareholders' Equity	592,017.30	705,376.61

Chairman of the Board of Directors

Vittorio Coda



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

1. The undersigned, Vittorio Coda, as Chairman of the Board of Directors of Banca Aletti S.p.A., and Roberto Gori, as Manager responsible for the preparation of corporate accounting documents of Banca Aletti S.p.A., hereby certify, also 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 the characteristics of the company and
- the effective application

of administrative and accounting procedures in preparing the Financial Statements as at 31 December 2012.

2. The assessment of the adequacy and effective application of the administrative and accounting procedures in preparing the Financial Statements as at 31 December 2012 was based on an internal model defined by Banca Aletti S.p.A., developed on the basis of that drawn up 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 as at 31 December 2012:

- 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) comply with the results of the accounting books and accounting records;
- c) are suitable for providing a true and fair 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.

Milan, 6 March 2013

Vittorio Coda
Chairman of the Board of Directors

Roberto Gori
Manager responsible for the preparation
of corporate accounting documents





STATUTORY AUDITORS' REPORT

STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012

Dear Shareholders,

The separate financial statements as at 31 December 2012, including the *Notes to the financial statements* and *Report on Operations*, were approved by the Board of Directors on 6 March 2013 and made available to the Board of Statutory Auditors on that same date, in accordance with the law.

The Board of Statutory Auditors makes reference to supervisory activities provided for by law (and, in particular, art. 149 of the Consolidated Law on Finance and Legislative Decree no. 58 of 24 February 1998), standards of conduct of boards of statutory auditors recommended by the Italian Accounting Profession and by CONSOB regulations.

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 2012 are therefore accompanied by the Independent Auditors' Report pursuant to arts. 14 and 16 of Legislative Decree 39/2010, after having completed the relevant audit tasks.

During 2012, Board of Statutory Auditors, appointed by the Shareholders' Assembly on 19 April 2012 for the period 2012-2014, performed its activities and, as proscribed by law, participated in 1 Shareholders' Meeting and in the 19 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 relationships among the various economic entities belonging to the Banco Popolare Group aspire to centrality standards, as regards fundamental governance, control and management activities and assistance in legal, economic and organisational assistance.

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, based on available information, 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 Bank. 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.

The Board has acknowledged the communication of the Formal Written Notice and Tax Assessment Processes, which report the presence of existing and potential disputes, including for significant amounts, for which appropriate disclosure is provided in the *Report on Operations* and the *Notes to the Financial Statements*.

02. The Board of Statutory Auditors has not encountered, nor has it received indications from the Independent Auditors or the Group *Audit or Compliance* Departments of, atypical or unusual transactions, either with third parties or Group companies.

Infragroup and related party transactions were specifically reviewed by the Administrative Body based on the specific internal regulation.

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. 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.

Note that, in the *Report on Operations*, the Administrative Body specified that in 2012 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, and 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, that could be considered as "influenced" by the Parent Company.

In the *Notes to the Financial Statements*, the related 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.

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 through specific reports that are submitted to the Board of Directors twice a year.

- 03.** The Board of Statutory Auditors oversaw that transactions carried out by the Bank with parties that perform 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, in accordance with the specific internal regulation.

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 Statements* regarding Infragroup and Related Party transactions to be substantially adequate.

- 04.** There were no issues or objections to the disclosure contained in the Independent Auditors' Report issued on 14 March 2013.

In accordance with the regulation introduced by art. 19, subsection 3 of Legislative Decree no. 39/2010, the Independent Auditors issued the *Report on the fundamental issues* on 14 March 2013, 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 2012, 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 reviewed the audit plan prepared by the Independent Auditors and performed the necessary supervision of their autonomy 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 as well as the communication of services not related to accounting audits provided to the Bank by the Independent Auditors and by entities belonging to its network. The declaration attests that, in the period from 1 January 2012 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 were there reports to that effect 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 2012, 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 is not aware of any facts or reports that should be referred to the Shareholders' Meeting.

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*. Specifically, complaints for 2011 were reviewed (reported in the "Compliance Department Annual Report – 2011 Group Compliance Department") and the complaints for the first half of 2012 (reported in the "Report on the overall situation of complaints on the rendering of investment services, received in the first half of 2012").

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 2012, 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 independent auditors RECONTA ERNST & YOUNG S.p.A.:

Accounting audit RECONTA ERNST & YOUNG S.p.A.	227 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)	50 thousand euro
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The amounts above are stated net of VAT and expenses.

- 08.** No other mandates were assigned to parties bound by permanent relations to the Independent Auditors.
- 09.** During 2012, 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.

During 2012, this Board of Statutory Auditors issued opinions as provided for by law, supervisory regulations and the Articles of Association, of which we note:

- opinion on compensation for directors assigned specific roles;
- opinion on the general correctness of procedures contained in the "Regulation regarding risk assets and conflicts of interest with related parties" to achieve the objectives in the instructions issued by Bank of Italy on 12 December 2011 on this matter within the banking sector.

Furthermore, the Board of Statutory Auditors issued specific opinions and assessments required by the Supervisory Authority:

- opinion on the response requested by Bank of Italy on "Risk concentration as at 30 June and 30 September 2011" of 12 December 2011, Protocol no. 0138052/11 (on 31 January 2012).

In addition the Board formulated comments expressly requested by Consob Resolution no. 17297 of 28 April 2010:

- comments on the "Annual report on compliance control activities according to art. 16 of the Joint Consob-Bank of Italy Regulation";
- comments on the "Internal Audit Annual Report in accordance with art. 14 of the Joint Consob-Bank of Italy Regulation";
- comments on the "Annual report on risk management activities in accordance with art. 13, subsection 2 of the Joint Consob-Bank of Italy Regulation";

In addition, during the year, the Board acknowledged that the Board of Directors reviewed the proper application of audit procedures to determine if there were violations of interlocking prohibitions, pursuant to art. 36 of Legislative Decree no. 201/2011, and the audit criteria and procedures to assess the independence of its members, pursuant to art. 26 of Legislative Decree no. 285/1993 and art. 14 of the Articles of Association certifying compliance with the reference regulation.

- 10.** In 2012 financial year, 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 31 meetings, broken down as follows:

- 27 meetings for regular audits,
- 3 audits of Private Branches,
- 1 meeting of the Parent Company's Board of Statutory Auditors.

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.

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.

The work that began in the previous year to make the process for identifying and reporting transactions involving suspected market abuse more coherent continued throughout this year. This activity is constantly monitored by the Board of Statutory Auditors as well as the Surveillance Body, for aspects under its responsibility, in accordance with Legislative Decree no. 231/2001.

Note that on 14 February 2013, the new General Regulation regarding Transactions involving Suspected Market Abuse was approved.

- 11.** 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.

The Report on Operations provides detail on the Bank's areas of activity, providing a breakdown of results.

During the year, the Board of Statutory Auditors evaluated the influences that the Bank's activities could have had on the organisation, particularly in relation to Trading, in terms of risk management.

- 12.** The Board of Statutory Auditors gathered information and oversaw the adequacy of the Bank's organisational structure, to the extent of its responsibilities.

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 Structures.

In addition, actions were taken to optimise the Bank's Central Structures, in order to achieve a better organisational structure and with the goal of heightening the focus on activities to safeguard against money laundering and monitoring and control. These actions included:

- establishment of an Anti-Money Laundering and Legal Department, as part of the General Affairs and Investments Division, which allowed concentration in a single unit specifically assigned responsibility for "anti-money laundering activities";
- redefinition of the Monitoring and Control Office (previously, the Delegated Activities and Audits Office) as part of the General Affairs Division, and the appointment of the Manager for the Division as the Audit Representative for the Bank and its subsidiaries, with the consequent incorporation into a single unit of the second-level lines of control and the activities of interacting with the Parent Company inherent in third-level controls (Audit);
- focusing the Operations Coordination Department on coordinating the Supervision of Delegated Activities and the specific supervision of activities delegated to Parent Company departments.

Note that the Parent Company, at the request of Bank of Italy, prepared an audit on the suitability of the organisational structure and the internal controls adopted as related to anti-money laundering and the prevention of terrorism, as well as on the functionality of audits on the A.U.I. database, submitted for information purposes to this Board of Statutory Auditors. The response to the Bank of Italy's request, with results of the activities performed, was forwarded to the

Parent Company on 28 February 2013 with the favourable opinion of the parent company's Board of Statutory Auditors and the involvement of the Parent Company's Surveillance Body, in accordance with Legislative Decree no. 231/2001.

13. 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,*
- *Operations Coordination.*

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 *Operations Coordination* Department.

There has been a significant reorganisation in the *Compliance, Anti-Money Laundering* and *Legal* Departments since last year, which were then coordinated by the Risk 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 Structures when, as outsourcer, the Bank determined there was a need for a review. Furthermore, the Board reviewed the 2012 audit plan, the half-yearly reports on activities performed in the second half of 2011 and the first half of 2012, as well as the *2011 Internal Audit Annual Report in accordance with art. 14 of the Joint Consob-Bank of Italy Regulation* in light of comments from the Bank's management submitted to the Board of Directors from which the appropriate decisions could be taken. The report for the second half of 2012 and the annual report will be completed shortly and submitted to the Board of Directors.

The Board of Statutory Auditors made an assessment of the Group's **Compliance** Department, receiving adequate support on the specific issues under their competency. In addition, as previously mentioned, the "2011 Compliance Department Annual Report" was reviewed relative to BANCA ALETTI, including both complaints (ref. point 6 above) and the 2012 Compliance activity plan.

During 2012, the Risk Department was further consolidated.

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 part of these meetings, the new Group Anti-Money Laundering Regulation was approved and the new single Group Anti-Money Laundering Manager and the new Manager for the Anti-Money Laundering and Legal Department were appointed. The latter department was created as part of Banca Aletti's organisational restructuring, as described above.

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 with the *Manager responsible for the preparation of corporate accounts* for the Bank, which is addressed below.

As discussed previously in this document, the Bank's **risk management** is governed by the Parent Company *Risk Management* Department, and the Bank is primarily exposed to:

- *market risks, counterparty risks, commercial risks, operational risks, and interest rate and liquidity 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.

Banco Popolare Group was authorised by Bank of Italy to use an internal model to measure market risks (generic and specific on equity securities, generic on debt securities and position risks on UCI units) for calculate the related capital requirement, noting that said authorisation applies also to Banca Aletti, who, through the Parent Company, provided adequate disclosure on the corrective measures taken for market risks, required by Bank of Italy.

The Board of Statutory Auditors met periodically with the **231/2001 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. 231/2001. The report, dated 18 February 2013, on activities performed in 2012:

- states that in the period under consideration there were no reports of violations of the 231/2001 Model;
- notes that training courses were offered to Bank employees on issues related to Legislative Decree no. 231/2001, designed and delivered by the Parent Company Training Institute;
- emphasises the importance of the Bank's disciplinary procedures and sanctions in reference to risk assets;
- notes that by 2013 the Bank expects to complete the process of amending the Organisation, Management and Control Model pursuant to Legislative Decree no. 231/2001.

To facilitate dataflow exchange as part of Bank and Group controls, in addition to meetings with *Audit* and

Compliance, and *Risk Management* representatives, the Group's *Anti-Money Laundering* Manager and the Bank's 231/2001 Surveillance Body, the Board of Statutory Auditors also met periodically with the Parent Company Board of Statutory Auditors, to which it related the activities performed, and had the opportunity to share information and guidelines on susceptible areas for analysis and operational improvements.

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 Monitoring and Controls Office and subsequent follow-ups were planned with the Audit Department.

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 231/2001 Surveillance Body and the Independent Auditors, with the objective of rationalising the control system and further improving operating efficiency.

14. 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 2012.

The Board of Statutory Auditors met periodically with the *Manager responsible for preparing corporate accounts*, 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*".

15. The Board of Statutory Auditors acknowledged the Bank's **investments** in:
- ALETTI FIDUCIARIA S.p.A. and ALETTI TRUST S.p.A., both 100% subsidiaries of BANCA ALETTI;
 - 25% 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.

These investments were subject to impairment tests, which resulted in a write-down in the value of the investment in Aletti Fiduciaria S.p.A., as reported in the *Notes to the Financial Statements*.

Among the activities performed in 2012, 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.

Specifically, in regards to ALETTI TRUST S.p.A., during the year under consideration, the structural reorganisation activities led by the subsidiary's management was completed, in particular, the outsourcing of non-core activities, to make the company more suited to providing the type of highly specialised and professional activities that it offers.

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 product companies, in which certain actions were identified to improve the organisational structure. These improvement areas were subject to further and specific monitoring in 2012 by this Board and the *Audit* Department.

16. 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.

17. 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.

As regards **Corporate Governance**, the Bank's Board of Statutory Auditors, with the most recent resolution dated 6 March 2013, 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.

18. With regard to supervisory tasks performed in 2012, 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 14 March 2013 on the 2012 separate financial statements providing a positive opinion without additional comments, we can certify that in the Bank's performance of its activities in 2012, there emerged no omissions, censurable events or irregularities meriting specific reporting to Shareholders.
19. The Board of Statutory Auditors has no proposals to submit to the Shareholders' Meeting pursuant to art. 153 subsection 2 of the Consolidated Law on Finance regarding the financial statements as at 31 December 2012 and its approval nor for the scope of its responsibility.

* * *

Verona, 14 March 2013

The Board of Statutory Auditors

Alfonso Sonato, *Chairman*
Franco Valotto, *Standing Auditor*
Angelo Zanetti, *Standing Auditor*

14 SARAH CATANIA
 13 FILIPPO COCCHERI
 13 CALYON CREDIT
 12 DAVID DURAN PAZ
 12 DANIELA FERRARO
 11 GIOVANNI TARDI
 109 FILIPPO COCCHERI
 109 SD GOWDA
 109 GIOVANNI TARDI
 109 LUIGI FANCIANO
 108 STEFANO RAZIO
 108 LOREDANA ABBADINI
 108 STEFANO RAZIO

MAIN 192 1/4 - 193 1/4
 Schatze Auction - bid to cover has been 2.1 co
 RBS: Baa2/BBB XTALN 6 1/4 5/15 now offer @
 toyota 12's Up at 390. Left +395/90 16s/ 395/8
 SGLT&PORTB offers
 Launch of the new Schatz Mar.11 - strong dema
 [] EUROPEAN BANK CDS AXES
 COVERED BUYING AXE III
 BANG-A-THON...MAIN 192 1/4 - 193 1/4
 ****Retail CDS run
 RY 5.75 07/11
 Citi >> Euro Utilities Cash >(10am)<
 HANNOVER RE Q4 08 RESULTS OUT, PROFIT DRO
 CITI TOBACCO CASH RUN: INDIC



covered -
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Last	123.92	EX
Change	-0.57	-.46%
Bid	123.92	8¢
Ask	123.93	144
Opn/Cls	124.49	124.49

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10:15
London

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

INDEPENDENT AUDITORS' REPORT
ON SEPARATE FINANCIAL STATEMENTS



**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 31 December 2012 and for the year then ended, 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 art. 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. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 23, 2012.

3. In our opinion, the financial statements of Banca Aletti & C. S.p.A. at 31 December 2012 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. 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 the Company's Ownership Structure regarding the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 2, letter b), as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information included 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 the Company's Ownership Structure, are consistent with the financial statements of Banca Aletti & C. S.p.A. at December 31, 2012.

Milan, March 14, 2013

Reconta Ernst & Young S.p.A.
Signed by: Stefania Dorettil, Partner

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





BALANCE SHEET

Assets	31/12/12	31/12/11 *
10 Cash and cash equivalents	20,182	19,376
20 Financial assets held for trading	8,325,797,077	6,260,677,437
30 Fair value financial assets	16,540,032	16,453,767
40 Available-for-sale financial assets	4,914,144	1,653,731
60 Due from banks	4,123,891,644	4,589,123,077
70 Due from customers	1,932,875,159	1,417,903,934
100 Equity investments	20,460,130	21,030,734
110 Property, plant and equipment	974,150	1,292,945
120 Intangible assets	20,937,595	20,937,595
<i>of which: goodwill</i>	<i>20,937,595</i>	<i>20,937,595</i>
130 Tax assets	4,182,201	5,184,218
b) prepaid	4,182,201	5,184,218
<i>of which: for Law 214/2011</i>	<i>2,177,667</i>	<i>2,435,595</i>
150 Other assets	127,990,857	70,960,098
Total	14,578,583,171	12,405,236,912

Liabilities and shareholders' equity	31/12/12	31/12/11 *
10 Due to banks	4,560,401,889	3,619,319,747
20 Due to customers	791,351,150	987,524,791
30 Securities in issue	1,945,960,860	1,884,775,595
40 Financial liabilities held for trading	6,396,677,538	5,195,883,225
80 Tax liabilities	50,632,235	7,638,808
a) current	46,375,201	3,927,344
b) deferred	4,257,034	3,711,464
100 Other liabilities	118,509,170	105,409,149
110 Employee termination indemnity	3,727,800	2,917,028
120 Provisions for risks and charges:	5,945,922	9,014,587
b) other provisions	5,945,922	9,014,587
130 Valuation reserves	(703,345)	33,340
160 Reserves	398,966,899	250,370,871
170 Share premium reserve	72,590,205	72,590,205
180 Share Capital	121,163,539	121,163,539
200 Profit (Loss) for the year (+/-)	113,359,309	148,596,027
Total	14,578,583,171	12,405,236,912

* The figures were restated based on changes brought about by IAS 19 in 2012. The annexes include the reconciliation statements between the balance sheet published in the 2011 Annual Report and the one presented above.

INCOME STATEMENT

Item	2012	2011 *
10 Interest income and similar revenues	172,920,202	118,826,809
20 Interest expense and similar charges	(104,630,048)	(70,432,051)
30 Interest margin	68,290,154	48,394,758
40 Commission income	178,280,880	147,925,306
50 Commission expense	(156,015,768)	(104,758,850)
60 Net commissions	22,265,112	43,166,456
70 Dividends and similar revenues	18,416,259	57,283,793
80 Trading gains/losses	208,649,303	166,743,458
90 Hedging gains/losses	-	31,201
100 Gains (Losses) from disposal or repurchase of:	30,784	4,299,997
a) loans	-	1,355,903
b) available-for-sale financial assets	30,784	2,944,094
110 Net profit/loss from fair value financial assets and liabilities	259,568	(1,445,640)
120 Earnings margin	317,911,180	318,474,023
130 Net write-downs/reversals for impairment of:	(17,547)	(82,945)
a) loans	3,854	(82,945)
d) other financial transactions	(21,401)	-
140 Net profit from financial management	317,893,633	318,391,078
150 Administrative expense:	(99,707,922)	(101,569,764)
a) personnel costs	(44,636,202)	(49,302,318)
b) other administrative expense	(55,071,720)	(52,267,446)
160 Net provisions for risks and charges	91,323	(617,200)
170 Net write-downs/reversals on property, plant and equipment	(530,162)	(600,996)
180 Net write-downs/reversals on intangible assets	-	(3,397)
190 Other operating income/charges	10,243,440	8,914,808
200 Operating costs	(89,903,321)	(93,876,549)
210 Gains (Losses) on investments	(820,604)	-
240 Gains (Losses) on investment disposals	26	85
250 Profit (Loss) on current operations before tax	227,169,734	224,514,614
260 Income tax for the year for current operations	(113,810,425)	(75,918,587)
270 Profit (Loss) on current operations after tax	113,359,309	148,596,027
280 Gains (Losses) on discontinued operations, net of tax effects	-	-
290 Profit (Loss) for the year	113,359,309	148,596,027

* The figures were restated based on changes brought about by IAS 19 in 2012. The annexes include the reconciliation statements between the income statement published in the 2011 Annual Report and the one presented above.

STATEMENT OF COMPREHENSIVE INCOME

Item	31/12/2012	31/12/2011 (*)
10 Profit (Loss) for the year	113,359,309	148,596,027
Other income items after tax		
20 Available-for-sale financial assets	(560,794)	(2,734,197)
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	(175,891)	43,310
100 Portion of valuation reserves relating to investments measured at equity	-	-
110 Total other income items after tax	(736,685)	(2,690,887)
120 Comprehensive income (Items 10+110)	112,622,624	145,905,140

(*) The figures were recalculated with respect to those originally published as a result of the application of the new version of IAS 19

2012 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31 12 11 (*)	Changes in opening balance	Balance as at 01 01 12	Allocation of previous year's results		Changes during the year						Shareholders' equity as at 31 12 12	
				Reserves	Dividends and other utilisation	Changes in reserves	Equity transactions						2012 Comprehensive income
							Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares		
Share capital:	121,163,539	-	121,163,539	-	-	-	-	-	-	-	-	-	121,163,539
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:	250,370,871	-	250,370,871	148,596,027	-	-	-	-	-	-	-	-	398,966,898
a) profit	250,370,871	-	250,370,871	148,596,027	-	-	-	-	-	-	-	-	398,966,898
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	33,340	-	33,340	-	-	-	-	-	-	-	-	-	(703,345)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the year	148,596,027	-	148,596,027	(148,596,027)	-	-	-	-	-	-	-	-	113,359,309
Shareholders' equity	592,753,982	-	592,753,982	-	-	-	-	-	-	-	-	-	705,376,606

(*) The figures were recalculated with respect to those originally published as a result of the application of the new version of IAS 19

2011 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31 12 10	Changes in opening balance	Balance as at 01 01 11	Allocation of previous year's results		Changes during the year							Shareholders' equity as at 31 12 11 (*)
				Reserves	Dividends and other utilisation	Changes in reserves	Equity transactions			Derivatives on own shares	Stock options	2011 Comprehensive income	
							Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends				
Share capital:	121,163,539	-	121,163,539	-	-	-	-	-	-	-	-	-	121,163,539
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:	243,485,444	-	243,485,444	6,885,427	-	-	-	-	-	-	-	-	250,370,871
a) profit	243,485,444	-	243,485,444	6,885,427	-	-	-	-	-	-	-	-	250,370,871
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	2,724,227	-	2,724,227	-	-	-	-	-	-	-	-	-	33,340
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the year	136,502,237	-	136,502,237	(6,885,427)	(129,616,810)	-	-	-	-	-	-	-	148,596,027
Shareholders' equity	576,465,652	-	576,465,652	-	(129,616,810)	-	-	-	-	-	-	-	592,753,982

(*) The figures were recalculated with respect to those originally published as a result of the application of the new version of IAS 19

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)

A. OPERATIONS	31/12/12	31/12/11
1. Management	(115,021,007)	15,918,739
- interest income received (+)	87,706,427	116,234,163
- interest expense paid (-)	(38,077,107)	(67,937,109)
- dividends and similar revenues (+)	18,416,259	57,283,793
- net commissions (+/-)	11,689,082	34,123,749
- personnel costs (-)	(48,692,984)	(55,951,669)
- other costs (-)	(64,857,651)	(52,022,814)
- other revenues (+)	10,014,986	113,864
- taxes (-)	(91,220,019)	(15,925,238)
- costs/revenues for discontinued operations, net of tax effects (+/-)	-	-
2. Cash flow generated/absorbed by financial assets:	(1,869,855,255)	(2,684,698,615)
- financial assets held for trading	(1,838,134,432)	394,451,340
- fair value financial assets	173,303	399,560
- available-for-sale financial assets	(3,790,423)	7,198,988
- due from customers	(514,966,002)	(7,854,699)
- due from banks: on demand	1,681,829,314	(1,413,491,052)
- due from banks: other receivables	(1,149,721,382)	(1,697,680,383)
- other assets	(45,245,633)	32,277,631
3. Cash flow generated/absorbed by financial liabilities	1,985,338,434	2,798,608,674
- due to banks: on demand	732,023,660	405,639,395
- due to banks: other liabilities	209,120,040	214,229,236
- due to customers	(196,173,641)	(76,977,457)
- securities in issue	(5,429,235)	1,884,775,595
- financial liabilities held for trading	1,200,794,313	384,878,782
- fair value financial liabilities	-	-
- other liabilities	45,003,297	(13,936,877)
Net cash flow generated/absorbed by operations	462,172	129,828,798
B. INVESTMENTS		
1. Cash flow generated by	-	-
- disposal of investments	-	-
- dividends collected on investments	-	-
- 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	(461,366)	(216,674)
- acquisition of investments	(250,000)	-
- acquisition of financial assets held to maturity	-	-
- purchase of property, plant and equipment	(211,366)	(216,674)
- purchase of intangible assets	-	-
- acquisition of business segments	-	-
Net cash flow generated/absorbed by investments	(461,366)	(216,674)
C. FUNDING		
- issue/purchase of own shares	-	-
- issue/purchase of equity instruments	-	-
- distribution of dividends and other	-	(129,616,809)
Net cash flow generated/absorbed by funding	-	(129,616,809)
NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR	806	(4,685)
RECONCILIATION		
Balance sheet items	31/12/12	31/12/11
Cash and cash equivalents – opening balance	19,376	24,061
Total net cash flow generated/absorbed during the year	806	(4,685)
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents – closing balance	20,182	19,376







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 2012 (including SIC and IFRIC interpretations).

For an overview of the standards approved in 2012 or those approved earlier but applicable from 2012 (or later), reference should be made to “Section 4 – Other aspects” below.

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 that covers the overall situation of the businesses included in the consolidation.

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, most recently, Flyer no. 46586/13 of 15 January 2013.

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 for Banca Aletti. The financial statements used to prepare the annual report are those prepared by the subsidiaries as at 31 December 2012, adjusted, where necessary, to make them compliant with IAS/IFRS.

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 sections: A-Accounting policies, B-Balance sheet data, C-Income statement data, D-Comprehensive Income, E-Information on risks and related hedging policies, F-Information on capital, H-Related party transactions, and L-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 must 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 financial statement items most affected by uncertainty are loans, financial assets, equity investments, intangible assets, prepaid tax assets, fair value financial liabilities, provisions for risks and charges and obligations related to employee benefits.

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

Calculating forecasted impairment for loans disbursed and other financial assets recognised in balance sheet assets

Write-downs for loans disbursed are estimated based on evidence that arises as part of the careful and continued monitoring of changes in relationships with the borrower and their financial situation. Portfolio adjustments are calculated based on historical experience in terms of probability of insolvency and the loss percentage of impaired loans against similar credit classes as at the balance sheet date.

Write-downs for financial assets that are not measured at fair value are estimated based on evidence that arises as part of the careful and continued monitoring of the issuers' financial situation.

Hence, a protraction or deterioration in the current economic-financial crisis could further weaken the financial conditions of borrowing customers and with issuer counterparties, which may then result in losses on loans disbursed or financial assets acquired that are higher than the current estimates and thus necessarily reflected in preparing the financial statements.

Estimating forecasted impairment for intangible assets and equity investments

On an annual basis, when the financial statements are being prepared, impairment related to intangible assets and equity investments recognised in balance sheet asset is tested. These impairment tests are usually carried out by calculating the value in use or the fair value of the assets and verifying if the value at which the intangible asset or equity investment is recognised in the financial statements is less than the greater of said value in use and the fair value net of sales costs.

The economic-financial crisis that began in 2008 has profoundly changed the reference scenarios in which the Bank and Group have had to, and will have to, operate, requiring organisational and structural changes and the ability to act in a context characterised by high levels of uncertainty.

The impairment test in reference to the cash generating units (CGUs), which includes almost all of the intangible assets with indefinite life, was conducted using the value in use obtained by applying the Dividend Discount Model. Given the continued uncertainty that marks the macroeconomic and regulatory situation, the valuation analyses were conducted using a multi-scenario approach, in order to give due consideration to the risk inherent in the effective execution of the plan. In fact, the higher level of uncertainty that characterises future scenarios makes it extremely difficult to update plans communicated to the market. Therefore, the Group has not developed a new business plan after the one approved by the

Parent Company's Board of Directors on 15 July 2011, which is still considered valid in terms of strategy and business mix. This plan includes a macroeconomic situation that is considerably different than the one we faced in the second half of 2011 and 2012; this divergence will, in all probability, continue into 2013 and beyond. The aforementioned multi-scenario approach envisages that cash flows, extrapolated from the plan, are reviewed as necessary to consider the developments that management considers most likely as at the date the impairment tests are conducted.

According to the Dividend Discount Model (DDM), the value of a business is a function of the dividend flow that it is able to generate in the future. Specifically, the method used is the DDM with the Excess Capital variant, which assumes that the economic value of a company is equal to the sum of the current value of future cash flows (Expected Dividends) generated in the pre-established planning time frame, and distributable to shareholders, while maintaining an adequate level of capital to ensure expected future growth, and the perpetual capitalisation of the normalised dividend of the last year of the plan, on the basis of a pay-out ratio that is a function of the full potential profitability.

It must be emphasised that the parameters and information used to verify the recoverability of goodwill (in particular, expected cash flows for the various CGUs and the discount rates used) are highly influenced by the macroeconomic and market situation, which could undergo changes that are not currently foreseeable.

If the recoverable value of the asset being tested for impairment is determined based on its fair value, it should also be noted that the considerable, persistent volatility in markets cannot exclude the possibility that valuations based on parameters derived from said markets may not, in the future, represent the asset's fair value.

Business combinations

Business combination transactions are recognised by attributing the difference between the acquisition cost and the net book value to the assets and liabilities of the acquired company. For the majority of assets and liabilities, the difference is attributed by recognised them at their fair value. If the portion not attributed is positive, it is allocated to goodwill; if negative, it is recognised in the income statement as revenue. As part of the process to attribute business combination costs, the Bank makes use of available information, however, this process implies, by definition, complex and subjective estimation elements.

Calculating the fair value of financial assets and liabilities

If the fair value is not immediately observable in active markets, the elements of greatest subjectivity relate to the choice of the choice of valuation models or in the selection of input parameters, considering that even these elements may not be observable on the market. If the markets are characterised by illiquidity, it is thereby necessary to use more complex valuation processes that have a greater element of subjectivity.

Estimating the recoverability of prepaid tax assets

The Bank recognises prepaid tax assets in its balance sheet that primarily derive from timing differences between the date that certain business costs are recognised in the income statement and the date at which these costs can be deducted. These prepaid tax assets recognised in the financial statements refer to timing differences and, to a lesser extent, to recoverable losses over a very long period of time. Deferred tax assets are written down to the extent that they are not considerable recoverable in relation to profit expectations and the related forecasted taxable income. The valuation process is based on the same profit forecasts used for impairment tests on equity investments and intangible assets.

Quantifying the provisions for risks and charges and tax provisions

The Bank is the defendant in a wide range of legal and tax disputes. The complexity of the corporate situations and transactions on which the disputes are based, along with issues in interpreting the applicable legislation, make it difficult to estimate the liability that emerge when the pending litigation is concluded. These valuation difficulties impact the nature, quantity as well as timing of any potential liability.

Estimating obligations related to employee benefits

Calculating liabilities associated with employee benefits, particularly in reference to defined benefit plans and long-term benefits, implies a certain level of complexity. The results of the actuarial assessment depend largely on the actuarial hypotheses used, both demographic (such as mortality and employee turnover rates) as well as financial (such as the discount and inflation rates). Hence, the decision taken by management in selecting the most appropriate techniques for evaluating the situation are fundamental. This decision is influenced by the socio-economic context in which the Bank operates, as well as trends in financial markets. With particular reference to the choice of discount rate that is considered representative of the yields of first-class businesses, management must necessarily take into consideration the high level of volatility in market yields due to the sovereign debt crisis and the recession in the European economy with the associated downgrading of many issuers.

Note that the reform underway for the pension system, which modified certain parameters for pension eligibility, makes the estimates on charges for the Solidarity Fund uncertain, in that the effects of the aforementioned reform on agreements signed with labour unions on 1 December 2011 are not yet clear, with regard to employees' eligibility for the Solidarity Fund.

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 more 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

For a thorough discussion of the events that occurred after the financial statements date, refer to the specific section in the Report on Operations.

Section 4 – Other aspects

Separate financial statements deadlines for approval and publication

Art. 154-ter of Italian Legislative Decree 58/98 (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 6 March 2013 and will be submitted for approval of the Shareholders' Meeting called for 12 April 2013.

Audit

The separate financial statements were audited by Reconta Ernst & Young S.p.A. pursuant to Italian Legislative Decree 39/10, 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.

New international accounting standards or amendments to existing standards approved by the European Commission

During 2012, the application of certain accounting standards or interpretations issued by IASB and approved by the European Commission became either mandatory or optional, as described below.

EC Reg. no. 1205 of 22 November 2011 and Reg. no. 1256/2012 - IFRS 7

Amendments to IFRS 7, approved by Regulation no. 1205/2011 (containing an error corrected in Reg. no. 1256/2012), became compulsory beginning with 2012 financial statements, relative to disclosure on transfers of financial assets, introduced with the objective of promoting greater transparency for transactions in which the transferor maintains some form of risk associated with the transferred assets.

For assets transferred and not fully derecognised from financial statements, the amendment introduces two additional disclosure requirements regarding:

- the nature of the existing relationship between the transferred assets and the associated liabilities, including restrictions on the transferor's use of the transferred assets;
- the fair value of transferred assets and the associated liabilities, in the case in which the transferee has sole recourse on the transferred assets, as is the case in the Group's securitisation transactions.

For transferred assets that are fully derecognised from financial statements, IFRS 7 introduces an entirely new element, which requires a new set of information if, as part of the transfer transaction, the transferor maintains a form of "continuing involvement", in the terms stated within IFRS 7. As established in the aforementioned standard (paragraphs 42C and B30), the entity has continuing involvement in a transferred financial asset if, as part of the transfer, it maintains contractual rights or obligations inherent in the financial asset transferred or obtains new contractual rights or obligations relative to the transferred financial asset. The entity does not have continuing involvement in a transferred financial asset if it does not have an interest in future returns of the transferred financial assets nor responsibility to make any payments related to the transferred financial asset, under any circumstances. Based on these definitions, Banco Popolare Group did not identify any transfer transactions, subject to full derecognition in accordance with IAS 39, for which it maintained any form of risk in accordance with IFRS 7.

Qualitative/quantitative information on asset transfers are included in Part E of these Notes to the Financial Statements, "Section 1 - Credit Risk", subsection "C. Securitisations and Asset disposals", as amended in the aforementioned Flyer no. 46586/13 of 15 January 2013.

EC Reg. no. 475 of 5 June 2012 - IAS 19, IAS 1

With this Regulation, the European Commission approved amendments to IAS 1 and IAS 19, as approved by the IASB on 16 June 2011.

The most important changes introduced in the new version of IAS 19 regard the elimination of formerly admissible accounting methods for recognising defined benefit plans and introducing a single method that includes the recognition of components associated with measuring the liability (actuarial gains/losses) in the statement of comprehensive income. The Bank and the Group took advantage of the option to apply the changes in advance, as described in the section "Application of the new version of IAS 19 – Employee Benefits" below.

The amendments to IAS 1, which will be applied by Banco Popolare Group beginning in 2013, as the option to apply them in advance was not taken, have the objective of ensuring greater clarity in the statement of comprehensive income, by requiring separate reporting of the components that will not be reversed in the income statement in the future and those that, conversely, can subsequently be reclassified in the profit (loss) for the year, under certain conditions (e.g., transfer, impairment).

Finally, note that in January 2013, regulations that approved certain new accounting standards or amendments to existing standards approved by IASB in 2010 and 2011 were published in the Official Gazette. These regulations had no effect on the preparation of the 2012 Financial Statements, as the option of applying them in advance, where provided for, was not taken. A summary of approved standards and new standards introduced is provided below.

Regulation no. 1254 of 11 December 2012 - IFRS 10, IFRS 11, IFRS 12, amendments to IAS 27 and IAS 28

With this Regulation, new standards and related amendments to existing standards were approved, which had been approved by the IASB on 12 May 2011.

The objective of IFRS 10 "Consolidated financial statements" is to provide a single model for consolidated financial statements, which provides for basic control of consolidation for all types of entities, as a replacement of standards envisaged in IAS 27 "Consolidated and separate financial statements" and SIC 12 "Consolidation – special purpose entities". An investor possesses control when he has both power over the entity and is exposed to or benefits from the variable returns deriving from the relationship with the entity and has the capacity to exercise his power over the entity to influence the amount of its returns.

IFRS 11 "Joint arrangements" establishes the standards for accounting treatment of entities that are part of joint arrangements and replaces IAS 31 "Interests in joint venture" and SIC 13 "Jointly controlled entities – Non-monetary contributions by venturers". The standard requires the entity to determine the type of agreement in which it is involved, evaluating its rights and obligations. Interests held in a joint venture, in which the parties that have joint control have rights on the net assets of the agreement, are recognised as an investment to be measured according to the equity method, in compliance with the new version of IAS 28. Based on the new standard, proportional consolidation of joint ventures is no longer permissible.

IFRS 12 "Disclosures of interests in other entities" is a new standard that encompasses the disclosure requirements for all forms of investments in subsidiaries, associates, non-consolidated structured entities and joint-control agreements. The scope of the document is to evaluate the presence and nature of investment risks, as well as the effects of the investment on the financial position of the company.

Following the introduction of the new standards IFRS 10, IFRS 11 and IFRS 12, amendments were made to IAS 27 and IAS 28. Specifically, IAS 27, which was renamed "Separate financial statements", contains the standards for the accounting treatment and disclosure to be provided in separate financial statements regarding investments in subsidiaries, joint ventures and associates. IAS 28, renamed "Investments in associates and joint ventures", defines the accounting treatment of investments in associates and the requirements for applying the equity method for the accounting treatment of associates and joint ventures.

The new standards, IFRS 10, IFRS 11 and IFRS 12, and the amended versions of IAS 27 and IAS 28, must be applied to financial years beginning 1 January 2014, at the latest.

Regulation no. 1255 of 11 December 2012 - IFRS 1, IFRS 12, IFRS 13, IFRIC 20

The aforementioned Regulation approved the amendments to IFRS 1, IAS 12 (published by IASB on 20 December 2010), as well as the new IFRS 13 (approved by IASB on 12 May 2011). The key amendments to IAS 12 and IFRS 13 are described below, while those related to IFRS 1 "First-time adoption of international financial reporting standards" and IFRIC 20 "Stripping costs in the production phase of a surface mine" are not discussed as they are not relevant to Banco Popolare Group.

The amendment to IAS 12 "Income taxes – Deferred tax recovery of underlying assets" introduces an exception to the valuation standard of IAS 12, according to which the value of the assets and the deferred tax liabilities must be calculated using the tax rate and the tax value consistent with the envisaged method for recovery or discharge (e.g., sale or use). This exception includes a related assumption, according to which the book value of a real estate investment valued according to the fair value model (IAS 40) would be recoverable through sale. These changes replace SIC 21 "Income taxes - Recovery of revalued non-depreciable assets". The amendment applies from the beginning date of the first financial year after the Regulation becomes effective (5 January 2013), at the latest.

The new IFRS 13 "Fair value measurement" establishes a single reference framework for calculating fair value, replacing the rules spread throughout various accounting standards, and providing a complete guide on measuring fair value of assets and liabilities, both financial and non-financial, including in the case of non-active and illiquid markets. The new standard does not extend the use of the accounting standard of fair value, whose application is required or permitted by other standards, but provides practical and complete instructions on the method for calculating fair value. The standards must be applied to financial years beginning 1 January 2013, at the latest.

Regulation no. 1256 of 13 December 2012 - IAS 32, IFRS 7

This Regulation approved the amendments of IFRS 7 "Financial instruments - disclosures" and IAS 32 "Financial instruments - presentation" approved on 16 December 2011 by the IASB.

The amendment to IAS 32 introduces in the application guidelines certain sections that seek to clarify the methods of applying the rules governing the offsetting of financial assets and liabilities in the balance sheet, according to which the representation of the net balance is possible only when the entity has the legal right to offset the recognised amounts and intends to extinguish the net residual, or realise the asset and, at the same time, extinguish the liability. Specifically, it has

been clarified that the right to offset should not be subject to a future condition precedent and must be legally exercisable in the normal course of business activities in the event of default, bankruptcy or any other insolvency procedure that involves the entity and all counterparties. This amendment must be applied to financial years beginning 1 January 2014, at the latest. The amendments made to IFRS 7 have the dual objective of allowing readers of financial statements to evaluate the real or potential effects of all the offsetting agreements on the financial situation of the entity and to analyse and compare the accounting results of transactions recognised according to international accounting standards - IAS/IFRS - with those recognised according to other American standards - US GAAP. Specifically, disclosure is required for all financial instruments that were offset in the balance sheet pursuant to IAS 32 and those subject to a “framework offsetting agreement or similar agreements”, which, not subject to IAS 32 criteria for offsetting, are stated separately in the assets and liabilities in the financial statements, including the effects of financial collateral. This amendment must be applied to financial years beginning 1 January 2013.

To complete the information, note that as at 31 December 2012, IASB issued the following standards or amendments:

- IFRS 9: “Financial instruments” (issued 12 November 2009) and subsequent amendments of 16 December 2011 (“amendments to IFRS 9 and IFRS 7 - Mandatory effective date and transition);
- Amendment to IFRS 1 – “Government loans” issued 13 March 2012;
- Improvement programme for certain 2009-2011 IFRS standards, approved on 17 May 2012;
- Transition guide (amendments to IFRS 10, IFRS 11 and IFRS 12) issued on 28 June 2012;
- Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27) approved on 31 October 2012.

None of the standards listed above affect the consolidated financial statements of Banco Popolare Group as at 31 December 2012, as their application is dependent on European Union approval.

Application of the new version of IAS 19 “Employee benefits”

As described above, Regulation no. 475 of 5 June 2012 approved the new version of IAS 19, regarding the accounting treatment of employee benefits, with mandatory application from 1 January 2013. The Group took advantage of the option to apply the new version in advance, beginning with the half-year report as at 30 June 2012.

In relation to the Bank and Banco Popolare Group, the primary change is that of providing for a single accounting criteria for actuarial gains/losses for defined benefit plans to be included immediately in the calculation of the net liabilities for employees as a balancing entry to the shareholders’ equity item (OCI - Other Comprehensive Income) to be stated in the statement of comprehensive income. The policy that had been applied up to now by the Group was one of the alternative treatments allowed by the previous version of IAS 19, providing for the immediate recognition in the income statement of all actuarial gains and losses.

For a thorough discussion of the new accounting standards, the reader is referred to the section “Employee severance indemnity and other employee benefits” in Part “A.2 – Notes on the main items of the financial statements” in these Notes to the Financial Statements.

Restatement

The changes introduced in the new IAS 19 must be applied retroactively as required by IAS 8 and by transition provisions contained in said standards. Hence, the Bank restated the financial schedules relative to the prior year used for comparison.

Note that the application of the changes in IAS 19 has no effect on shareholders’ equity, in that the changes refer to reporting of actuarial gains and losses in a component of shareholders’ equity rather than as a balancing entry in the income statement, as the Bank had previously done.

Therefore, for purposes of comparative information for the previous year, the gains and losses recognised in income statement item “180 a) Personnel costs” were restated, net of taxes (included in income statement item “290 Income taxes for the year on current operations”), in balance sheet item “140 Valuation reserve”. Specifically, as at 31 December 2011, the different handling of actuarial gains resulted in lower profit compared to that originally published of 43 thousand euro and, at the same time, an increase in equity reserves for the equivalent amount.

The following table shows the items affected by the restatement as at 31 December 2011 and the related quantitative impact:

	31/12/2011
Reclassification	Valuation reserves
Personnel costs - Actuarial gains	59
Income tax for the year on current operations	(16)
Profit for the year	43(*)
<i>(*) Actuarial gains credited to item 140. Valuation reserves</i>	

It should also be noted that, in the balance sheet as at 31 December 2011, the previous effects are stated within the various equity items, as a result of the allocation of profit from prior years.

Explanation of standards amended in Bank of Italy Circular no. 262

With the Bank's Flyer no. 46586/13 of 15 January 2013, Circular no. 262 "Bank financial statements: layouts and preparation" was subjected to certain minor changes in order to implement:

- the amendment to IFRS 7, introduced with Reg. no. 1205/2011, as described in the previous section, "New accounting standards or amendments to existing standards approved by the European Commission", to which the reader is referred;
- certain disclosure requirements for purchased impaired loans, both qualitative and quantitative (to be shown in the breakdown of Due from customers of Part B and Part E – "Section 1 - Credit Risk").

In reference to the latter point, it was clarified that the disclosure required is related to the purchase of impaired loan assets, as typically occurs in disposal transactions carried out pursuant to Law no. 52/91 (factoring). However, any purchases associated with business combination transactions are not considered as part of purchased impaired loans. Based on these clarifications, Banco Popolare Group does not have any transactions to be reported in connection with the information required for "purchased impaired loans" as at 31 December 2012.

Prepaid tax assets as per Law no. 214/11

With Circular no. 262 and Bank of Italy Flyer no. 0677311/12 of 7 August 2012, new disclosure requirements were introduced for prepaid tax assets pursuant to Law no. 214/11. These requirements are consistent with the instructions provided in the shared Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012.

The tax treatment, introduced in the aforementioned Law, envisages that taxes resulting from deductible timing differences for loan write-downs exceeding the immediate deductibility limits and for goodwill and other intangible assets are transformed into tax credits when there is a loss for the year (tax losses). Hence, an additional and more complete recovery method was introduced with respect to the ordinary method that occurs through the tax "reversal" of deductible timing differences, that confers de facto certainty regarding their recovery. To permit readers of financial statements to be able to fully appreciate the different nature of said taxes compared to other prepaid taxes, the following information must be provided:

- specific statement of the assets included under Law no. 214/11 in the sub-item "Prepaid tax assets" in the balance sheet;
- the related changes that occurred during the year, with particular reference to prepaid assets transformed into tax credits during the year.

For further information, please refer to:

- Part B, Section 13 – Tax assets and liabilities – Item 130 Assets and Item 80 Liabilities;
- Part C, Section 18 – Income tax for the year on current operations – Item 260.

Representation of the changes to the restated financial statements for comparison purposes

For comparison purposes, the figures for the previous year were restated to allow a fair comparison with accounting standards and classification criteria used as at 31 December 2012.

Specifically, for the Bank, the restatement refers to the advance application of the new version of IAS 19, thoroughly discussed in the preceding section "Application of the new version of IAS 19 - Employee benefits".

For the purposes of better understanding the quantitative impacts of the changes to recognition criteria that occurred in 2012, the restated balance sheet and income statement for the previous year is reconciled to the data originally published in the 2011 Financial Statements in the annexes.

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

The balance sheet as at 31 December 2012 was prepared in application of the same accounting standards used for the previous year's financial statements, except for the approved changes that became effective in 2012 or that were applied in advance by the Bank, 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 financial statements.

1 - Financial assets held for trading

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

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

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

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

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

For the fair value measurement of financial instruments listed on an active market, the market prices are used. In the absence of an active market, valuation model estimates are used that take into consideration all risk factors linked to the instruments and which are based on information available on the market, i.e., methods based on the valuation of listed instruments with similar characteristics, discounted cash flows, models for calculating option prices and values from similar, recent transactions. For further details reference should be made to section "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 section "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 section "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 reporting period. For further details of events resulting in impairment, reference should be made to section "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.

An ad-hoc policy was introduced in 2011 for certain types of investments, similar to equity securities, but characterised by specific and distinctive elements with respect to a direct equity investment. It involves private equity funds and similar investment vehicles. Specifically, this category includes UCI units, SICAVs, investment holdings or other similar structures that have the objective of investing directly and/or through other private equity funds and other corporate vehicles. For these investments, which have a medium- to long-term time frame, impairment is evidenced by exceeding one of the following thresholds:

- a decrease in fair value of more than 40% of the original book value;
- a decrease that persists for an uninterrupted period of more than 60 months;
- a decrease in fair value of more than 30% that persists for an uninterrupted period of more than 36 months;

If the above automatic thresholds are not exceeded, 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 section “17 - Other information, Reclassification of financial asset portfolios (amendment to IAS 39)” are met.

3 - Financial assets held to maturity

This category includes debt securities with fixed or determinable payments and fixed maturities, that the Bank intends and is capable of holding to maturity. If following a change in the Bank’s intention or capacity, it is no longer appropriate to maintain an investment as held to maturity, it is reclassified in available-for-sale assets.

The initial recognition of the financial asset is at the date of settlement. Upon initial recognition, financial assets in this category are recorded at fair value, normally corresponding to the price paid, including transaction costs or gains directly attributable to the instrument. If an asset is recognised in this category as a result of reclassification from Available-for-sale assets or from Financial assets held for trading, the fair value as at the date of the transfer becomes the new amortised cost of the asset. For reclassifications from Financial assets held for trading, which rarely occurs, reference should be made to section “17 - Other information, Reclassification of financial asset portfolios (amendment to IAS 39)”.

After initial recognition, financial assets held to maturity are measured at amortised costs using the effective interest rate method. Gains and losses related to changes in fair value of assets held to maturity are recognised in the income statement when the assets are derecognised. Impairment testing is performed at the end of each annual and interim reporting period. If there is evidence of impairment, the amount of the write-down is calculated as the difference between the book value of the asset and the current value of estimated future cash flows, discounted at the original effective interest rate. The amount of the write-down is recorded in 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.

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.

The only reclassification out of the portfolio permitted is to the “Available-for-sale financial assets” portfolio. The disposal or transfer, for a significant amount, of financial assets held to maturity, prior to said maturity, results in the transfer of the entire portfolio to the available-for-sale financial assets category and the ban on using the portfolio of financial assets held to maturity for the year underway and the two subsequent years (so-called tainting rule), unless the sales and reclassifications:

- are so near to the maturity or the option date of the financial asset that the fluctuations in the market interest rate would have no significant impact on the fair value of the financial asset;
- they occur after having collected essentially all of the original capital of the financial asset;

- they are attributable to an uncontrollable, isolated event, that is not recurring and that therefore cannot be reasonably predicted, such as, for example, a significant deterioration in the credit rating of the entity that issued the financial asset.

This item contains no assets for Banca Aletti at the end of the year.

4 - Loans

Loans include loans to customers and to banks, both disbursed directly or acquired from third parties, which include fixed or determinable payments, are not listed on active markets and were not initially classified as available-for-sale financial assets. The item also includes trade receivables and receivables acquired through subscription or private 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 section “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, impairment testing is performed on the loans to identify any post-recognition impairment, as indicated in section “17 - Other information, Impairment testing methods for financial assets”. This includes loans attributed with the status of non-performing, watchlist 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 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 loans whose recovery is expected in the short term are not discounted. The original effective rate for each loan remains unchanged in the long term unless the position is restructured and involves a change in contractual rate, or if the position becomes interest-free for all practical purposes.

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 loans, 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 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 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 financial statements if no form of control over the loans is retained. Otherwise, even retention of partial control requires continued recognition of loans in the 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 financial 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.

5 - 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 in that:
 - i. they 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.

6 - Hedging

Asset and liability items include hedging derivatives which, at the financial statements 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 hedges, which hedge 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 financial statements closing date 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.

This item contains no assets for Banca Aletti at the end of the year.

7 – Equity investments

This item includes interests held in associates or companies subject to joint control, which are recognised according to the equity method.

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 financial asset is initially recognised on the settlement date 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.

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.

8 - 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. Property, plant and equipment includes those assets associated with finance lease contracts held by the company following the resolution of contracts and the contextual closing of the original loan position.

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. Specifically, these include costs for restructuring leased real estate incurred in making it suitable for its designated use. The costs are classified in the specific category to which they refer (i.e., technical systems, equipment).

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 increase in future economic benefits are recognised as an increase in asset value, whilst other routine maintenance costs are recognised to the income statement.

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

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

At each annual 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.

9 - 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 section "17 – Other information, Business combinations, goodwill and changes to equity interests".

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. Subsequent reversals cannot 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 reporting date, if there is any sign of impairment the recoverable value of the asset is estimated. The amount of the impairment loss is equal to the difference between the book value of the asset and its recoverable value and is recognised to the income statement.

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

10 - Non-current assets, discontinued operations and liabilities associated with discontinued operations

This category includes non-current assets/liabilities and groups of assets/liabilities associated with discontinued operations. Assets/liabilities are classified in this category if sale is considered highly likely. Specifically, these assets/liabilities are valued at the lower of the book value and the fair value net of sales costs. If the discontinued operations are depreciable, the depreciation process is ceased when they are classified in this category. Related income and charges are stated in the income statement in a separate item net of the tax effect when they are related to discontinued operations. In this case, the same financial disclosure is recognised in a separate item for the comparison periods presented in the financial statements.

This item contains no assets for Banca Aletti at the end of the year.

11 - 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 in the financial statements to the extent that their recovery, assessed on the basis of the Bank's and 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 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 or any different subjective situations for Group companies.

Current tax assets and liabilities are recorded in the balance sheet as offsetting 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.

12 - 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 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 section "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.

13 – 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 financial 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.

14 - 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 financial 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".

15 - Fair value financial liabilities

A financial liability is measured at fair value recognised in the income statement only:

1. when 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. or the fair value measurement and recognition to the income statement offer an improved disclosure in that:
 - i. they 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. On this basis, the Group's disclosure is provided internally to strategic executives.

These financial liabilities are measured at fair value from the time of initial recognition. Initial income and charges are recognised directly to the income statement.

Financial liabilities are derecognised from the financial statements when past due or settled. Financial liabilities representing securities issued are derecognised also when they are repurchased. 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.

For further details on the scope of the Group's FVO liabilities, the methodology for calculating fair value and quantification of its credit rating, reference should be made to section "17 - Other information, Fair value measurement methods for financial instruments".

This item contains no assets for Banca Aletti at the end of the year.

16 – 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 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.

17 - Other information

a) Content of other financial statement items

Cash and cash equivalents

This item includes legal currency, including banknotes and coins in foreign currency and demand deposits with central banks of the home country or countries in which the Group 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) loans associated with the provision of non-financial goods or services.

This category also includes improvements and incremental costs incurred on leased third party assets other than those attributable to the item "Property, plant and equipment", in that they are not separable from the assets to which they refer and thus cannot be used independently (i.e., masonry works). These costs are recognised under other assets, because, due to the lease contract, the tenant company has a form of control over the goods, from which future economic benefits are expected from their use. These costs are recognised in the income statement in the shorter period between that in which the improvements and incremental costs can be used and the residual duration of the lease contract, including the renewal period, if they are evidenced as such.

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

The employee termination indemnity represents a "post-employment benefit" as defined by IAS 19.

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, in relation to the accounting treatment.

Specifically, for companies with an average of at least 50 employees during 2006, termination benefits accrued from 1 January 2007 are considered a "defined contribution plan" for accounting purposes. 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".

Generally, "post-employment benefits" include the Employee termination indemnity, and Retirement plans considered either "defined benefit" or "defined contribution", depending on their characteristics.

Specifically, 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 a 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, 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. The liability is calculated by an external actuary according to the "Projected Unit Credit" Method. Based on this methodology, future outflows must be estimated according to demographic and financial assumptions, discounted to consider the time that will pass prior to the

effective payment and re-proportioned based on the relationship between years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed. The actuarial value of the liability calculated in this manner must then be adjusted for the fair value of any assets servicing the plan (net liabilities/assets).

These actuarial gains and losses, which originate from adjustments to previous actuarial assumptions in the light of real effects or due to changes in the assumptions, result in a revaluation of the net liability and are recognised as a balancing entry to an equity reserve. These gains and losses are included in the “Statement of Comprehensive Income”.

The “Projected Unit Credit” Method described above is also used to measure long-term benefits, such as employee “seniority bonuses”. As opposed to “defined benefit plans”, actuarial gains and losses associated with the valuation of long-term benefits are recognised directly to the income statement.

Valuation reserves

This category includes valuation reserves for available-for-sale financial assets and actuarial gains (losses) on defined benefit plans.

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 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;
- 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. Therefore, the fair value calculated in this manner corresponds to the amount collected, and no profit is recognised on 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 paid to companies outside the Group, 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.

Share-based payments

The Bank does not have any outstanding share-based payment agreements.

In the interest of providing complete information, note that, as part of the stock grant plan for employees of Banco Popolare Group, designed to increase the sense of belonging to the Group and the commitment to business objectives, the Bank offers all employees the possibility to receive all or part of the corporate award (VAP) through the assignment of Banco Popolare ordinary shares.

As part of compensation policies, incentive systems are in place for “more relevant employees” that provide for the deferred disbursement of a substantial portion of the variable component, equivalent to at least 40%, of the award accrued during the year, with partial recognition of Banco Popolare shares.

This plan is accounted for in the Bank’s Provision for risks and charges and reflects the current commitment for 2010-2011.

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, goodwill and changes in equity interests

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.

For each business combination, minority interests must be recognised at fair value or in proportion to the portion of identifiable net assets held in the acquired company.

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 acquired company. The consideration that the purchaser transfers in exchange for the acquired company 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 expense, 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.

If control is obtained through subsequent acquisitions (business combinations carried out over several phases), the equity investment previously held is measured at fair value on the acquisition date and the difference with respect to the previous book value must be recognised in the income statement. For these types of combinations, goodwill is calculated as the surplus of the amount paid plus the fair value of the previous equity investment held with respect to the fair value of the net identifiable assets of the acquired company.

Once control has been obtained and the acquisition method described above has been applied, any additional increases or decreases in the equity investment in a subsidiary where control is maintained is treated as a transaction between shareholders. Hence, the net equity book values for the group and third parties must be adjusted to reflect changes in investments in the subsidiary. Any difference between the value for which the minority interests are adjusted and the fair value of the amount paid or received must be recognised directly in the group's shareholders' equity.

For sales of investments that result in the loss of control, the effect to be recognised in the income statement is equivalent to the difference between (i) the sum of the fair value of the amount received and the fair value of the residual interest held and (ii) the previous book value of the assets (including goodwill), the liabilities of the subsidiary and any third party shareholders' equity. The amounts previously recognised in the statement of comprehensive income (such as, for example, valuation reserves for available-for-sale financial assets) must be accounted for in a manner similar to the case in which the parent company directly divested the assets or the related liabilities (through reclassification in the income statement or in retained earnings).

The fair value of any investments in the former entity under control must be considered equal to the fair value at the moment of initial recognition of a financial asset based on IAS 39, or, where appropriate, equal to the cost at the moment of initial recognition in an associate (IAS 28) or in a jointly-controlled entity (IAS 31).

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 company, i.e. the assumption that the company will remain fully operative and will not wind up or significantly reduce its operations or perform transactions at unfavourable terms.

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

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

Mark to Market

To measure fair value, the Bank uses information based on market data obtained from independent sources if possible, as this is considered to be the best evidence of fair value. In this case, the fair value is the market price of the financial instrument under valuation – i.e., without changes or recomposition of the instrument - derived from the prices expressed on an active market. A market is considered to be active when listed prices reflect normal arm's length transactions, are regularly and readily available through Stock Exchanges, pricing services, or 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 SGR ensures liquidation of the units in short time periods. This refers in particular to open-ended harmonised UCI funds, which are characterised, by investment type, by higher levels of transparency and liquidity.

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 contracts 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 time frame as compared to the measurement date, using the market multiples method on comparable companies, and subordinately according to financial, income and equity measurement methods.
- Investments in UCI units, other than open-ended harmonised funds, are measured based on the NAVs made available by the fund administrator/SGR. These investments include hedge funds and real estate funds. For certain funds, the underlying assets are characterised by considerable levels of illiquidity, such as to require different assumptions and estimates in the valuation process for the fund. In these cases, the relative NAVs are considered to be based on unobservable parameters and can be adequately corrected to account for an investment's diminished liquidity, or the time interval between the redemption application date and that of actual redemption, and for any investment exit commissions.

In addition, note that, for purposes of calculating the fair value of financial assets and liabilities, represented by both cash instruments and derivative instruments, the measurement techniques, currently used by Banca Popolare group, envisage that the reference rate, used to develop the discount curve for future cash flows, corresponds to the Euribor rate, considered a risk-free rate.

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.

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., as required in the preceding section “6 - Hedging”.

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 as the Credit Default Swap (CDS) curve – senior or subordinated – based on the level of subordination of the issue and the maturity date.

For all Group companies, the reference CDS curve is that 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 placement commissions paid to companies outside the Group, which 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/from 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 watchlist loans), 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, 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 considered 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:

- significant financial difficulties of the issuer or the borrower;
- breach of contract, e.g. default or failure to repay capital or interest;
- 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;
- likelihood of the borrower becoming involved in bankruptcy proceedings or other financial restructuring;
- 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;
- 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:

- significant changes negatively affecting the technological, economic or regulatory environment in which the issuer operates, indicating that the investment is no longer recoverable;
- 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 financial statements”, is provided below.

A.3.2.1 Accounting portfolios: breakdown by fair value level

Fair value financial assets/liabilities (in thousands of euro)	31/12/2012			31/12/2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	2,050,839	6,274,958	-	841,748	5,418,929	-
2. Fair value financial assets	-	16,419	121	16,279	40	135
3. Available-for-sale financial assets	2,927	1,440	547	-	1,101	553
4. Hedging derivatives	-	-	-	-	-	-
Total	2,053,766	6,292,817	668	858,027	5,420,070	688
1. Financial liabilities held for trading	166,509	6,229,960	209	244,761	4,950,464	658
2. Fair value financial liabilities	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	166,509	6,229,960	209	244,761	4,950,464	658

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 99.99% 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 2012 there were no significant transfers between Levels 1 and 2.

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

<i>(in thousands of euro)</i>	FINANCIAL ASSETS			
	held for trading	fair value	available-for-sale	as hedges
1. Opening balances	-	135	553	-
2. Increases	-	-	-	-
2.1 Acquisitions	-	-	-	-
2.2 Profits recognised to:	-	-	-	-
2.2.1 Income Statement	-	-	-	-
- of which capital gains	-	-	-	-
2.2.2 Shareholders' equity	X	X	-	-
2.3 Transfers from other levels	-	-	-	-
2.4 Other increases	-	-	-	-
3. Decreases	-	(14)	(6)	-
3.1 Sales	-	-	-	-
3.2 Redemptions	-	-	-	-
3.3 Losses recognised to:	-	(14)	(6)	-
3.3.1 Income Statement	-	(14)	-	-
- of which capital losses	-	(14)	-	-
3.3.2 Shareholders' equity	X	X	(6)	-
3.4 Transfers to other levels	-	-	-	-
3.5 Other decreases	-	-	-	-
4. Closing balances	-	121	547	-

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

<i>(in thousands of euro)</i>	FINANCIAL LIABILITIES		
	held for trading	fair value	as hedges
1. Opening balances	658	-	-
2. Increases	110	-	-
2.1 Issues	110	-	-
2.2 Losses recognised to:	-	-	-
2.2.1 Income Statement	-	-	-
- of which capital losses	-	-	-
2.2.2 Shareholders' equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	(559)	-	-
3.1 Redemptions	-	-	-
3.2 Repurchases	-	-	-
3.3 Profits recognised to:	(559)	-	-
3.3.1 Income Statement	(559)	-	-
- of which capital gains	-	-	-
3.3.2 Shareholders' equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balances	209	-	-

A.3.3 Information on "day one profit/loss"

Pursuant to IFRS 7 paragraph 28, among the Group'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 section "Dividends and recognition of revenues". The positive figure recognised to the income statement under "Net trading gains/(losses)" as at 31 December 2012 totals 0.6 million euro and the residual differences still to be recognised amount to 0.2 million euro.

PART B – BALANCE SHEET DATA

ASSETS

Section 1 - Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
a) Cash	20	19
b) Demand deposits with Central Banks	-	-
Total	20	19

Section 2 - Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by product

As at 31 December 2012 financial assets totalled 8,325,797 thousand euro. The breakdown of financial assets is illustrated in the table below.

Items/Amounts <i>(in thousands of euro)</i>	31/12/2012			31/12/2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	1,765,004	582,874	-	584,966	619,789	-
1.1 Structured securities	119,520	41,692	-	130,397	43,790	-
1.2 Other debt securities	1,645,484	541,182	-	454,569	575,999	-
2. Equity instruments	163,912	-	-	186,793	-	-
3. UCI units	3,278	-	-	2,911	-	-
4. Loans	-	-	-	-	-	-
4.1 Repo agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	1,932,194	582,874	-	774,670	619,789	-
B. Derivatives						
1. Financial derivatives	118,645	5,691,923	-	67,078	4,791,594	-
1.1 trading	118,645	5,691,923	-	67,078	4,791,594	-
1.2 linked to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	161	-	-	7,546	-
2.1 trading	-	161	-	-	7,546	-
2.2 linked to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	118,645	5,692,084	-	67,078	4,799,140	-
Total (A+B)	2,050,839	6,274,958	-	841,748	5,418,929	-

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

Items/Amounts (in thousands of euro)	31/12/2012	31/12/2011
A. CASH ASSETS		
1. Debt securities	2,347,878	1,204,755
a) Governments and Central Banks	735,561	2,170
b) Other public authorities	-	-
c) Banks	1,300,363	1,115,985
d) Other issuers	311,954	86,600
2. Equity instruments	163,912	186,793
a) Banks	26,600	60,777
b) Other issuers:	137,312	126,016
- insurance companies	5,359	9,549
- finance companies	2,734	3,422
- non-financial companies	129,219	113,045
- other	-	-
3. UCI units	3,278	2,911
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	2,515,068	1,394,459
B. DERIVATIVES		
a) Banks		
- fair value	5,030,607	4,275,038
b) Customers		
- fair value	780,122	591,180
Total B	5,810,729	4,866,218
Total A+B	8,325,797	6,260,677

As at 31 December 2012 the composition of UCI units was as follows:

- Shares and SICAVs: 1,701 thousand euro
- Bonds: 946 thousand euro
- Real estate: 631 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	1,204,755	186,793	2,911	-	1,394,459
B. Increases	53,284,975	1,890,196	2,393	-	55,177,564
1. Acquisitions	53,062,797	1,855,573	2,137	-	54,920,507
2. Positive changes in fair value	18,632	8,847	246	-	27,725
3. Other changes	203,546	25,776	10	-	229,332
C. Decreases	(52,141,852)	(1,913,077)	(2,026)	-	(54,056,955)
1. Sales	(51,130,748)	(1,826,839)	(1,950)	-	(52,959,537)
2. Redemptions	(933,204)	-	-	-	(933,204)
3. Negative changes in fair value	(2,908)	(8,991)	(55)	-	(11,954)
4. Transfers to other portfolios	-	-	-	-	-
5. Other changes	(74,992)	(77,247)	(21)	-	(152,260)
D. Closing balances	2,347,878	163,912	3,278	-	2,515,068

Section 3 - Fair value financial assets – Item 30

3.1 Fair value financial assets: breakdown by product

Items/Amounts (in thousands of euro)	31/12/2012			31/12/2011		
	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	-	43	-	-	40	-
3. UCI units	-	16,376	121	16,279	-	135
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	-	16,419	121	16,279	40	135
Cost	-	16,150	135	17,561	49	249

UCI units include 16,376 thousand euro in units of Hedge Funds (comprising investments in “other assets”) and 121 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/Amounts (in thousands of euro)	31/12/2012	31/12/2011
1. Debt securities	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments	43	40
a) Banks	-	-
b) Other issuers:	43	40
- insurance companies	43	40
- finance companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCI units	16,497	16,414
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	16,540	16,454

3.3 Fair value financial assets: annual changes

<i>(in thousands of euro)</i>	Debt securities	Equity instruments	UCI units	Loans	Total
A. Opening balances	-	40	16,414	-	16,454
B. Increases	-	3	1,468	-	1,471
1. Acquisitions	-	-	1,200	-	1,200
2. Positive changes in fair value	-	3	268	-	271
3. Other changes	-	-	-	-	-
C. Decreases	-	-	(1,385)	-	(1,385)
1. Sales	-	-	(1,367)	-	(1,367)
2. Redemptions	-	-	-	-	-
3. Negative changes in fair value	-	-	(14)	-	(14)
4. Other changes	-	-	(4)	-	(4)
D. Closing balances	-	43	16,497	-	16,540

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

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

<i>Items/Amounts (in thousands of euro)</i>	31-12-2012			31-12-2011		
	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	2,927	1,440	547	-	1,101	553
2.1 Measured at fair value	2,927	1,440	547	-	1,101	553
2.2 Measured at cost	-	-	-	-	-	-
3 UCI units	-	-	-	-	-	-
4 Loans	-	-	-	-	-	-
Total	2,927	1,440	547	-	1,101	553

“Equity instruments” comprise investments in the following companies:

- SIA-SSB S.p.A. (formerly SIA S.p.A.) for 1,440 thousand euro (0.416% of the share capital);
- Unica Sim S.p.A. for 533 thousand euro (10% of the share capital);
- Gruppo Operazioni Underwriting Banche Popolari S.r.l. (GROUP Srl) for 14 thousand euro (12.5% of the share capital);
- Unipol Gruppo Finanziario S.p.A for 2,927 thousand euro of ordinary shares (0.268% 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 2012, there were no further impairments on these securities.

In September 2012, the Bank was called to subscribe the remaining unsubscribed portion of shares from the increase in share capital of Fondiaria Sai and Unipol Gruppo Finanziario as a result of guarantee commitments assumed within the Underwriting Syndicate. In consideration of the time lock up of 120 days imposed on these shares, which can be waived only in the event of participation in a joint management agreement for the shares subscribed as a whole by the guarantor banks, the Bank did not identify trading objectives for this investment, thereby classifying it in the “available for sale portfolio”. The shares subscribed as at the commitment’s discharge date are the following:

- Unipol GF S.p.A. ordinary shares: 2,093,551 at a price of 2.00 euro each;
- Unipol GF S.p.A. preferred shares: 2,195,510 at a price of 0.975 euro each;
- Fondiaria Sai S.p.A. ordinary shares: 3,563,835 at a price of 1.00 euro each;

for a total countervalue of 9,881 thousand euro.

Note that by the end of 2012, all of the Unipol GF S.p.A. preferred shares and the Fondiaria Sai S.p.A. ordinary shares were sold for a countervalue of 5,723 thousand euro, for which a net gain of 28 thousand euro was recognised. A portion of the Unipol GF S.p.A. ordinary shares were sold, equivalent to 167,794 shares, for a total countervalue of 338 thousand euro, for which a net gain of 3 thousand euro was recognised.

The market price for the remaining ordinary shares at the end of the year was 1.52 euro per share, resulting in a negative valuation reserve, before tax effects, of 924 thousand euro.

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

Items/Amounts (in thousands of euro)	31/12/2012	31/12/2011
1. Debt securities	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments	4,914	1,654
a) Banks	-	-
b) Other issuers:	4,914	1,654
- insurance companies	-	-
- finance companies	3,460	535
- non-financial companies	1,454	1,119
- other	-	-
3. UCI units	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	4,914	1,654

4.4 Available-for-sale financial assets: annual changes

(in thousands of euro)	Debt securities	Equity instruments	UCI units	Loans	Total
A. Opening balances	-	1,654	-	-	1,654
B. Increases	-	10,253	-	-	10,253
1. Acquisitions	-	9,881	-	-	9,881
2. Positive changes in fair value	-	339	-	-	339
3. Reversals	-	-	-	-	-
- recognised to the income statement	-	X	-	-	-
- recognised to shareholders' equity	-	-	-	-	-
4. Transfers from other portfolios	-	-	-	-	-
5. Other changes	-	33	-	-	33
C. Decreases	-	(6,993)	-	-	(6,993)
1. Sales	-	(6,061)	-	-	(6,061)
2. Redemptions	-	-	-	-	-
3. Negative changes in fair value	-	(930)	-	-	(930)
4. Write-downs for impairment	-	-	-	-	-
- recognised to the income statement	-	-	-	-	-
- recognised to shareholders' equity	-	-	-	-	-
5. Transfers to other portfolios	-	-	-	-	-
6. Other changes	-	(2)	-	-	(2)
D. Closing balances	-	4,914	-	-	4,914

Item B.1 "Acquisitions" consists solely of the countervalue of the share subscription from the share capital increase of Fondiaria Sai and Unipol Gruppo Finanziario, as described above.

Item B.2 "Positive changes in fair value" consists exclusively of the appreciation in the SIA-SSB S.p.A. security.

Item B.5 "Other changes" is composed of a realised gain from the sale of the Fondiaria Sai S.p.A. securities for 30 thousand and the partial share of the ordinary shares of Unipol GF S.p.A. for 3 thousand.

Item C.1 "Sales" presents the total amount received from the sale of the shares subscribed in the share capital increase of Fondiaria Sai and Unipol Gruppo Finanziario, as described above.

Item C.3 "Negative changes in fair value" consists exclusively of the depreciation in the UNIPOL GF S.p.A. ordinary shares for 924 thousand euro, in the GROUP S.r.l. securities for 4 thousand euro and in the Unica Sim S.p.A. securities for 2 thousand euro.

Item C.6 "Other changes" shows the realised loss from the sale of Unipol GF S.p.A. preferred shares.

Section 6 - Due from banks – Item 60

6.1 Due from banks: breakdown by product

Transaction type/Values (in thousands of euro)	31/12/2012	31/12/2011
A. Due from Central Banks	-	-
1. Term deposits	-	-
2. Compulsory reserve	-	-
3. Repurchase agreements	-	-
4. Other	-	-
B. Due from banks	4,123,892	4,589,123
1. Current accounts and demand deposits	623,186	2,163,973
2. Term deposits	325,152	228,242
3. Other loans:	309,180	301,611
3.1 Repurchase agreements	266,416	293,999
3.2 Finance leases	-	-
3.3 Other	42,764	7,612
4. Debt securities	2,866,374	1,895,297
4.1 Structured securities	-	-
4.2 Other debt securities	2,866,374	1,895,297
Total (book value)	4,123,892	4,589,123
Total (fair value)	4,145,700	4,597,417

This item comprises short-term loans from 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 299,828 thousand euro;
- short-term term deposits with the parent company for 2,087 thousand euro;
- the compulsory reserve deposited with the parent company for 23,237 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 2012 includes the following:

- sub-item 3.1 “Repurchase agreements”: from repurchase agreements with a countervalue of 237,141 thousand euro (226,246 thousand euro as at 31 December 2011) and securities lending transactions with cash guarantees for a countervalue of 29,275 thousand euro (67,753 thousand euro as at 31 December 2011);
- sub-item 3.3 “Other”: primarily operating receivables for 20,906 thousand euro (7,519 thousand euro as at 31 December 2011) and initial margins paid as guarantees for transactions on financial instruments in regulated markets from 21,858 thousand euro.

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 1,942,994 thousand euro, entirely subscribed by the Bank to optimise the liquidity generated by Parent Company’s treasury activities as well as liquidity generated by the Bank in issuing its own financial instruments.

Section 7 - Due from customers – Item 70

7.1 Due from customers: breakdown by product

Transaction type/Values (in thousands of euro)	Total 2012			Total 2011		
	Performing	Impaired		Performing	Impaired	
		Acquisitions	Other		Acquisitions	Other
1. Current accounts	7,415	-	18	9,335	-	38
2. Repurchase agreements	1,724,425	-	-	1,086,564	-	-
3. Mortgages	-	-	-	-	-	-
4. Credit cards, personal loans and salary-backed loans	-	-	-	-	-	-
5. Finance leases	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-
7. Other loans	196,974	-	4,043	317,938	-	4,029
8. Debt securities	-	-	-	-	-	-
8.1 Structured securities	-	-	-	-	-	-
8.2 Other debt securities	-	-	-	-	-	-
Total (book value)	1,928,814	-	4,061	1,413,837	-	4,067
Total (fair value)	1,928,814	-	4,061	1,413,777	-	4,067

Item 1 “Current accounts” mainly comprises overdrafts granted to reliable customers. These assets were collectively written down by approximately 8 thousand euro.

Item 2 “Repurchase agreements” consists of securities lending transactions guaranteed by cash for 1,724,425 thousand euro (1,071,950 thousand as at 31 December 2011).

Item 7 “Other loans - performing” primarily consists of liquidity and guarantee deposits released to clearing houses for derivatives settled on Italian and international markets for 151,624 thousand euro, collateral on financial instrument contracts released to finance companies for 30,922 thousand euro and operating receivables for 14,422 thousand euro.

Item 7 “Other loans - 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 2011 financial statements.

7.2 Due from customers: breakdown by borrower/issuer

Transaction type/Values (in thousands of euro)	Total 2012			Total 2011		
	Performing	Impaired		Performing	Impaired	
		Acquisitions	Other		Acquisitions	Other
1. Debt securities	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other public authorities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	1,928,814	-	4,061	1,413,837	-	4,067
a) Governments	-	-	-	-	-	-
b) Other public authorities	-	-	-	-	-	-
c) Other entities	1,928,814	-	4,061	1,413,837	-	4,067
- non-financial companies	420	-	6	773	-	-
- financial companies	1,908,322	-	3,964	1,391,936	-	3,971
- insurance companies	584	-	-	3,209	-	-
- other	19,488	-	91	17,919	-	96
Total	1,928,814	-	4,061	1,413,837	-	4,067

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

Name	31/12/2012			31/12/2011		
	Registered office	% Interest	% Voting rights	Registered office	% Interest	% 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	25%	25%	Milan	20%	20%
2. Società Gestione Servizi - BP Soc. cons. per azioni	Verona	10%	10%	Verona	10%	10%
3. BP Property Management Soc. cons. a r.l.	Verona	1%	1%	Verona	1%	1%

During 2012 an additional 5% of the share capital of HI-MTF S.p.A. was subscribed for a countervalue of 250 thousand euro following the exit of the shareholder Centrosim S.p.A. The transaction ensured an equal redistribution of the ownership structure, currently consisting of four shareholders with the same ownership interests (ICBPI S.p.A., ICCREA Banca S.p.A., Banca Sella Holding S.p.A and Banca Aletti & C. S.p.A.). The transaction was authorised by Bank of Italy in 2011.

In accordance with IAS 36, the impairment test was carried out to verify if the book value of the investment in Aletti Fiduciaria reflected the investment's value.

It was discovered that the book value was lower than the 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 (CGU);
- 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 CGU, for purposes of this test, is represented by Aletti Fiduciaria. The 2013-2015 Medium-term Plan approved by the company's Board of Directors on 13 February 2013 was used for purposes of testing impairment. The valuation analyses were developed applying the Dividend Discount Model.

Upon completion of the impairment test, it emerged that the value of the company is 7,705 thousand euro, and hence, in comparing it to the book value of 8,525 thousand euro, a write-down of 820 thousand euro was recognised.

10.2 Equity investments in subsidiaries, companies subject to common control or subject to significant influence: accounting data

Name	Total Assets	Total Revenues	Gains (Losses)	Shareholders' equity	Book value	Fair value
A. 100% subsidiaries						
1. Aletti Fiduciaria S.p.A.	7,881	4,134	558	5,898	7,705	X
2. Aletti Trust S.p.A.	1,122	801	(3)	533	496	X
C. Companies subject to significant influence						
1. HI-MTF S.p.A.	5,266	2,543	246	4,760	1,250	X
2. Società Gestione Servizi - BP Soc. cons. per azioni	269,833	345,981	(1,954)	107,380	10,519	X
3. BP Property Management Soc. cons. a r.l.	65,165	151,135	(1,437)	43,091	490	X
Total	349,267	504,594	(2,590)	161,662	20,460	X

The accounting data for total assets, total revenues, gains/(losses) and shareholders' equity were taken from the latest approved financial statements as at 31 December 2011.

10.3 Equity investments: annual changes

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
A. Opening balances	21,030	21,030
B. Increases	250	-
1. Acquisitions	250	-
2. Reversals	-	-
3. Revaluations	-	-
4. Other changes	-	-
C. Decreases	(820)	-
1. Sales	-	-
2. Write-downs	(820)	-
3. Other changes	-	-
D. Closing balances	20,460	21,030
E. Total revaluations	-	-
F. Total write-downs	10,505	9,685

For changes that occurred during the year, refer to the discussion in the previous paragraphs of this section.

10.4 Commitments relating to investments in subsidiaries

As at 31 December 2012 the Bank had no commitments to subsidiaries.

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

As at 31 December 2012 the Bank had no commitments to companies subject to significant influence.

Section 11 - Property, plant and equipment – Item 110

Property, plant and equipment totalled 974 thousand euro, net of related provisions for depreciation.

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

<i>Assets/Values (in thousands of euro)</i>	31/12/2012	31/12/2011
A. Assets for operational use		
1.1 owned	974	1,293
a) land	-	-
b) buildings	-	-
c) furniture and fittings	501	667
d) electronic systems	-	-
e) other	473	626
1.2 acquired through finance leases	-	-
a) land	-	-
b) buildings	-	-
c) furniture and fittings	-	-
d) electronic systems	-	-
e) other	-	-
Total A	974	1,293
B. Assets held as investments		
2.1 owned	-	-
a) land	-	-
b) buildings	-	-
2.2 acquired through finance leases	-	-
a) land	-	-
b) buildings	-	-
Total B	-	-
Total (A+B)	974	1,293

11.3 Assets for operational use: annual changes

<i>(in thousands of euro)</i>	Land	Buildings	Furniture and fittings	Electronic systems	Other	Total
A. Gross opening balances	-	-	4,669	787	3,535	8,991
A.1 Total net impairment	-	-	(4,002)	(787)	(2,909)	(7,698)
A.2 Net opening balances	-	-	667	-	626	1,293
B. Increases:	-	-	69	14	145	228
B.1 Acquisitions	-	-	69	14	145	228
(of which for business combinations)	-	-	-	-	-	-
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 changes	-	-	-	-	-	-
C. Decreases:	-	-	(235)	(14)	(298)	(547)
C.1 Sales	-	-	(9)	-	(8)	(17)
(of which for business combinations)	-	-	-	-	-	-
C.2 Depreciation	-	-	(226)	(14)	(290)	(530)
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 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held as investments	-	-	-	-	-	-
b) discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balances	-	-	501	-	473	974
D.1 Total net impairment	-	-	(4,237)	(801)	(3,207)	(8,245)
D.2 Gross closing balances	-	-	4,738	801	3,680	9,219
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 previous year following full amortisation.

Assets/Values <i>(in thousands of euro)</i>	31/12/2012		31/12/2011	
	Finite life	Infinite life	Finite life	Infinite life
A.1 Goodwill	X	20,938	X	20,938
A.2 Other intangible assets	-	-	-	-
A.2.1 Assets measured at cost:	-	-	-	-
a) intangible assets generated in-house	-	-	-	-
b) other assets	-	-	-	-
A.2.2 Fair value assets:	-	-	-	-
a) intangible assets generated in-house	-	-	-	-
b) other assets	-	-	-	-
Total	-	20,938	-	20,938

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 Asset Management contracts securities purchased at the end of 2010 from Banca Popolare di Puglia e Basilicata.

In accordance with IAS 36, evidence was found of impairment of the asset described above through the appropriate testing, or in other words, it was determined that the book value was less than the 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 (CGU);
- 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 underlying analyses were performed 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" issued 14 June 2012.

The CGU, for purposes of this test, is represented by said bank. As such, for Banca Aletti, as there was no plan providing forecasts of cash flows, and given the continued uncertainty regarding the trends in key variable in the macroeconomic scenario, and in consideration of the aforementioned guidelines provided by the Italian Valuation Board (O.I.V.), it was necessary to use economic and financial forecasts according to a multi-scenario approach.

The impairment test on goodwill was performed using the Value in Use, in full application of Basel 3, and using a Core Tier 1 Ratio Target of 8%, applied prudentially and consistent with the impairment test from the previous year. The valuation analyses were developed applying the Dividend Discount Model on the basis of the economic-financial forecasts, prepared by the parent company's Planning and Control Department.

Specifically, two scenarios were used for the goodwill testing (Prudential and Prometeia), with each being assigned an occurrence probability. The average value of the two scenarios, or the Value in Use, was comfortably greater than the Shareholders' Equity and the asset value. Therefore, no impairments were recognised on goodwill.

12.2 Intangible assets: annual changes

The following changes in intangible assets occurred during the year.

<i>(in thousands of euro)</i>	Goodwill	Other intangible assets				Total
		Generated in-house		Other		
		FIN.	INFIN.	FIN.	INFIN.	
A. Opening balances	20,938	-	-	-	-	20,938
A.1 Total net impairment	-	-	-	-	-	-
A.2 Net opening balances	20,938	-	-	-	-	20,938
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:	-	-	-	-	-	-
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	-	-	-	-	-
- amortisation	X	-	-	-	-	-
- 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 changes	-	-	-	-	-	-
D. Net closing balances	20,938	-	-	-	-	20,938
D.1 Total net impairment	-	-	-	-	-	-
E. Gross closing balances	20,938	-	-	-	-	20,938
F. Measurement at cost	-	-	-	-	-	-

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 2012, current tax liabilities amount to 2,723 thousand euro, corresponding to the taxes due for 2012 net of IRAP (regional tax) prepayments in 2012.

With regard to IRES (production tax) it should be emphasised that the related credit and debit positions can be found, respectively, under "Other Liabilities" and "Other Assets". 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 2012, "other liabilities" included liabilities to the parent company for IRES for 6,902 thousand euro, equivalent to the estimated 2012 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).

Compared to 2011, there were no changes in prospective tax rates or significant changes in the tax treatment of income items with an impact on deferred taxes.

13.1 Prepaid tax assets: breakdown

<i>(in thousands of euro)</i>	IRES	IRAP	31/12/2012	31/12/2011
A With balancing entry in the income statement				
Loan write-downs deductible in subsequent years	1,478	-	1,478	1,584
Allocations and write-downs deductible in subsequent years	462	-	462	487
Fair value measurement of financial assets and liabilities deductible in subsequent years	116	50	166	20
Personnel costs and allocations to employee severance indemnity deductible in subsequent years	1,261	-	1,261	1,997
Amortisation of goodwill and other intangible assets	582	118	700	853
Other	64	-	64	242
Total A	3,963	168	4,131	5,183
B With balancing entry in shareholders' equity				
Fair value measurement of AFS financial assets	-	51	51	1
Total B	-	51	51	1
Total (A+B)	3,963	219	4,182	5,184

13.2 Deferred tax liabilities: breakdown

<i>(in thousands of euro)</i>	IRES	IRAP	Other taxes	31/12/2012	31/12/2011
A. With balancing entry in the income statement					
Fair value measurement of financial instruments taxable in subsequent years	205	-	-	205	92
Impairment on goodwill and other intangible assets	3,426	534	-	3,960	3,479
Costs deducted off-balance sheet	-	-	-	-	140
Other	71	-	-	71	-
Total A	3,702	534	-	4,236	3,711
B. With balancing entry in shareholders' equity					
Fair value measurement of AFS financial assets	3	18	-	21	-
Total B	3	18	-	21	-
Total (A+B)	3,705	552	-	4,257	3,711

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

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
1. Opening balance	5,183	11,256
2. Increases	1,880	2,207
2.1 Prepaid taxes recognised during the year	1,880	2,176
a) relating to previous years	582	-
b) due to changes in accounting standards	-	-
c) reversals	-	-
d) other	1,298	2,176
2.2 New taxes or tax rate increases	-	31
2.3 Other increases	-	-
3. Decreases	(2,932)	(8,280)
3.1 Prepaid taxes derecognised during the year	(2,932)	(8,280)
a) reversals	(2,932)	(8,280)
b) unrecoverable write-downs	-	-
b) due to changes in accounting standards	-	-
d) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
a) transformations into tax credits as per Law no. 214/2011	-	-
b) other	-	-
4. Closing balance	4,131	5,183

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.

13.3.1 Changes in prepaid taxes as per Law no. 214/2011 (with balancing entry in the income statement)

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
1. Opening balance	2,437	2,670
2. Increases	-	24
2.1 Prepaid taxes recognised during the year	-	-
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) reversals	-	-
d) other	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	24
3. Decreases	(259)	(257)
3.1 Reversals	(259)	(257)
3.2 Transformations to tax credits	-	-
a) resulting from year-end loss	-	-
b) resulting from tax loss	-	-
3.3 Other decreases	-	-
4. Closing balance	2,178	2,437

13.4 Changes in deferred taxes (with balancing entry in the income statement)

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
1. Opening balance	3,711	3,428
2. Increases	660	603
2.1 Deferred taxes recognised during the year	660	546
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) other	660	546
2.2 New taxes or tax rate increases	-	57
2.3 Other increases	-	-
3. Decreases	(135)	(320)
3.1 Deferred taxes derecognised during the year	(135)	(320)
a) reversals	(135)	(320)
b) due to changes in accounting standards	-	-
c) changes in accounting standards	-	-
c) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
4. Closing balance	4,236	3,711

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

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
1. Opening balance	1	-
2. Increases	50	1
2.1 Prepaid taxes recognised during the year	50	1
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) other	50	1
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	-	-
3.1 Prepaid taxes derecognised during the year	-	-
a) reversals	-	-
b) unrecoverable write-downs	-	-
b) due to changes in accounting standards	-	-
d) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
4. Closing balance	51	1

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

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
1. Opening balance	-	52
2. Increases	21	2
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) changes in accounting standards	-	-
c) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
4. Closing balance	21	-

13.7 Other information

In the period between February 2011 and February 2013, the Finance Police performed an audit on Banca Aletti regarding the single stock futures transactions (listed derivative contracts that use as the reference value a single stock, also listed) and, to a lesser extent, loans of equity securities carried out from 2005 to 2009, or, in other words, the transactions associated with equity securities that are included in typical investment banking activities. The audit results were divided into two reports on findings.

In this first report, communicated in 2011 and related solely to 2006, the auditors held that the single stock future transactions that the Bank carried out on its own behalf were unlawful (carried out with a market counterpart not residing in Italy), for which the withholding tax of 27% was not applied to the dividends of the securities underlying said futures. The Lombardy Regional Administration, having acknowledged the findings proposed by the audit police, found otherwise, notwithstanding the alleged illegality, and notified the Bank of two tax assessments with which it requested 17,603,612 euro for withholdings not taken and 26,405,417 euro for penalties plus interest. To resolve the matter, the Bank, while convinced that the tax judgements are baseless, proposed a settlement, which was not agreed upon due to the fact that the Finance Police had not closed the audit. As a result, the Bank submitted a petition to the Milan Provincial Tax Commission and, given that the time period for the audits by the Finance Police is nearing the end, began conciliation proceedings.

In the second report, communicated on 21 February 2013 and relative to the years 2005 through 2009, the auditors once again found that the single stock future transactions and, for 2008, the securities lending transactions conducted with non-resident counterparties were not handled properly for tax purposes. In relation to said transactions, the Finance Police proposed a series of findings related to withholdings, direct taxes and tax credits paid abroad. If the Lombardy Regional Management, which is responsible for reviewing the investigation carried out by the Finance Police and issuing any tax assessments, upholds the findings in the report, the required tax payments could amount to 283,065,612 euro for missed withholding taxes, 42,499,834 euro for IRES and IRAP and 114,654,950 euro for tax credits the Bank was not entitled to for taxes paid abroad in addition to penalties and interest.

Both the findings in the tax assessment and the statement of objections for 2006, and to a greater extent in the contents of the report on findings received at the end of February 2013, appear baseless in that the assumption for the alleged "abuse of rights" formulated by the Finance Police is based on mere conjecture, and not on real and accurate assumptions. In addition, the findings were formulated ignoring factual circumstances and technical elements. In light of the above and based on information currently available, with the support of opinions from external experts, we maintain that the potential liability for the assessments previously described should be considered possible but not probable. While confident of the legitimacy of its transactions and the baselessness of the allegations made, the Bank took the opportunity to search for a possible settlement of the dispute as part of the dialogue initiated with the Tax Authority following the communication of the first Report on Findings, as is standard procedure in such circumstances. An out-of-court settlement of the dispute is seen to be preferable to the costs, protracted timing and inevitable uncertainties associated with a legal dispute.

Section 15 - Other Assets – Item 150

15.1 Other assets: breakdown

Details of certain items of “Other Assets” are provided below.

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
A. Loans	62,915	63,590
1. Tax credits	51,706	50,626
2. Other income receivable	11,209	12,964
B. Other items	65,076	7,369
1. In progress	22,839	3,189
2. Securities and coupons to be settled	40,989	3,441
3. Other transactions to be settled	-	-
4. Other items	1,248	739
Total	127,991	70,959

“Tax credits” consists primarily of:

- 47,973 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 46,911 thousand euro are attributable to credits with Swiss tax authorities for withholding on dividends received in the 2006 through 2012 tax years;
- 2,918 thousand euro in amounts due from the parent company, 750 thousand euro of which is related to 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 recognised in previous years, while 2,167 thousand euro, recognised in 2012, relates to the deductibility from income taxes of IRAP taxes on costs incurred by the business for employees and similar from 2007 to 2011 for which the parent company will present a reimbursement claim in 2013 within the time period provided by law.

Specifically, note that the Swiss financial administration, after having communicated in 2010 that it had certain concerns about the claims submitted for tax credits, has not yet made a final decision on the right to reimbursement for the years 2006-2009 and has requested additional information from the Bank. The requested information was sent in various communications, the last of which in November 2012, with the assistance of a Swiss legal firm known for its skill and experience.

Having the support of specific, independent legal and tax opinions, including in Switzerland, the Bank believes that the Swiss tax credits are fully reimbursable and that the aforementioned rejection letter was unfounded, in consideration of both Swiss tax regulation as well as the position expressed by the Swiss Federal Administrative Court, should litigation become necessary. The potential liability associated with not collecting the full amount of the tax credit was deemed possible.

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.

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 2012 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” primarily consists of 458 thousand euro of receivables for invoices issued, 373 thousand euro of accruals for commission advances and 292 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**

Transaction type/Values (in thousands of euro)	31/12/2012	31/12/2011
1. Due to central banks	-	-
2. Due to banks	4,560,402	3,619,320
2.1 Current accounts and demand deposits	2,074,123	1,842,109
2.2 Term deposits	819,481	711,068
2.3 Loans	1,661,914	1,053,484
2.3.1 Reverse repurchase agreements	1,661,914	1,053,484
2.3.2 Other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other payables	4,884	12,659
Total	4,560,402	3,619,320
Fair value	4,560,402	3,619,306

Item 2.2 “Term deposits” consists solely of guarantee deposits for collateral on financial instrument contracts (711,068 thousand euro as at 31 December 2011).

Item 2.3 “Loans” consists of:

- Repurchase transactions for a countervalue of 1,604,768 thousand euro (885,837 thousand euro as at 31 December 2011);
- Securities lending transactions guaranteed by cash for a countervalue of 57,146 thousand euro (167,647 thousand euro as at 31 December 2011).

Item 2.5 “Other payables” comprises operating payables.

Section 2 - Due to customers – Item 20**2.1 Due to customers: breakdown by product**

Transaction type/Values (in thousands of euro)	31/12/2012	31/12/2011
1. Current accounts and demand deposits	497,612	502,423
2. Term deposits	194,773	222,235
3. Loans	75,871	242,312
3.1 Reverse repurchase agreements	75,871	242,312
3.2 Other	-	-
4. Commitments to repurchase own financial instruments	-	-
5. Other payables	23,095	20,555
Total	791,351	987,525
Fair value	791,351	987,525

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 39,267 thousand euro (195,368 thousand euro as at 31 December 2011);
- Securities lending transactions guaranteed by cash for a countervalue of 36,604 thousand euro (46,944 thousand euro as at 31 December 2011).

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)	31/12/2012				31/12/2011			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,943,229	-	1,963,673	-	1,876,614	-	1,884,300	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,943,229	-	1,963,673	-	1,876,614	-	1,884,300	-
2. Other securities	2,732	-	2,732	-	8,161	-	8,161	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	2,732	-	2,732	-	8,161	-	8,161	-
Total	1,945,961	-	1,966,405	-	1,884,775	-	1,892,461	-

As previously discussed in the 2011 Annual Report, Banca Aletti authorised the issue of senior bonds, at fixed and floating rates, including those zero coupon bonds during the previous year. There were, in fact, 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 as at 31 December 2012 is 1,943,229 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 2012, financial liabilities held for trading totalled 6,396,678 thousand euro. The breakdown of the financial liabilities is illustrated in the table below.

Transaction type/Values (in thousands of euro)	31/12/2012					31/12/2011				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	2,927	3,103	-	-	-	3,694	3,373	-	-	3,373
2. Due to customers	5,791	16,189	-	-	-	22,084	22,003	-	-	22,003
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	8,718	19,292	-	-	-	25,778	25,376	-	-	25,376
B. Derivatives										
1. Financial derivatives	-	147,217	6,226,753	209	-	-	219,385	4,950,464	658	-
1.1 Trading	X	147,217	6,226,753	209	X	X	219,385	4,950,464	658	X
1.2 Linked to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	3,207	-	-	-	-	-	-	-
2.1 Trading	X	-	3,207	-	X	X	-	-	-	X
2.2 Linked to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	147,217	6,229,960	209	X	X	219,385	4,950,464	658	X
Total (A+B)	X	166,509	6,229,960	209	X	X	244,761	4,950,464	658	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

L1 = Level 1

L2 = Level 2

L3 = Level 3

“Due to banks” refers to uncovered short positions on listed shares issued by Banks.

“Due to customers” includes uncovered short positions on listed shares issued by Other Companies.

Section 8 - Tax liabilities – Item 80

Refer to Section 13 of Assets.

Section 10 - Other Liabilities – Item 100

10.1 Other liabilities: breakdown

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
A. Payables	37,107	80,272
Due to Group companies for tax consolidation	6,902	42,858
Due to Tax Authorities for amounts payable on behalf of third parties	3,807	2,835
Due to personnel	807	2,156
Payables to Social Security Authorities	1,447	1,407
Trade payables	24,144	31,016
B. Other items	81,401	25,136
Securities and coupons to be settled	79,943	22,795
Bank transfers for clearance	248	1,046
Other items	1,210	1,295
Total	118,508	105,408

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 6,902 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 301 thousand euro capital gains payable to the tax authority, withholdings on interest paid to customers for 1,256 thousand euro, 152 thousand euro VAT payable and IRPEF withholding tax for 1,467 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 2012 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 2012 which were settled in the first few days of the new year.

“Other items” consists mainly of 1,059 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 2012 was determined in accordance with IAS 19 and totals 3,728 thousand euro. The table below provides details of changes during the year compared to those of the previous year.

<i>(in thousands of euro)</i>	31/12/2012	31/12/2011
A. Opening balances	2,917	2,817
B. Increases	953	292
B.1 Allocations for the year	379	67
B.2 Other changes	574	225
C. Decreases	(142)	(192)
C.1 Settlements	(125)	(128)
C.2 Other changes	(17)	(64)
D. Closing balances	3,728	2,917
Total	3,728	2,917

Changes during the year

The amount recorded under sub-item B.1 “Allocations for the year” includes:

- interest cost of 137 thousand euro;
- actuarial losses of 243 thousand euro.

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.

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, for companies with an average of at least 50 employees during 2006.

For said companies, 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.

Key actuarial assumptions

The actuarial valuation of the employee severance indemnity was carried out by an external, independent actuary and based on the “accrued benefits” methodology with the “Projected Unit Credit” criterion as provided by IAS 19. The following table shows the key demographic, economic and financial assumptions that form the basis of the valuation as at 31 December 2012.

Key demographic and actuarial assumptions for the employee severance indemnity valuation as at 31 December 2012	
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	3.20% equal to the Iboxx Corporate A index, with the duration corresponding to the average duration of all benefits recognised for employees of Group companies (social security, employee severance indemnity and seniority bonuses).

Annual inflation rate	2.00%. The resulting annual revaluation rate of the employee severance indemnity is 3%, or 75% of the inflation rate plus 1.5 percentage points.
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Note that the actuarial assumptions underlying the employee severance fund valuation as at 31 December 2012 are consistent with those used in the previous year, with the exception of the discount rate of 3.20%, compared to 4.25% used as at 31 December 2011. The change in this financial assumption resulted in the recognition of an actuarial loss of 331 thousand euro for 2012. In addition, considering the consequent effects on past experience, or the differences between previous actuarial assumptions and what actually occurred, the actuarial losses for 2012 amount to 243 thousand euro. These effects were recognised as a balancing entry to the valuation reserves, net of tax effect.

Considerations on the rate used for discounting the defined benefits plan

Firstly, note that the discount rate is one of the most important assumptions used in measuring the obligations for defined benefit plans and, as such, the related variations are one of the primary sources generating actuarial gains and losses. Based on IAS 19 as the reference standard, this rate must reflect the time value of money, but not the specific credit risk of the entity, the actuarial or investment risk, nor the risk that, in the future, the actual data may differ from that of the actuarial assumptions used. Additionally, the standard states that this rate must be calculated in reference to market yields of the securities of primary companies in the country in which the entity operates (or, the high quality corporate bond yield), as at the annual reporting date, and alternatively, if there is no market for such securities, with reference to market yields on government securities. As the standard does not specify the rating grade that should be considered for yields of primary companies, and as there is no IFRIC offering an interpretation of the issue, the selection of the most appropriate rate to use in the valuation for these financial statements was the result of a thorough analysis, as explained below. In particular, the rate selected had to take into consideration the high volatility in market yields, due to the sovereign debt crisis and the recession in the European economy, which resulted in a downgrading of many issues, as previously discussed in the section "Uncertainties in the use of estimates in preparing the separate financial statements" in Part A of the Notes to the Financial Statements. Given this scenario, it was decided that the variation of an index expressing yields of "AA" rated companies, which under normal conditions should represent only changes in market expectations, would be affected by the downgrading of many corporate issuers, whose ratings were lowered simply because of the so-called "sovereign ceiling", based on which an issuer's rating cannot be greater than the rating assigned to the country in which it resides. As a result, the yields earned by "AA" companies, for a long-term investment horizon consistent with the duration of the obligations that are being measured, is made up of a rather limited number of issuers and issues (as was evident in the "Iboxx Corporate AA" index used by the Group for the valuation as at 31 December 2011) and therefore was determined to not represent a high quality corporate bond yield, even in relation to the specific geographical area in which the Group operates, highly concentrated in Italy, which is sparsely represented in the "AA" rating class.

Given the above, for purposes of these financial statements, it was decided to calculate the discount rate in reference to a wider sample of issuers, represented by companies with an "A" rating, as the best expression of yields for high quality companies. As such, the discount parameter was designated to be equivalent to the index of the infoprovider Market: "Iboxx Corporate A".

Sensitivity analyses

As required by IAS 19, a sensitivity analysis was conducted on obligations related to the employee severance indemnity for those actuarial assumptions deemed most significant, in order to demonstrate the extent to which the liabilities in the financial statements would vary for reasonable possible swings in each of the actuarial assumptions. Specifically, the following table shows the change in the employee severance indemnity if the discount rate were to increase or decrease by 50 basis points, as well as assuming a higher turnover rate, of 1%, with respect to the parameters actually used.

	Absolute changes (in euro)	Percentage changes
discount rate +0.5%	-163,077.49	-4.37%
discount rate -0.5%	175,342.42	4.70%
inflation rate +0.5%	116,244.80	3.12%
inflation rate -0.5%	-111,464.83	2.99%
turnover rate +1%	13,712.52	0.37%
Service Cost for the following year and Duration of the plan		
2013 Service Cost (in euro)	Duration of plan (in years)	
0.00	6.3	

Section 12 - Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts (in thousands of euro)	31/12/2012	31/12/2011
1. Company pension funds	-	-
2. Other provisions for risks and charges	5,946	9,014
2.1 Legal disputes	-	-
2.2 Personnel costs	4,584	7,360
2.3 Other	1,362	1,654
Total	5,946	9,014

Sub-item 2.2 “Personnel costs” refers to the liabilities associated with certain employee benefits, recognised as a balancing entry to the income statement item “Personnel costs” and characterised by some elements of uncertainty regarding the contingency date or the amount of the future outlay required for its settlement. Specifically, this item contains provisions for the corporate award (VAP) and incentive systems for a total of 4,298 thousand euro, for loyalty bonuses amounting to 221 thousand euro and solidarity funds for 41 thousand euro. The amount of the liability for the S.I.PRE. (Supplementary Benefits Plan), reserved for certain employees, amounts to 24 thousand euro.

To make a proper comparison with the previous year, note that as at 31 December 2012, this item included the allocation for the corporate award (VAP), which had been recognised in “Other liabilities” as at 31 December 2011, in the amount of 1,060 thousand euro. The quantification of this award, which is provided for in art. 43 of the National Collective Labour Agreement, is subject to agreements signed periodically between the Bank and the labour unions. In consideration of the specific business and market scenario in which Banco Popolare Group operates, and given that the 2012 corporate award (VAP) agreement had not been concluded at the date this annual report was prepared, it cannot be excluded that the conditions and criteria that will be agreed upon for recognising the award may be different than those that have been used up to this time. Based on the scenario described above, it was determined that the elements of uncertainty underlying the estimates are greater than those normally characterising a presumed liability, for which one reasonably expects that the amount paid is essentially in line with the amount allocated. For this reason, the allocation for the 2012 corporate award was recognised as a balancing entry to the “provisions for risks and charges”.

Sub-item 2.3 “Other” amounts to 1,362 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 2013.

12.2 Provisions for risks and charges: annual changes

(in thousands of euro)	Pension funds	Other funds	Total
A. Opening balances	-	9,014	9,014
B. Increases	-	4,490	4,490
B.1 Allocations for the year	-	4,389	4,389
B.2 Time-related changes	-	10	10
B.3 Changes due to discount rate variations	-	-	-
B.4 Other changes	-	91	91
C. Decreases	-	(7,558)	(7,558)
C.1 Utilisation during the year	-	(7,340)	(7,340)
C.2 Changes due to discount rate variations	-	-	-
C.3 Other changes	-	(218)	(218)
D. Closing balances	-	5,946	5,946

Sub-items B.1 and B.2 form the total impact on the income statement of changes in provisions for risks and charges in 2012. The amount mainly consists of 4,316 thousand euro for provisions for personnel costs recognised to item 150 a) “Personnel costs” of the income statement and 73 thousand euro for 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 201 thousand euro and 7,139 thousand euro in payments relating to personnel costs.

Item C.3 “Other Changes” refers mainly to the residual surplus of the provision after utilisations for the payment of personnel costs recognised in the income statement for 25 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 2012 totalled 760 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

The Solidarity Fund reported in section 12.1 will have an economic effect next year, therefore it was not necessary to discount the amount.

Section 14 - Capital and reserves - Items 130, 150, 160, 170, 180, 190 and 200

14.1 Capital and reserves: breakdown

Items/Types (in thousands of euro)	31/12/2012	31/12/2011
1. Share Capital	121,164	121,164
2. Share premium reserve	72,590	72,590
3. Reserves	398,967	250,371
4. (Own shares)	-	-
5. Valuation reserves	(704)	33
6. Equity instruments	-	-
7. Profit (Loss) for the year	113,359	148,596
Total	705,376	592,754

As at 31 December 2012 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

Items/Types (in thousands of euro)	Ordinary	Other
A. Opening balance of shares in issue	23,481,306	-
- fully called	23,481,306	-
- not fully called	-	-
A.1 Own shares (-)	-	-
A.2 Shares in issue: opening balances	23,481,306	-
B. Increases	-	-
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- bond conversion	-	-
- warrant exercise	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Disposal of own shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Business disposals	-	-
C.4 Other changes	-	-
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 2012 was as follows:

- Legal reserve: 24,233 thousand euro;
- Other reserves: 374,734 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 cover	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 (2)	-	-	-
b) other	374,734	A, B, C	374,734	-	-
Other reserves:					
Valuation reserves	(704)	(3)	-	-	-
Comprehensive total	592,017		447,324	-	-
Non-distributable share	-		-	-	-
Distributable residual share	592,017		447,324	-	-

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

(1) according to art. 2427, 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) only for the portion of the reserve that exceeds one-fifth of share capital may be distributed or used to increase share capital (art. 2430, subsection 1 of the Italian Civil Code)

Note that the amount of the equity reserves and the profits carried forward cannot be lower than 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 2,603 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)	31/12/2012	31/12/2011
1) Financial guarantees granted	595	645
a) Banks	595	645
b) Customers	-	-
2) Commercial guarantees granted	-	-
a) Banks	-	-
b) Customers	-	-
3) Irrevocable commitments to disburse funds	276,911	546,788
a) Banks	113,585	407,449
i) certain use	113,585	407,449
ii) uncertain use	-	-
b) Customers	163,326	139,339
i) certain use	163,326	139,339
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	191,356	323,709

The guarantees granted comprise the amount committed to the Interbank Fund for Protection and Deposits for 595 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)	31/12/2012	31/12/2011
1. Financial assets held for trading	4,796	29,173
2. Fair value financial assets	-	-
3. Available-for-sale financial assets	-	-
4. Financial assets held to maturity	-	-
5. Due from banks	312,810	185,630
6. Due from customers	30,920	18,170
7. Property, plant and equipment	-	-
Total	348,526	232,973

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 2012 there were no securities sold to guarantee securities lent by the bank.

Furthermore, note that as at 31 December 2012 there were outstanding funding transactions guaranteed by securities (both repurchase agreements and securities lending) that were not recognised in balance sheet assets for 1,597,990,482 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

Types of services (in thousands of euro)	31/12/2012	31/12/2011
1. Execution of customer orders		
a) acquisitions	8,254,267	4,554,987
1. regulated	8,111,525	4,323,004
2. unregulated	142,742	231,983
b) sales	8,212,569	4,275,992
1. regulated	8,036,870	4,143,624
2. unregulated	175,699	132,368
2. Portfolio management		
a) individual	12,218,539	10,743,033
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):	53,445,228	62,693,837
1. securities issued by the bank preparing the financial statements	-	-
2. other securities	53,445,228	62,693,837
c) third-party securities deposited with third parties	53,226,225	62,517,061
d) own securities deposited with third parties	5,338,798	3,343,502
4. Other transactions	-	-

The balance for Asset Management includes 59,638 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 includes both government and corporate bonds.

The table below provides the amounts (in par value) of the outstanding positions as at 31 December 2012.

Securities borrowed from (in thousands of euro)	Security type (par value as at 31/12/2012)		
	Government securities	Bank securities	Other securities
a) Banks	-	14,418	12,395
b) Financial intermediaries	1,413,137	19,615	97,184

Securities guaranteed by cash lent to (in thousands of euro)	Security type (par value as at 31/12/2012)		
	Government securities	Bank securities	Other securities
a) Banks	3,900	8,034	14,720
b) Financial intermediaries	-	4,406	30,243

Securities guaranteed by other securities lent to (in thousands of euro)	Security type (par value as at 31/12/2012)		
	Government securities	Bank securities	Other securities
a) Banks	64,134	1,000	754
b) Financial intermediaries	24,253	13,000	59,003

PART C – INCOME STATEMENT DATA

Section 1 - Interest – Items 10 and 20

1.1. Interest income and similar revenues: breakdown

Items/Types (in thousands of euro)	Debt securities	Loans	Other transactions	2012	2011
1. Financial assets held for trading	61,713	-	-	61,713	62,390
2. Available-for-sale financial assets	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-
4. Due from banks	85,051	19,045	-	104,096	40,955
5. Due from customers	-	7,111	-	7,111	15,482
6. Fair value financial assets	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	-	-	-
Total	146,764	26,156	-	172,920	118,827

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 673 thousand euro (479 thousand euro as at 31 December 2011) and refers to current accounts and deposits in other currencies.

1.4 Interest expense and similar charges: breakdown

Items/Types (in thousands of euro)	Payables	Securities	Other transactions	2012	2011
1. Due to central banks	-	X	-	-	-
2. Due to banks	9,810	X	-	9,810	29,635
3. Due to customers	28,022	X	-	28,022	29,543
4. Securities in issue	X	66,792	-	66,792	11,222
5. Financial liabilities held for trading	6	-	-	6	32
6. Fair value financial liabilities	-	-	-	-	-
7. Other liabilities and provisions	X	X	-	-	-
8. Hedging derivatives	X	X	-	-	-
Total	37,838	66,792	-	104,630	70,432

1.6.1 Interest expense on liabilities in foreign currency

Interest expense on financial liabilities in foreign currency totalled 594 thousand euro (305 thousand euro as at 31 December 2011) and refers to current accounts and deposits in other currencies.

Section 2 - Commissions – Items 40 and 50

2.1 Commission income: breakdown

Types of service/Values (in thousands of euro)	2012	2011
a) Guarantees granted	-	-
b) Credit derivatives	-	-
c) Management, intermediation and advisory services:	171,369	146,156
1. financial instrument trading	6,030	7,697
2. foreign currency trading	119	72
3. portfolio management	36,074	41,773
3.1 individual	36,074	41,773
3.2 collective	-	-
4. securities custody and administration	995	3,255
5. custodian bank	-	-
6. securities placement	120,887	84,623
7. order receipt and transmission	1,877	1,998
8. advisory services	1,288	1,292
8.1 on investments	1,288	1,292
8.2 on financial structuring	-	-
9. third party service distribution	4,099	5,446
portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	2,904	4,021
9.3 other products	1,195	1,425
d) Collection and payment services	65	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	93	162
j) Other services	6,754	1,523
Total	178,281	147,925

Item c) 6. "Securities placement" consists primarily of:

- commission income for debt security placement of 101,751 thousand euro;
- commission income for placement of funds and other financial products of 16,643 thousand euro;
- commission income for takeover bids/share capital increases of 1,403 thousand euro;
- commission income for certificates placement of 1,049 thousand euro;

Item j) "Other services" mainly includes commissions for "insurance product arrangements" for 5,933 thousand euro, support services for low-liquidity securities for 305 thousand euro and 357 thousand euro for securities lending transactions guaranteed by securities.

2.2 Commission income: product and service distribution channels

Channels/Values (in thousands of euro)	2012	2011
a) at own branches:	161,060	131,842
1. portfolio management	36,074	41,773
2. securities placement	120,887	84,623
3. third party products and services	4,099	5,446
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

Services/Values (in thousands of euro)	2012	2011
a) Guarantees granted	4	5
b) Credit derivatives	-	-
c) Management and intermediation services:	154,909	103,203
1. financial instrument trading	2,439	3,767
2. foreign currency trading	-	-
3. portfolio management	-	-
3.1 own assets	-	-
3.2 third party assets	-	-
4. securities custody and administration	3,318	3,298
5. financial instrument placement	138,760	81,727
6. off-premises sale of financial instruments, products and services	10,392	14,411
d) Collection and payment services	18	15
e) Other services	1,085	1,536
Total	156,016	104,759

“Commission expense” mainly refers to commissions paid to Banco Popolare Group banks for AUM, debt security and certificate placements.

Section 3 - Dividends and similar revenues – Item 70

3.1 Dividends and similar revenues: breakdown

Items/Income (in thousands of euro)	2012		2011	
	Dividends	Income from UCI units	Dividends	Income from UCI units
A. Financial assets held for trading	18,360	56	57,269	15
B. Available-for-sale financial assets	-	-	-	-
C. Fair value financial assets	-	-	-	-
D. Equity investments	-	X	-	X
Total	18,360	56	57,269	15

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/Items (in thousands of euro)	Capital gains	Trading gains	Capital losses	Trading losses	Net result
	(A)	(B)	(C)	(D)	(A+B)-(C+D)
1. Financial assets held for trading	30,932	88,728	(12,967)	(58,815)	47,878
1.1 Debt securities	21,839	81,149	(4,576)	(4,900)	93,512
1.2 Equity instruments	8,847	7,569	(8,336)	(53,894)	(45,814)
1.3 UCI units	246	10	(55)	(21)	180
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	1	2,346	(654)	(6,077)	(4,384)
2.1 Debt securities	-	-	-	-	-
2.2 Borrowings	1	2,346	(654)	(6,077)	(4,384)
2.3 Other	-	-	-	-	-
Financial assets and liabilities: exchange differences	X	X	X	X	(9,781)
3. Derivatives	3,680,007	5,242,872	(3,505,570)	(5,244,713)	174,936
4.1 Financial derivatives:	3,679,909	5,236,361	(3,494,880)	(5,238,675)	185,055
- on debt securities and interest rates	3,344,515	4,891,440	(3,120,312)	(4,910,579)	205,064
- on equity instruments and share indices	335,085	344,921	(374,411)	(327,841)	(22,246)
- on currencies and gold	X	X	X	X	2,340
- other	309	-	(157)	(255)	(103)
4.2 Credit derivatives	98	6,511	(10,690)	(6,038)	(10,119)
Total	3,710,940	5,333,946	(3,519,191)	(5,309,605)	208,649

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 section "Dividends and recognition of revenues". The positive figure recognised to the income statement under "Net trading gains/(losses)" as at 31 December 2012 totals 558 thousand euro and the residual differences still to be recognised amount to 208 thousand euro.

Section 5 - Hedging gains/losses – Item 90

5.1 Hedging gains/losses: breakdown

Income components/Values (in thousands of euro)	2012	2011
A. Income relating to:		
A.1 Fair value hedging derivatives	-	145
A.2 Fair value hedging of financial assets	-	-
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
B. Charges relating to:		
B.1 Fair value hedging derivatives	-	-
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)
C. Net hedging gains/losses (A-B)	-	31

The Bank did not carry out hedging transactions in 2012. The 2011 data refers to hedging for the exchange rate risk carried out in the first half of the year related to the London Stock Exchange security, through a currency repurchase agreement (a fixed-rate GBP-Euro repo).

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

6.1 Gains (Losses) from disposals/repurchases: breakdown

Items/Income components (in thousands of euro)	2012			2011		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks	-	-	-	446	-	446
2. Due from customers	-	-	-	910	-	910
3. Available-for-sale financial assets	33	(2)	31	2,944	-	2,944
3.1 Debt securities	-	-	-	-	-	-
3.2 Equity instruments	33	(2)	31	2,944	-	2,944
3.3 UCI units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	33	(2)	31	4,300	-	4,300
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

Item 3 “Equity instruments” shows the financial results from the sale of the shares subscribed in the second half of 2012 for the capital transaction with Fondiaria-Sai/Unipol GF described in Part B of the Notes to the Financial Statements Section 4 – Available for sale assets related to the securities.

The 2011 data shown in item 1 “Due from banks” shows the gains realised in the previous year for the full sale of the receivable that the Bank had with Kaupthing Banki HF. The figures shown in item 2 “Due from customers” show the gain from the full sale of Pillar Securitisation S.a.r.l. security.

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/Items (in thousands of euro)	Capital gains	Realised gains	Capital losses	Realised losses	Net result
	(A)	(B)	(C)	(D)	(A+B)-(C+D)
1. Financial assets	278	-	(14)	(4)	260
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	10	-	-	-	10
1.3 UCI units	268	-	(14)	(4)	250
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
Assets and liabilities in foreign currencies: exchange differences	X	X	X	X	-
4. Credit and financial derivatives	-	-	-	-	-
Total	278	-	(14)	(4)	260

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

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

Transactions/Items (in thousands of euro)	Write-downs			Reversals				2012	2011
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Due from banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers	-	(52)	-	-	-	-	56	4	(83)
Impaired loans acquired	-	-	X	-	-	X	X	-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other receivables	-	(52)	-	-	-	-	56	4	(83)
- Loans	-	(52)	-	-	-	-	56	4	(83)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	-	(52)	-	-	-	-	56	4	(83)

A = due to interest
B = other reversals

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

Transactions/Items (in thousands of euro)	Write-downs			Reversals				2012	2011
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Guarantees granted	-	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	(22)	-	-	-	-	-	(22)	-
E. Total	-	(22)	-	-	-	-	-	(22)	-

A = due to interest
B = other reversals

Section 9 - Administrative expense – Item 150

9.1 Personnel costs: breakdown

Type of service/Values (in thousands of euro)	2012	2011
1) Employees	42,667	45,633
a) wages and salaries	31,593	33,202
b) social security costs	7,951	8,659
c) employee termination indemnity	1,420	1,757
d) welfare costs	-	-
e) provisions for employee severance indemnity	137	127
f) provisions for pension funds and similar commitments:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary benefit plans:	760	932
- defined contribution plans	760	932
- defined benefit plans	-	-
h) costs deriving from share-based payments	-	-
i) other employee benefits	806	956
2) Other personnel in service	1,165	1,506
3) Directors and Auditors	779	739
4) Staff laid off	-	-
5) Cost recoveries for employees seconded to other companies	(2,985)	(2,772)
6) Reimbursements for employees seconded to the company	3,010	4,196
Total	44,636	49,302

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 137 thousand euro. As discussed in Part A – Accounting policies, the figures for 2011 for the item "provisions" was restated following the introduction of the new IAS 19, attributing the actuarial gain of 59 thousand euro to the Valuation Reserve.

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

	2012	2011
Employees	438	431
a) Executives	23	23
b) Management	296	295
- grades 3 and 4	196	192
c) Other employees	119	113
Other personnel	18	23
Total	456	454

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

Type of service/Values (in thousands of euro)	2012	2011
a) real estate expense	3,222	3,995
- property rents and maintenance	2,447	3,667
- cleaning costs	-	-
- electricity, water and heating	775	328
b) indirect taxes and duties	3,042	900
c) postal, telephone, printing and other office costs	698	905
d) furniture, machine and system maintenance and repayments	164	324
e) professional and advisory services	2,376	2,876
f) costs for searches and information	177	10
g) surveillance and security transport	100	62
h) third party provision of services	41,264	38,620
i) advertising, entertainment and gift costs	1,777	1,972
l) insurance premiums	242	294
m) transport, vehicle rental and travel expenses	671	613
n) other costs and expense	1,339	1,697
Total	55,072	52,268

Through the creation of consortium centres in Banco Popolare Group, Banca Aletti, and the other consortium companies, have been able to obtain a marked cost reduction and expert, specialised services.

Specifically, all technology and application development 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	2012	2011
1. Retirement fund provisions	-	X	-	-
2. Provisions for other risks and charges:	(82)	173	91	(617)
a) Legal disputes	(27)	14	(13)	-
b) Personnel costs	(5)	137	132	-
c) Other	(50)	22	(28)	(617)
Total	(82)	173	91	(617)

91 thousand euro in net provisions for risks and charges were recognised to the income statement in 2012 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 2013.

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

Assets/Income components (in thousands of euro)	Depreciation	Write-downs for impairment	Reversals	Net result
	(a)	(b)	(c)	(a+b-c)
A. Property, plant and equipment				
A.1 owned	(530)	-	-	(530)
- for operational use	(530)	-	-	(530)
- as investments	-	-	-	-
A.2 acquired through finance leases	-	-	-	-
- for operational use	-	-	-	-
- as investments	-	-	-	-
Total	(530)	-	-	(530)

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

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

Assets/Income components (in thousands of euro)	Amortisation	Write-downs for impairment	Reversals	Net result
	(a)	(b)	(c)	(a+b-c)
A. Intangible assets				
A.1 owned	-	-	-	-
- generated in-house	-	-	-	-
- other	-	-	-	-
A.2 acquired through finance leases	-	-	-	-
Total 31/12/2012	-	-	-	-
Total 31/12/2011	(3)	-	-	(3)

Section 13 - Other operating income and expense – Item 190

13.1 Other operating expense: breakdown

Type/Values (in thousands of euro)	2012	2011
a) Depreciation of improvements to third party assets	(216)	(451)
b) Other operating expenses	(63)	(86)
Total	(279)	(537)

13.2 Other operating income: breakdown

Type/Values (in thousands of euro)	2012	2011
a) Tax recoveries	2,853	787
b) Cost recoveries	229	40
c) Services provided to group companies	7,289	8,287
d) Other operating income	152	338
Total	10,523	9,452

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 components/Values (in thousands of euro)	2012	2011
A. Income	-	-
1. Revaluations	-	-
2. Disposal gains	-	-
3. Reversals	-	-
4. Other income	-	-
B. Charges	(820)	-
1. Write-downs	-	-
2. Write-downs for impairment	(820)	-
3. Disposal losses	-	-
4. Other charges	-	-
Net result	(820)	-

Item B.2 “Write-downs for impairment” refers the impairment recognised on the equity investment in Aletti Fiduciaria S.p.A. for 820 thousand euro.

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 2012.

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

During 2012, Gains on investment disposals were recognised for a total of 26 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 components/Values (in thousands of euro)	2012	2011
1. Current taxes (-)	(113,819)	(69,562)
2. Change in current taxes for previous years (+/-)	1,586	-
3. Reduction in current taxes for this year (+)	-	-
3.bis Reduction in current taxes for this year for tax credits as per Law no. 214/2011 (+)	-	-
4. Change in prepaid taxes (+/-)	(1,052)	(6,073)
5. Change in deferred taxes (+/-)	(525)	(283)
6. Income tax for the year (-)	(-1 +/- 2 + 3 +/- 4 +/- 5)	(75,918)

18.2 Reconciliation between theoretical and actual balance sheet tax charges

IRES		2012	2011
<i>(in thousands of euro)</i>			
Profit/(loss) on current operations before tax	(I)	227,170	224,574
Negative income statement items not fully significant (+):	(II)	6,419	3,525
> non-deductible interest expense		3,947	2,277
> capital losses from realisation/valuation of investments		821	-
> other (telephone costs, entertainment costs, transport costs, sundry costs, non-deductible contingency liabilities, etc.)		1,651	1,248
Positive income statement items not fully significant (-):	(III)	-	(5,396)
> insignificant portion of gains from realisation/valuation on investments		-	(2,826)
> other (non-taxable contingent assets, etc.)		-	(2,570)
Increases in taxable amounts not linked to income statement items (+):	(IV)	68	324
> other (primarily tax effect on Italian UCIs)		68	324
Decreases in taxable amounts not linked to income statement items (-):	(V)	(9,682)	(537)
> IRAP deductions		(4,959)	(260)
> portion of income facilitated by A.C.E. (Economic Growth Assistance)		(4,666)	(207)
> other		(57)	(70)
> other (primarily tax effect on Italian UCIs)		(9,682)	(537)
IRES taxable amount	(I)+(II)+(III)+(IV)+(V)	223,975	222,490
IRES tax rate		27.50%	27.50%
Total IRES	(A)	61,593	61,185
Actual tax rate		27.11%	27.24%

IRAP		2012	2011
<i>(in thousands of euro)</i>			
Profit/(loss) on current operations before tax	(I)	227,170	224,574
Negative income statement items not fully significant (+):	(II)	41,234	44,528
> non-deductible interest expense		4,185	2,715
> non-deductible portion of depreciation of operating assets		53	60
> other administrative expense not fully deductible		5,507	5,227
> personnel costs net of permitted deductions (wedge reductions, invalidity, introductory contracts, etc.)		30,630	35,764
> write-down of loans net of reversals		17	83
> net provisions for risks and charges		-	617
> losses on investments		821	-
> other		21	62
Positive income statement items not fully significant (-):	(III)	(10,143)	(29,988)
> non-relevant portion of dividends		(9,180)	(28,634)
> other operating income		(872)	(1,354)
> other		(91)	-
Increases in taxable amounts not linked to income statement items (+):	(IV)	-	1,330
> other		-	1,330
Decreases in taxable amounts not linked to income statement items (-):	(V)	-	(18,464)
> other		-	(18,464)
IRAP taxable amount	(I)+(II)+(III)+(IV)+(V)	258,261	221,980
IRAP tax rate		5.57%	5.57%
Total IRAP	(B)	14,385	12,364
Actual tax rate		6.33%	5.51%

Non-current IRES and IRAP and other taxes	2012	2011
IRES - Current, prepaid and deferred taxes from previous years	-	2,435
IRAP - Current, prepaid and deferred taxes from previous years	-	(49)
Effect of IRES reimbursement petition for IRAP deductibility on the cost for employees between 2007 and 2011	(2,168)	-
Total	(C)	2,386
Total taxes on profit/(loss) from current operations before tax	(A)+(B)+(C)	75,935
Tax rate on profit/(loss) on current operations	((A)+(B)+(C))/(I)	33.81%

In relation to the tax audit for the years 2005-2009, refer to Section 13.7 "Other information" in Part B – Balance sheet data in the Notes to the Financial Statements.

The allocation for income taxes is 113,810 thousand euro and also includes the benefit resulting from the deductibility of the IRES and IRAP taxable amounts for employee expenses for previous years (for the company, from 2007 and from 2011), equivalent to 2,168 thousand euro, as provided for in art. 2 subsection 1-quarter of Legislative Decree no. 201 of 6 December 2011, following the amendments introduced by Legislative Decree no. 16 of 2 March 2012.

The expected benefit referenced in the aforementioned art. 2 subsection 1-quarter of Legislative Decree no. 201/2001 and the related credit for consolidating companies pursuant to arts. 117 and subsequent of the Consolidated Income Tax Act, as formalised with the submission of the reimbursement petition to the Financial Administration, was recognised by Banco Popolare in 2012 as a reduction to the item "Income tax" in the Income Statement and the item "Other assets" in the Balance Sheet in consideration:

- of the indications of paragraph 14 of IAS 39, that envisages that an entity must recognise an asset or liability on its Balance Sheet when, and only when, the asset becomes part of the contractual clauses of the financial instrument;
- of the indications of paragraph 89 of the Framework, that envisages that an asset is recognised in the financial statements when it is likely that future economic benefits will accrue to the business and the asset has a value that can be reliably measured;
- of the accrual principle as per paragraph 22 of the Framework that envisages that the effects of transactions and events are recognised as they occur;
- the upcoming publication of implementation measures from the Director of Inland Revenue (protocol no. 2012/140973 of 17 December 2012) that governs the methods of submitting the reimbursement petitions.

Section 21 - Earnings per share

Earnings per Share	2012	2011
Profit for the year (in euro)	113,359,309	148,596,027
Weighted average of shares in issue	23,481,306	23,481,306
Basic EPS for the year	4.83	6.33

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	31/12/2012			31/12/2011		
	Before tax	Income tax	After tax	Before tax	Income tax	After tax
10 Profit (Loss) for the year			113,359			148,596
Other income items						
20 Available-for-sale financial assets	(591)	30	(561)	(2,787)	53	(2,734)
a) changes in fair value	(591)	30	(561)	(271)	17	(254)
b) reversal to the income statement	-	-	-	(2,516)	36	(2,480)
- realised gains/losses	-	-	-	(2,516)	36	(2,480)
90 Actuarial gains (losses) on defined benefit plans	(243)	67	(176)	60	(16)	43
110 Total other income items	(834)	97	(737)	(2,727)	37	(2,691)
120 Comprehensive income (Items 10+110)			112,622			145,905

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

- SIA-SSB S.p.A. for +339 thousand euro;
- GROUP Srl for -4 thousand euro;
- Unicasim S.p.A. for -2 thousand euro;
- Unipol GF S.p.A. for -924 thousand euro.

Item 90 relates to the actuarial gain calculated on the employee severance indemnity fund, according to the actuarial principles provided for in IAS 19, and recognised to the Reserve, as envisaged in the new version of the standard, as fully explained in Part A – Accounting policies of the Notes to the Financial Statements.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Firstly, for a thorough analysis of capital adequacy, risk exposure and the general characteristics of the system designed to identify, measure, and manage these risks (so-called “Pillar III”) in reference to the entire Banco Popolare Group, of which Banca Aletti is an integral part, the reader is referred to the specific document that, in accordance with the provisions of Bank of Italy Circular no. 263 of 27 December 2006 and subsequent amendments, was made available to the public in the Investor Relations section of the internet site, www.bancopopolare.it, within the time frame established by law.

Note that the data provided below refers 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

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).

Consistent with its risk appetite, the Group and its subsidiaries follow, specifically: credit risk spreading consistent with the aim of financing mainly households and SMEs, market risk-taking in relation to commercial needs as well as proprietary investment goals, 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.

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.

Within the Group, the assumption of business risks is governed specifically by the system of risk limits. With the exception of liquidity risks (for which the maturity ladder is used), the limits are defined in terms of VaR (Value 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 corporate departments/bodies, which manage the operating leverage and determine changes in the risks.

There are two categories of limits:

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

In addition, the specific limits 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.

The types of risk to which the Group is exposed in its normal operating activities are:

- credit and counterparty risk; this category includes concentration risk and residual risk;
- market risk;
- operational risk;
- interest rate risk on the banking book;
- liquidity risk;
- commercial risk;
- equity instrument risk on the banking book;
- strategic risk;
- reputation risk;
- securitisation risk;
- real estate risk;
- goodwill risk;

- compliance risk;
- defined benefit pension fund risk.

The entire process of managing and controlling risk is coordinated by Banco Popolare, in its dual role of Parent Company and company in which departments of common interest for the Group have been centralised.

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. The boards of directors of the subsidiaries define management and operating policies relative to their individual business risks, based on the Group's guidelines.

For its investigative and consultancy activities related to internal control and business risk management and monitoring, the Parent Company's Board of Directors relies on its Internal Control and Risk Committee, which was established within the Board. Support for 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 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 risk management role is performed by Risk Department, through the Risk Management Department, which is part of the Parent Company Banco Popolare and has direct access to corporate bodies. The Department is responsible for governing, measuring and controlling risk (the risk management role), not only for the Parent Company but also in reference to and on behalf of the Italian banks in the Group, by virtue of specific outsourcing contracts. Risk Management policy is developed by the Group Risk Committee and Finance and ALM Committee of the Parent Company. The Finance and ALM Committee meets periodically and supervises market, interest rate and liquidity risk management, defining the Group's funding policies.

For more information on the activities and responsibilities of the offices reporting to the Risk Department, refer to the subsequent section.

Other risks

In addition to credit, market, liquidity and operational risk, which are discussed in detail in the subsequent sections, Banco Popolare Group has identified and safeguards against the following other risks.

Strategic risk: the 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 unexpected changes in key indicators used as the basis of the strategic plan (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 the Group, minimises this risk, making it possible to promptly correct and/or adjust action should competitive or market contexts change.

Reputation risk: the 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. Banco Popolare, which is particularly attentive to the continuously improving its image and consolidating its reputation, has a prevention policy that covers several areas, specifically:

- safeguarding customers, ensuring adequate information that allows them to make knowledgeable financial decisions;
- careful and incisive audits, not limited solely to formal audit reviews, of the consistency of operating procedures and business conduct with external rules, regulations and internally adopted standards.

Both strategic and reputation risk are risk classes controlled mainly at the Group level, with the experimental application of quantitative valuation methodologies.

Commercial risk: the risk of incurring losses, in terms of a decrease in expected trading margins (net of the impact of credit and market risk), due to changes in the macro- or micro-economic environments which lead to volume reduction and/or margin squeezes affecting the Bank's profitability.

Specifically, the Group is exposed to 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.

Equity instrument risk on the banking book: the current or future risk of reductions in the fair value in relation to volatility in the market or for the situations related to individual issuers. The equity instruments subject to analysis are AFS securities and investments (item 100 under Assets in the Consolidated Balance Sheet). The calculation excludes those investments deducted from the calculation for regulatory capital and investments held in individual Group companies, to which specific risk prediction models are applied.

Real estate risk: the risk of a decline in the market value of owned real estate, due to fluctuations in prices on the Italian real estate market. This risk is managed through specific technical departments within the Group.

Securitisation risk: the risk that the financial substance of a securitisation is not fully reflected in the risk measurement and management decisions. To contain this risk, the Bank uses a specialised department to define its asset securitisations. Among other things, this department is responsible for selecting the portfolio to be transferred, defining the structure to be adopted as well as revising the documents prepared by the attorney responsible.

Compliance risk: 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.

Goodwill risk: the current or future risk that the value of goodwill recognised in the financial statements is greater than the effectively realisable amount.

Defined benefit pension fund risk: the risk that the contributions paid in or allocated for defined benefit pension funds is not sufficient to cover the guaranteed benefits as a result of unexpected demographic changes (so-called actuarial risk) and/or that the return on the assets in which the contributions were invested is not sufficient (so-called financial risk), resulting in additional charges for the Bank.

The Internal Basel 2 Project

Credit risk and counterparty risk

On 18 May 2012, Banco Popolare Group received authorisation from the Supervisory Authority to adopt its internal models to measure regulatory credit and market risk, effective with reporting as at 30 June 2012.

In the authorisation, the Supervisory Authority indicated the minimum consolidated level of the capital requirement against First Pillar risks, which cannot be less than 85% (floor) than the standard capital requirement, calculated based on Supervisory Instructions for Banks in effect since the end of 2006 ("Basel 1").

As regards **credit risk**, the authorisation refers to the advanced internal rating models (PD, both for monitoring and acceptance, and LGD) for loans granted by Banco Popolare and Credito Bergamasco to businesses and wholesalers.

As for market risk, Banco Popolare Group obtained authorisation from the Supervisory Authority to use its internal model to calculate capital absorption for the trading book of Banca Aletti and the Parent Company.

The application perimeter is the generic and specific risk of equity instruments, generic risk of debt securities and the risk of UCI units. The remaining market risk will continue to be measured using the standard approach.

During the second half of 2012, Banco Popolare implemented some refinements required by the Supervisory Authority as part of the validation of the internal models for credit and market risk (Action Plan).

Operational risks

As regards operational risk, during the second half of 2012, the Group formally initiated a project to enhance the internal framework for measuring and managing operational risk by devising a series of methodological, application and operational updates with the objective of ensuring better risk management and obtaining validation for purposes of calculating mandatory capital requirements by 2013.

The main updates in recent months include:

- strengthening the decentralised structure for operational risk management by introducing "new" specialist roles (ORM Contacts) for local management within the Central Offices and Commercial Network;
- rationalising and optimising the internal loss data gathering processes of the Commercial Network and Central Offices, by updating the IT infrastructure and providing specific training to personnel involved in the reporting and validation processes;
- methodological revision of the roles and processes for the self-evaluation of future risks, carried out by a system of questionnaires given to business owners.
- refining the management and operational reporting system, with the support of web-based IT solutions and to improve management usage, in order to prevent and mitigate risk, as well as supporting risk awareness throughout the business.

The internal risk prediction model is also currently being revised and updated in order to fully meet the quantitative requirements envisaged by supervisory regulations for validated AMA models. These enhancements will allow a better formalisation of the logic and the individual components of the model as well as alignment of the statistical-quantitative components to market best practices.

The internal control system

As provided for by prudential supervision principles, the internal control system of a banking intermediary includes, in addition to lines of control adopted in the operational departments and incorporated in the procedures (first-level controls), specific organisational units dedicated to second-level controls (Risk Management and Compliance) and third-level controls (Audit).

The **Risk Department**, an organisational unit reporting to the Chief Executive Officer of Banco Popolare, oversees, at the Group level and in an integrated manner, the processes of managing, measuring and controlling risk (risk management), compliance risk (compliance), the process of validating internal risk measurement models (validation) and the support and advisory process for legal matters for the Parent Company and Group companies (legal).

Specifically, the organisational units with the most important role in risk management are the Risk Management Department and the Compliance Department, who are responsible for coordinating the following activities:

Risk Management Department:

- identifying, measuring and managing credit risk, collaborating in the calculation of the relative minimum capital requirements, and implementing, managing and optimising the Internal Rating System; development and maintenance of methodologies, models and measurement metrics for credit risk, with particular reference to internal models for calculating risk factors (PD, LGD, EAD), as well as for credit risk according to the operational approach (credit VaR);
- identifying, measuring and managing market risk; defining measurement methodologies, periodic reviews of reliability, proposing and monitoring operational limits; validating the pricing models and processes for financial instruments and collaborating in the calculation of the relative minimum capital requirements; identifying, measuring and managing counterparty risk; managing risk of the customers to whom the Group provides investment services and distributes financial products;
- defining and developing methodologies to identify, measure, monitor and reporting transformation risks (interest rate and liquidity), including the identification and determination of appropriate operational limits; measuring and managing said risks; preparing the necessary reports for the business's decision-taking bodies and for the monitored companies;
- identifying, measuring, monitoring, managing and mitigating operational risk; developing and updating methodologies, models and measurement metrics for operational risk at both the separate and consolidated level, for both regulatory and operational purposes; calculating minimum capital requirements; identifying and determining appropriate operational limits; formulating proposals for mitigation actions, specifically in regards to outsourcing the risk and related processes, financially or through insurance;
- estimating the overall risk exposure; evaluating the Group's current and future capital adequacy; proposing objectives and limits for overall risk; identifying and modelling risks, including new risk types; coordinating disclosure processes (financial statements, Third Pillar, rating agencies).

Compliance Department:

- assist top management and Group companies to identify, measure, mitigate, manage and monitor compliance risk inherent in the activities performed by the Group's banking, financial and instrumental companies;
- ensure the coordination and supervision of all the compliance activities of the Bank and Group banks;
- ensure the compliance of the decisions taken by the Bank's administrative bodies with regulations;
- protect against conflicts of interest at the Group level;
- verify the consistency of the bonus system with the objectives of complying with envisaged regulations, ethical codes and codes of conduct;
- prepare regular information flows for top management, for internal bodies and for the relative departments that represent the principal compliance risks to which the Parent Company and other Companies are exposed;

As part of internal controls, the Bank has an **Internal Validation Department** (located with staff of the Risk Department), responsible for the internal validation processes for the risk measurement and management systems of Banco Popolare Group. These activities are carried out independently from the departments responsible for risk measurement and management, as well as the Audit department.

The Internal Validation Department is responsible for continually, and by iteration, validating the system for risk measurement and management in order to evaluate its adequacy with respect to regulatory requirements, business operational needs and those of the reference market.

The following activities are the exclusive competence of the Internal Validation Department:

- internal validation aimed at evaluating the adequacy of risk measurement and management systems with respect to regulatory requirements, business operational needs and those of the reference market and formulating an opinion on their overall performance, their proper functioning, and their effective usage in the various business

- areas, including by identifying any issues and necessary improvements;
- regular analyses aimed at verifying the performance, the calibration of parameters, benchmarking, stress tests and the proper functioning of the risk measurement and management systems;
- issuing periodic recommendations to development and management departments on performance, functioning and usage of the risk measurement and management systems;
- validating the internal capital measures for all relevant risks quantified in ICAAP through internal methodologies;
- sending regular reports to the Audit Department, the Risk Committee, the Internal Control and Risk Committee and the Board of Statutory Auditors;
- preparing reports on internal validation to be submitted to the Board of Directors and the Board of Statutory Auditors as support for the resolutions certifying the compliance of the risk measurement and management systems with regulatory requirements and, moreover, the request to Bank of Italy to authorise the use of said systems to calculate capital requirements;
- drafting the Annual Validation Report indicating any issues/improvement areas in the risk measurement and management systems to be brought to the attention of the development departments, the Audit Department and corporate bodies.

Internal audit activities within Banco Popolare are performed by its **Audit Department**, both by coordinating local departments (Creberg and external companies) and by performing audit and monitoring activities - on site and remotely - for the Group's Banks and Product Companies, by virtue of specific outsourcing contracts or in the role of Parent Company. The Group Audit Department reports directly to the Chief Executive Officer as well as to the Chairman of the Board of Directors. For further information on activities performed as part of internal auditing, refer to the related section in the Report on Operations.

For more information on the internal controls system, the statutory audit and the certification of the consistency of the accounting documents with the accounting journals and records by the Corporate Accounting Manager, refer to the "Report on corporate governance and ownership structure" included at the end of Banco Popolare Group's financial statements.

For more detail on the risk management and internal control systems adopted by Banca Aletti, refer to the "Report on corporate governance and ownership structure" included at the end of these financial statements.

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 corporate boards of the Parent Company.

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 economic performance, structural and technological changes in the businesses of corporate borrowers, changes in the competitive position of 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 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 that were made during 2012 have further strengthened and expanded 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.

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 plus, mid corporate, small business, private and banks).

The rating plays a central role in the disbursement, performance monitoring and management processes. Specifically, if there are positions that present contrasting indications, 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, affecting the application of the automatic renewal mechanism for cancelled loan positions and helps to steer the decision of account managers in classifying position performance.

During 2012, the management procedure for problem loans was reviewed and enhanced, and a new updated, more efficient version was implemented.

The procedure 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.

Additionally, for private customers a specific management process is in place that, supported by an 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.

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. For more information on the general characteristics of the model, refer to Section D "Banking Group - credit risk measurement models".

For exposures other than those related to performing loans to ordinary and financial customers residing in Italy, risk management is carried out through the use of supervisory metrics (Standard/IRB).

During 2012, the processes to define and monitor credit policy guidelines were finalised. These guidelines for development and redefinition of the credit portfolio 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

The management of impaired credit is the responsibility of dedicated internal units within the Group 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 positions are managed by a dedicated unit within the Parent Company's Credit Department, which has specialised management processes in relation to the loans' 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.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Impaired and performing loans: 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 Loans	Watchlist Loans	Restructured Loans	Past due Loans	Other assets	Total
1. Financial assets held for trading	-	-	-	-	8,158,607	8,158,607
2. Available-for-sale financial assets	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-
4. Due from banks	-	-	-	-	4,123,892	4,123,892
5. Due from customers	4,030	30	-	1	1,928,814	1,932,875
6. Fair value financial assets	-	-	-	-	-	-
7. Discontinued financial assets	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total 31-12-2012	4,030	30	-	1	14,211,313	14,215,374
Total 31-12-2011	4,029	26	-	12	12,073,933	12,078,000

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	8,158,607	8,158,607
2. Available-for-sale financial assets	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	4,123,892	-	4,123,892	4,123,892
5. Due from customers	13,825	(9,764)	4,061	1,928,822	(8)	1,928,814	1,932,875
6. Fair value financial assets	-	-	-	X	X	-	-
7. Discontinued financial assets	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total 31-12-2012	14,743	(10,682)	4,061	6,052,714	(8)	14,211,313	14,215,374
Total 31-12-2011	22,105	(18,038)	4,067	6,003,024	(64)	12,073,933	12,078,000

Past due performing loans

Distribution of past due loans (in thousands of euro)	31-12-2012				
	Not past due	Up to 3 months past due	3 to 6 months past due	6 months to 1 year past due	More than 1 year past due
Performing loans 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 loans under renegotiation	-	-	-	-	-
Other performing loans:					
1. Financial assets held for trading	8,158,607	-	-	-	-
2. Available-for-sale financial assets	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-
4. Due from banks	4,123,892	-	-	-	-
5. Due from customers	1,928,716	98	-	-	-
6. Fair value financial assets	-	-	-	-	-
7. Discontinued financial assets	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
Total other performing loans	14,211,215	98	-	-	-

Note that as at 31 December 2012, 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

2012

<i>Exposure types/values (in thousands of euro)</i>	Gross exposure	Specific write- downs	Portfolio write- downs	Net exposure
A. CASH EXPOSURES				
a) Non-performing loans	-	-	X	-
b) Watchlist loans	-	-	X	-
c) Restructured loans	-	-	X	-
d) Past due loans	-	-	X	-
e) Other assets	5,424,259	X	-	5,424,259
Total A	5,424,259	-	-	5,424,259
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired loans	-	-	X	-
b) Other	2,401,214	X	-	2,401,214
Total B	2,401,214	-	-	2,401,214
Total A+B	7,825,473	-	-	7,825,473

2011

<i>Exposure types/values (in thousands of euro)</i>	Gross exposure	Specific write- downs	Portfolio write- downs	Net exposure
A. CASH EXPOSURES				
a) Non-performing loans	-	-	X	-
b) Watchlist loans	-	-	X	-
c) Restructured loans	-	-	X	-
d) Past due loans	-	-	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 loans	-	-	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

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

2012

<i>Exposure types/values (in thousands of euro)</i>	Gross exposure	Specific write- downs	Portfolio write- downs	Net exposure
A. CASH EXPOSURES				
a) Non-performing loans	14,675	(10,645)	X	4,030
b) Watchlist loans	67	(37)	X	30
c) Restructured loans	-	-	X	-
d) Past due loans	1	-	X	1
g) Other assets	2,976,338	X	(8)	2,976,330
Total A	2,991,081	(10,682)	(8)	2,980,391
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired loans	-	-	-	-
b) Other	538,822	X	-	538,822
Total B	538,822	-	-	538,822
Total A+B	3,529,903	(10,682)	(8)	3,519,213

2011

Exposure type/Value (in thousands of euro)	Gross exposure	Specific write-downs	Portfolio write-downs	Net exposure
A. CASH EXPOSURES				
a) Non-performing loans	22,067	(18,038)	X	4,029
b) Watchlist loans	26	-	X	26
c) Restructured loans	-	-	X	-
d) Past due loans	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 loans	-	-	-	-
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

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

Descriptions/Categories (in thousands of euro)	Non-performing Loans	Watchlist Loans	Restructured Loans	Past due Loans
A. Gross exposure – opening balance	22,067	26	-	12
- of which: exposures transferred but not derecognised	-	-	-	-
B. Increases	16	101	-	112
B.1 amounts collected on performing loans	16	39	-	95
B.2 transfers from other impaired loan categories	-	19	-	-
B.3 other increases	-	43	-	17
C. Decreases	(7,408)	(60)	-	(123)
C.1 amounts paid on performing loans	-	(53)	-	(82)
C.2 derecognitions	(7,408)	-	-	-
C.3 amounts collected	-	(3)	-	(22)
C.4 gains from disposals	-	-	-	-
C.5 transfers to other impaired loan categories	-	-	-	(19)
C.6 other decreases	-	(4)	-	-
D. Gross exposure – closing balance	14,675	67	-	1
- of which: exposures transferred but not derecognised	-	-	-	-

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

Descriptions/Categories (in thousands of euro)	Non-performing Loans	Watchlist Loans	Restructured Loans	Past due Loans
A. Total write-downs – opening balance	18,038	-	-	-
- of which: exposures transferred but not derecognised	-	-	-	-
B. Increases	16	37	-	-
B.1 write-downs	16	37	-	-
B.1.bis disposal losses	-	-	-	-
B.2 transfers from other impaired loan categories	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	(7,409)	-	-	-
C.1 reversals due to valuation	-	-	-	-
C.2 reversals due to amounts collected	-	-	-	-
C.2.bis disposal gains	-	-	-	-
C.3 derecognitions	(7,408)	-	-	-
C.4 transfers to other impaired loan categories	-	-	-	-
C.5 other decreases	(1)	-	-	-

D. Total write-downs – closing balance	10,645	37	-	-
- 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

2012

Exposures (in thousands of euro)	External rating classes						Unrated	Total
	AAA/ AA-	A+/A-	BBB+/ BBB-	BB+/ BB-	B+/B-	Lower than a B-		
A. Cash exposures	9,605	136,029	6,160,179	7,493	8,641	-	2,102,478	8,424,424
B. Derivatives	65,774	794,800	1,384,738	448	-	-	504,910	2,750,669
B.1 Financial derivatives	65,774	794,800	1,384,738	448	-	-	504,910	2,750,669
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees granted	-	-	-	-	-	-	595	595
D. Commitments to disburse funds	-	-	-	-	-	-	-	-
E. Other	-	26,188	-	-	-	-	2,266	28,454
Total	75,379	957,017	7,544,917	7,941	8,641	-	2,610,249	11,204,143

The table above does not include exposures for counterparty risk on repurchase agreements in the amount of 160,322 thousand euro, but does include the UCI units for a total of 19,779 thousand euro.

2011

Exposures (in thousands of euro)	External rating classes						Unrated	Total
	AAA/ AA-	A+/A-	BBB+/ BBB-	BB+/ BB-	B+/B-	Lower than a 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
E. Other	-	-	-	-	-	-	-	-
Total	436,079	3,879,379	4,896,157	5	-	4	995,328	10,206,952

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

2012

Exposures (in thousands of euro)	Internal rating classes							Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC		
A. Cash exposures	-	29,929	206,132	146,315	-	-	-	5,028,342	5,424,259
B. Derivatives	-	35	874,699	98,014	5,591	4,852	-	1,296,232	2,279,423
B.1 Financial derivatives	-	35	874,699	98,014	5,591	4,852	-	1,296,232	2,279,423
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-
C. Guarantees granted	-	-	-	-	-	-	-	595	595
D. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
E. Other	-	-	3,780	-	-	-	-	-	3,780
Total	-	29,964	1,084,611	244,329	19,131	4,852	-	6,325,170	7,708,057

<i>Exposures (in thousands of euro)</i>	External rating classes						Unrated	Total
	AAA/ AA-	A+/A-	BBB+/ BBB-	BB+/ BB-	B+/B-	Lower than a B-		
A. Cash exposures	9,605	136,029	6,160,179	7,493	8,641	-	2,102,478	8,424,424
B. Derivatives	65,774	794,800	1,384,738	448	-	-	504,910	2,750,669
B.1 Financial derivatives	65,774	794,800	1,384,738	448	-	-	504,910	2,750,669
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees granted	-	-	-	-	-	-	595	595
D. Commitments to disburse funds	-	-	-	-	-	-	-	-
E. Other	-	26,188	-	-	-	-	2,266	28,454
Total	75,379	957,017	7,544,917	7,941	8,641	-	2,610,249	11,204,143

The table above does not include exposures for counterparty risk on repurchase agreements in the amount of 117,416 thousand euro.

Note that this table does not include exposures to customers because, for these exposures (reported in table A.1.6 of this Section), the Bank does not use internal ratings in managing the credit risk.

2011

<i>Exposures (in thousands of euro)</i>	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
E. Other	-	-	-	-	-	-	-	-	-
Total	-	89,129	866,964	151,703	2,923	7	-	6,841,776	7,952,502

A.3 Breakdown of secured credit exposures by guarantee type

A.3.1 Secured credit exposures to banks

(in thousands of euro)	Net exposure value	Collateral (1)				Personal guarantees (2)								Total (1)+(2) 31-12-2012				
		Real estate mortgages	Real estate finance leases	Securities	Other collateral	Credit derivatives				Unsecured loans								
						CLN	Governments and central banks	Other public authorities	Banks	Other entities	Governments and central banks	Other public authorities	Banks		Other entities			
1. Secured cash credit exposures:	266,371	-	-	264,697	-	-	-	-	-	-	-	-	-	-	-	-	-	264,697
1.1. fully secured	266,371	-	-	264,697	-	-	-	-	-	-	-	-	-	-	-	-	-	264,697
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. part-secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Secured off-balance sheet credit	875,898	-	-	-	846,040	-	-	-	-	-	-	-	-	-	-	-	-	846,040
2. exposures:																		
2.1. fully secured	303,723	-	-	-	309,830	-	-	-	-	-	-	-	-	-	-	-	-	309,830
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. part-secured	572,175	-	-	-	536,210	-	-	-	-	-	-	-	-	-	-	-	-	536,210
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,142,269	-	-	264,697	846,040	-	-	-	-	-	-	-	-	-	-	-	-	1,110,737

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 75,232 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) 31-12-2012			
		Real estate mortgages	Real estate finance leases	Securities	Other collateral	Credit derivatives				Unsecured loans							
						CLN	Governments and central banks	Other public authorities	Banks	Other entities	Governments and central banks	Other public authorities	Banks		Other entities		
1. Secured cash credit exposures:	1,731,350	-	-	1,619,248	6,639	-	-	-	-	-	-	-	-	-	-	-	1,625,887
1.1. fully secured	1,730,289	-	-	1,619,042	6,639	-	-	-	-	-	-	-	-	-	-	-	1,625,681
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. part-secured	1,061	-	-	206	-	-	-	-	-	-	-	-	-	-	-	-	206
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	194,956	-	-	-	194,760	-	-	-	-	-	-	-	-	-	-	-	194,760
2.1. fully secured	163,397	-	-	-	164,800	-	-	-	-	-	-	-	-	-	-	-	164,800
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. part-secured	31,559	-	-	-	29,960	-	-	-	-	-	-	-	-	-	-	-	29,960
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,926,306	-	-	1,619,248	201,399	-	-	-	-	-	-	-	-	-	-	-	1,820,647

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 122,726 thousand euro.

B.2 Geographical breakdown of cash and off-balance sheet credit exposures to customers (book values)

(in thousands of euro)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL 31-12-2012
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	
A. Cash exposures											
A.1 Non-performing loans	78	335	2,722	7,401	1,230	2,909	-	-	-	-	4,030
A.2 Watchlist loans	20	37	10	-	-	-	-	-	-	-	30
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due loans	1	-	-	-	-	-	-	-	-	-	1
A.5 Other loans	1,921,404	8	869,210	-	157,749	-	1,006	-	26,961	-	2,976,330
Total A	1,921,503	380	871,942	7,401	158,979	2,909	1,006	-	26,961	-	2,980,391
B. Off-balance sheet exposures											
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-
B.2 Watchlist loans	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-
B.4 Other loans	273,768	-	196,578	-	752	-	-	-	143	-	471,241
Total B	273,768	-	196,578	-	752	-	-	-	143	-	471,241
Total 31/12/2012	2,195,271	380	1,068,520	7,401	159,731	2,909	1,006	-	27,104	-	3,451,632
Total 31/12/2011	1,733,269	384	458,084	14,357	55,772	3,361	-	-	7,324	-	2,254,449

B.3 Geographical breakdown of cash and off-balance sheet credit exposures to banks (book values)

(in thousands of euro)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL 31-12-2012
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	
A. Cash exposures											
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-
A.2 Watchlist loans	-	-	-	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due loans	-	-	-	-	-	-	-	-	-	-	-
A.5 Other loans	4,823,352	-	414,302	-	186,600	-	-	-	5	-	5,424,259
Total A	4,823,352	-	414,302	-	186,600	-	-	-	5	-	5,424,259
B. Off-balance sheet exposures											
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-
B.2 Watchlist loans	-	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-
B.4 Other loans	1,334,631	-	845,783	-	98,549	-	-	-	1,055	-	2,280,018
Total B	1,334,631	-	845,783	-	98,549	-	-	-	1,055	-	2,280,018
Total 31/12/2012	6,157,983	-	1,260,085	-	285,149	-	-	-	1,060	-	7,704,277
Total 31/12/2011	6,737,015	-	1,012,897	-	200,707	-	-	-	1,883	-	7,952,502

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%).

<i>(in thousands of euro)</i>	31-12-2012	31-12-2011
Number (in units)	27	20
Exposure (in thousands of euro)	12,641,136	10,852,872
Risk position (in thousands of euro)	2,027,780	1,072,146

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 book.

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

<i>Liability/Asset portfolio (in thousands of euro)</i>	Financial assets held for trading	Fair value financial assets	Available- for-sale financial assets	Financial assets held to maturity	Due from banks	Due from customers	Total 31-12-2012	Total 31-12-2011
A. Due to customers	3,130	-	-	-	-	-	3,130	1,867
a) from fully recognised assets	3,130	-	-	-	-	-	3,130	1,867
b) from partially recognised assets	-	-	-	-	-	-	-	-
B. Due to banks	1,883	-	-	-	-	-	1,883	28,283
a) from fully recognised assets	1,883	-	-	-	-	-	1,883	28,283
b) from partially recognised assets	-	-	-	-	-	-	-	-
Total 31-12-2012	5,013	-	-	-	-	-	5,013	-
Total 31-12-2011	30,150	-	-	-	-	-	-	30,150

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 loans 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 1,100 million euro, of which 94% is in Italian government securities and financial securities and the remainder in corporate securities. The resulting overall risk exposure totals around -39,000 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 236 million euro. The risk exposure of the credit spread totals approximately -40,000 euro, considering a 1 b.p. shock, generated mainly by government and financial securities with investment grade rating classes;
- 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 -121,000 euro, assuming a parallel change in the rate curve of 1 b.p. This exposure also depends on the structured bond portfolio, for 784 million euro, including those deriving from Group Securities Market activities for 407 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 the equivalent to a long position countervalue of around 2.7 million euro, net of derivative and cash flow hedges.

The aforementioned Banca Aletti exposure to risk is monitored daily to confirm compliance with the operating limits established by the Board of Directors for the entire portfolio and individual underlying assets.

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. 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.

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, the Parent Company Finance Department and to Audit.

In 2012 the Group continued its efforts to improve market risk management, in terms of technology, methodology and organisational processes.

These efforts led to the Bank's obtaining validation from the Supervisory Authority of the internal model for quantifying minimum capital requirements on market risks.

The validation of the internal model applied to the perimeter that includes interest rate risk, share price risk, exchange rate risk, credit spread risk as well as the benefit of the correlation between the risks. The correlation risk and divided risk are also considered.

In addition, the capital requirement is calculated by adding the Stressed VaR measure to VaR, which is based on the same methodological framework as VaR, but considers the changes in the parameters within the context of a particularly stressed market. The established time frame considers shocks that occurred between 1 April 2008 and 31 March 2009.

Finally, stress testing was conducted during the year, both historical and hypothetical, which was repeated on a monthly basis.

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	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO
1. Cash assets	4,107	392,756	959,323	195,682	703,865	48,776	5,047	-	-	-	-	-	-	-	-	-
1.1 Debt securities	4,107	392,756	959,323	195,682	703,865	48,776	5,047	-	-	-	-	-	-	-	-	-
- with early redemption option	-	67,603	40,222	2,586	99,784	49	360	-	-	-	-	-	-	-	-	-
- other	4,107	325,153	919,101	193,096	604,081	48,727	4,687	-	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Cash liabilities	1,947	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other liabilities	1,947	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial derivatives	17,584,090	128,352,328	58,482,121	20,725,051	117,319,505	16,500,585	112,915	112,915	16,500,585	93,855	93,855	112,915	112,915	16,500,585	93,855	93,855
3.1 With underlying security	140	679,902	593,014	273,029	255,242	71,972	93,855	-	-	-	-	-	-	-	-	-
- Options	-	160,259	433,253	258,057	106,969	-	-	-	-	-	-	-	-	-	-	-
+ Long positions	-	90,924	54,254	77,308	25,962	-	-	-	-	-	-	-	-	-	-	-
+ Short positions	-	69,335	378,999	180,749	81,007	-	-	-	-	-	-	-	-	-	-	-
- Other derivatives	140	519,643	159,761	14,972	148,273	71,972	93,855	-	-	-	-	-	-	-	-	-
+ Long positions	119	256,547	79,397	8,117	77,236	35,551	47,716	-	-	-	-	-	-	-	-	-
+ Short positions	21	263,096	80,364	6,855	71,037	36,421	46,139	-	-	-	-	-	-	-	-	-
3.2 Without underlying security	17,583,950	127,672,426	57,889,107	20,452,022	117,064,263	16,428,613	19,060	-	-	-	-	-	-	-	-	-
- Options	113,109	262,936	279,654	547,677	2,260,838	67,118	19,060	-	-	-	-	-	-	-	-	-
+ Long positions	379	119,674	141,065	282,001	1,206,903	33,267	9,603	-	-	-	-	-	-	-	-	-
+ Short positions	112,730	143,262	138,589	265,676	1,053,935	33,851	9,457	-	-	-	-	-	-	-	-	-
- Other derivatives	17,470,841	127,409,490	57,609,453	19,904,345	114,803,425	16,361,495	-	-	-	-	-	-	-	-	-	-
+ Long positions	8,024,507	67,509,757	27,524,120	10,689,975	55,070,221	7,789,726	1,688,033	-	-	-	-	-	-	-	-	-
+ Short positions	9,446,334	59,899,733	30,085,333	9,214,370	59,733,204	8,571,769	1,393,809	-	-	-	-	-	-	-	-	-

Denomination currency: Positions in Other Currencies

Type/Residual life	On demand	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Infinite life
	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES
1. Cash assets								
1.1 Debt securities	-	8,116	374	341	7,510	500	169	-
- with early redemption option	-	8,116	374	341	7,510	500	169	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	8,116	374	341	7,510	500	169	-
2. Cash liabilities								
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	212,098	801,881	452,441	358,580	336,976	33,974	198	
3.1 With underlying security	-	172,409	84,111	93,233	11,563	266	198	
- Options	-	170,682	84,046	93,149	10,727	-	-	
+ Long positions	-	75,845	39,253	31,622	6,815	-	-	
+ Short positions	-	94,837	44,793	61,527	3,912	-	-	
- Other derivatives	-	1,727	65	84	836	266	198	
+ Long positions	-	870	23	50	375	99	95	
+ Short positions	-	857	42	34	461	167	103	
3.2 Without underlying security	212,098	629,472	368,330	265,347	325,413	33,708	-	
- Options	-	-	-	-	-	-	-	
+ Long positions	-	-	-	-	-	-	-	
+ Short positions	-	-	-	-	-	-	-	
- Other derivatives	212,098	629,472	368,330	265,347	325,413	33,708	-	
+ Long positions	125,122	377,039	118,050	157,734	140,515	22,339	-	
+ Short positions	86,976	252,433	250,280	107,613	184,898	11,369	-	

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

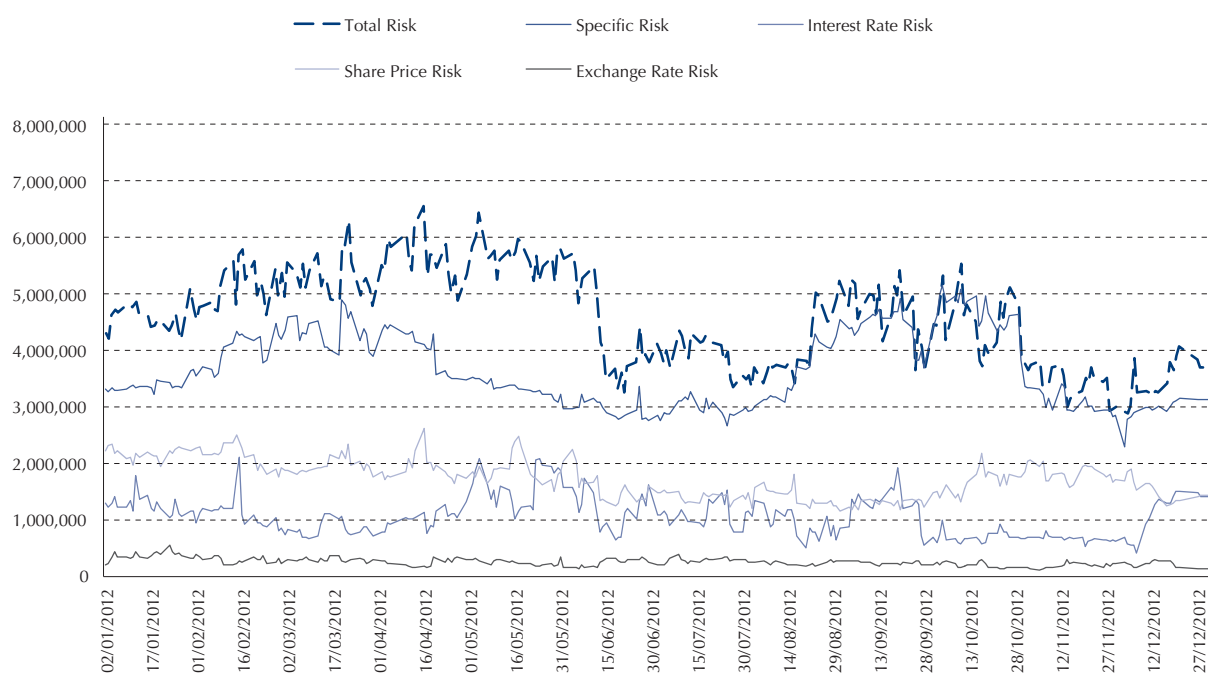
Transaction type/Share index (in thousands of euro)	Listed		Unlisted
	Italy	Other countries	
A. Equity instruments	62,633	118,612	-
- long positions	45,295	118,612	-
- short positions	17,338	-	-
B. Sales/purchases of equity instruments not yet settled	25,749	11,323	-
- long positions	12,071	6,626	-
- short positions	13,678	4,697	-
C. Other derivatives on equity instruments	328,208	24,529	91,726
- long positions	167,518	6	-
- short positions	160,690	24,523	91,726
D. Derivatives on share indices	479,943	2,798,209	80,260
- long positions	257,043	1,437,255	13,692
- short positions	222,900	1,360,954	66,568

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

The VaR measure considers interest rate risk, share price risk, exchange rate risk, credit spread risk as well as the benefit of the correlation between the risks. The correlation risk and divided risk are also considered.

The graph below shows the 2012 VaR figures for the Banca Aletti regulatory trading book.

**Daily VaR trend and trend by risk factor
BANCA ALETTI: TRADING book**



Regulatory trading book (in millions of euro)	31-December		2012		
	2011	2012	Average	Maximum	Minimum
Interest rate risk	1,337	1,403	1,049	2,093	0,397
Exchange rate risk	0,226	0,124	0,234	0,538	0,102
Share price risk	2,261	1,413	1,715	2,603	1,140
Dividends and Correlations	1,244	0,697			
Total not correlated	5,068	3,638			
Effect of diversification	-2,211	-2,091			
Total Generic Risk	2,857	1,547	2,355	3,642	1,269
Risk Specific to Debt Securities	3,403	3,120	3,628	5,138	2,284
Combined risk	4,592	3,681	4,556	6,548	2,883

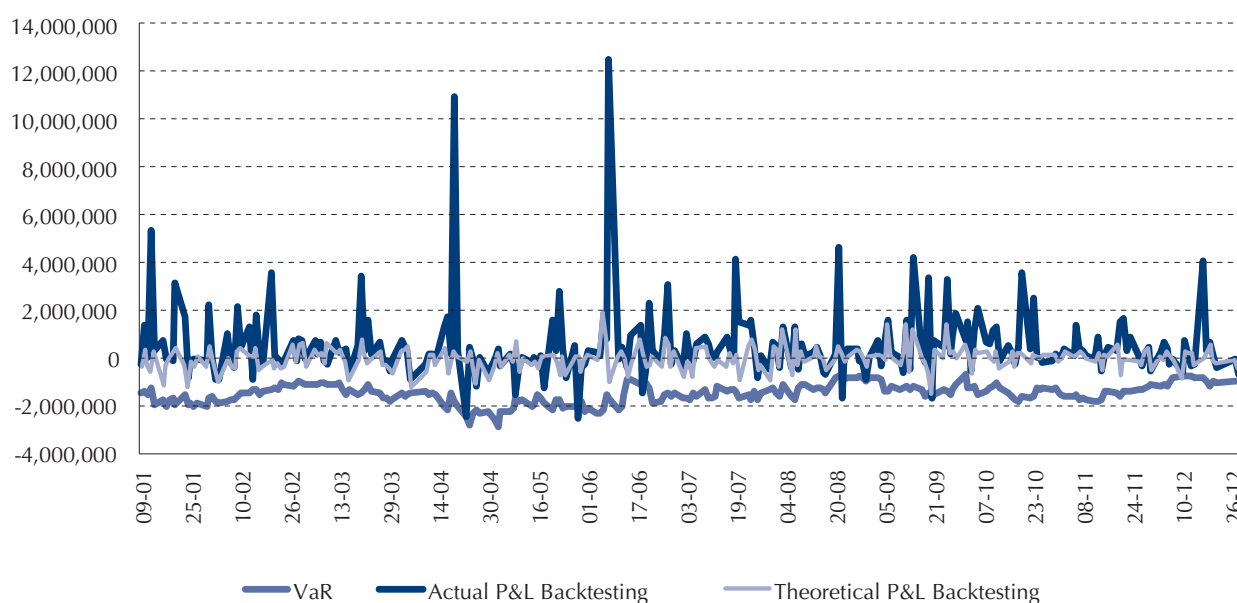
As shown above, the relevant risk component is the specific risk on debt securities, related to the Italian government securities and financial securities. The movements in these securities, as well as the volatility in the credit spread, are attributable to the higher value at the beginning of the year and the decline at the end.

Following the validation of the internal model for calculating the capital requirement for market risk, backtesting is performed on a daily basis to verify the accuracy of the adopted VaR model.

The backtesting on the VaR methodology calculated on the generic risk on debt securities, the generic and specific risk on equity instruments and interest risk and exchange rate risk are reported below.

For purposes of backtesting, as provided for in the governing regulation, the equally-weighted VaR measure is used, instead of applying a deterioration factor used for operational purposes.

Banca Aletti Backtesting



Furthermore, note that at an operational level, an evaluation of the risk that the debt securities in the trading book will lose value as a result of a change in the credit rating or for counterparty default is performed, using an Incremental Risk Charge (IRC) approach.

2.2 Interest rate risk and price risk – Banking book

QUALITATIVE INFORMATION

A. 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	2,567,935	1,252,308	186,775	1,944,372	-	4,029	-	-
1.1 Debt securities	-	739,209	184,171	1,942,994	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	739,209	184,171	1,942,994	-	-	-	-
1.2 Loans to banks	728,173	482,179	2,604	1,378	-	-	-	-
1.3 Loans to customers	1,839,762	30,920	-	-	-	4,029	-	-
- current accounts	8,585	-	-	-	-	-	-	-
- other loans:	1,831,177	30,920	-	-	-	4,029	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,831,177	30,920	-	-	-	4,029	-	-
2. Cash liabilities	3,517,601	1,639,986	2,986	1,944,531	-	26,610	-	-
2.1 Due to customers	726,344	35,070	2,586	1,302	-	-	-	-
- current accounts	664,158	-	-	-	-	-	-	-
- other liabilities:	62,186	35,070	2,586	1,302	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	62,186	35,070	2,586	1,302	-	-	-	-
2.2 Due to banks	2,791,257	1,604,671	-	-	-	26,610	-	-
- current accounts	1,888,164	-	-	-	-	-	-	-
- other liabilities	903,093	1,604,671	-	-	-	26,610	-	-
2.3 Debt securities	1	245	400	1,943,229	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1	245	400	1,943,229	-	-	-	-
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	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ 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 CURRENCY IES	OTHER CURRENCY IES	OTHER CURRENCY IES	OTHER CURRENCY IES	OTHER CURRENCY IES	OTHER CURRENCY IES	OTHER CURRENCY IES	OTHER CURRENCY IES
1. Cash assets	99,276	1,416	643	13	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	41,112	1,416	643	13	-	-	-	-
1.3 Loans to customers	58,164	-	-	-	-	-	-	-
- current accounts	1,346	-	-	-	-	-	-	-
- other loans:	56,818	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	56,818	-	-	-	-	-	-	-
2. Cash liabilities	163,930	1,415	643	13	-	-	-	-
2.1 Due to customers	26,050	-	-	-	-	-	-	-
- current accounts	26,050	-	-	-	-	-	-	-
- other liabilities:	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	137,864	-	-	-	-	-	-	-
- current accounts	137,864	-	-	-	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
2.3 Debt securities	16	1,415	643	13	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	16	1,415	643	13	-	-	-	-
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	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ 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.

In reference to the banking book, the Group also assesses the exposure to default risk and for changes in rating classes of debt securities classified as AFS, CFV, L&R and HTM, using the Incremental Risk Charge (IRC) methodology.

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

Item (in thousands of euro)	Currency					
	US Dollar	Japanese Yen	Swiss Franc	GB Pound	Hong Kong Dollar	Other currencies
A. Financial assets	89,134	33,483	50,137	15,539	5,846	21,370
A.1 Debt securities	9,936	-	70	6,833	-	201
A.2 Equity instruments	26,758	10,611	2,893	6,871	1,008	2,167
A.3 Loans to banks	16,929	16,640	264	1,735	2	7,597
A.4 Loans to customers	35,511	6,232	46,910	100	4,836	11,405
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	1	-	-	-	-	-
C. Financial liabilities	28,990	567	87,625	6,043	10,295	19,558
C.1 Due to banks	20,032	174	86,806	4,566	10,290	16,080
C.2 Due to customers	8,389	393	804	1,477	5	1,991
C.3 Debt securities	569	-	15	-	-	1,487
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	(134,571)	8,876	(166)	(6,479)	2,458	10,978
- Options	(58,714)	4,504	(166)	(6,479)	2,458	6,755
+ long positions	95,455	10,603	-	37,007	2,861	7,608
+ short positions	154,169	6,099	166	43,486	403	853
- Other derivatives	(75,857)	4,372	-	-	-	4,223
+ long positions	40,483	7,117	-	187	-	5,296
+ short positions	116,340	2,745	-	187	-	1,073
Total assets	225,073	51,203	50,137	52,733	8,707	34,274
Total liabilities	299,499	9,411	87,791	49,716	10,698	21,484
Imbalance (+/-)	(74,426)	41,792	(37,654)	3,017	(1,991)	12,790

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 the Financial Product Innovation Committee, involving strategic company executives.

The current Group prudential 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 impact of these instruments will, in any event, decline over time, in relation to the expiration of outstanding contracts and the prudential policy mentioned above.

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	216,460	570,830	5,799,814	(5,228,983)
of which: Listed derivatives	205,642	(28,573)	118,645	(147,218)
of which: OTC derivatives measured using proprietary Front Office system models	10,168	741,052	5,424,737	(4,683,685)
of which: OTC derivatives measured using internal models developed by Banca Aletti's financial engineering	636	(141,649)	247,045	(388,694)
of which: OTC derivatives measured by external contributors	14	-	9,387	(9,387)

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

Underlying assets/Derivative type	Total 2012		Total 2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	233,745,338	4,624,318	237,480,223	3,379,059
a) Options	58,654,713	29,701	50,499,761	-
b) Swaps	174,816,313	-	186,980,462	-
c) Forward contracts	274,312	231,683	-	-
d) Futures	-	4,362,934	-	3,379,059
e) Other	-	-	-	-
2. Equity instruments and share indices	11,246,151	3,982,646	14,248,317	2,881,374
a) Options	11,150,760	3,745,113	14,232,317	2,651,345
b) Swaps	90,750	-	16,000	-
c) Forward contracts	4,641	32,784	-	-
d) Futures	-	204,749	-	230,029
e) Other	-	-	-	-
3. Currencies and gold	666,623	35,395	1,229,538	-
a) Options	617,580	35,395	1,066,671	-
b) Swaps	-	-	-	-
c) Forward contracts	49,043	-	162,867	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	5,343	122,301	9,719	113,356
5. Other underlying assets	-	-	-	-
Total	245,663,455	8,764,660	252,967,797	6,373,789
Average values	244,697,415	8,576,829	243,739,375	8,388,998

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

Books/Derivative types	Positive fair value			
	Total 2012		Total 2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	5,681,223	129,345	4,784,969	73,703
a) Options	586,711	129,345	468,406	73,703
b) Interest rate swaps	5,093,888	-	4,303,405	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	408	-	28	-
e) Forward contracts	216	-	13,130	-
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	5,681,223	129,345	4,784,969	73,703

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

Books/Derivative types	Negative fair value			
	Total 2012		Total 2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	5,090,015	1,284,164	4,494,000	676,507
a) Options	998,843	1,284,164	888,163	676,507
b) Interest rate swaps	4,089,499	-	3,605,818	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	369	-	19	-
e) Forward contracts	1,304	-	-	-
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	5,090,015	1,284,164	4,494,000	676,507

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	-	-	51,726,568	66,275	857,440	-	3,635,822
- positive fair value	-	-	1,273,213	-	-	-	-
- negative fair value	-	-	1,274,083	-	63,895	-	9,885
- future exposure	-	-	282,263	-	4,102	-	30,679
2) Equity instruments and share indices							
- notional value	-	-	1,938,817	23,554	3,361,356	-	60,405
- positive fair value	-	-	10,918	927	-	-	-
- negative fair value	-	-	52,823	261	38,623	-	209
- future exposure	-	-	147,445	1,177	238,114	-	4,118
3) Currencies and gold							
- notional value	-	-	313,150	522	-	-	231
- positive fair value	-	-	4,206	-	-	-	-
- negative fair value	-	-	3,484	4	-	-	-
- future exposure	-	-	3,283	5	-	-	11
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives – regulatory trading book: notional values, gross positive and negative fair values by counterparty – contracts covered by netting agreements

Contracts not covered by netting agreements	Government s and Central Banks	Other public authorities	Banks	Finance companies	Insurance companies	Non- financial companies	Other entities
1) Debt securities and interest rates							
- notional value	-	-	151,827,134	25,632,099	-	-	-
- positive fair value	-	-	3,465,524	730,898	-	-	-
- negative fair value	-	-	2,943,180	573,308	-	-	-
2) Equity instruments and share indices							
- notional value	-	-	5,746,308	115,711	-	-	-
- positive fair value	-	-	185,999	5,205	-	-	-
- negative fair value	-	-	127,978	169	-	-	-
3) Currencies and gold							
- notional value	-	-	195,917	156,803	-	-	-
- positive fair value	-	-	2,862	1,469	-	-	-
- negative fair value	-	-	1,622	489	-	-	-
4) Other values							
- notional value	-	-	5,343	-	-	-	-
- positive fair value	-	-	2	-	-	-	-
- negative fair value	-	-	2	-	-	-	-

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	54,253,957	159,716,700	31,692,798	245,663,455
A.1 Financial derivatives on debt securities and interest rates	49,700,307	152,352,233	31,692,798	233,745,338
A.2 Financial derivatives on equity instruments and share indices	3,904,241	7,341,910	-	11,246,151
A.3 Financial derivatives on exchange rates and gold	644,066	22,557	-	666,623
A.4 Financial derivatives on other values	5,343	-	-	5,343
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 31/12/2012	54,253,957	159,716,700	31,692,798	245,663,455
Total 31/12/2011	36,413,560	173,953,039	42,601,199	252,967,798

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.

The overall maximum risk level for the Group was assigned, based on the metrics described above, and is subject to monthly monitoring.

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	280,805	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2012	280,805	-	-	-
AVERAGE VALUES	271,653	-	-	-
Total 31/12/2011	262,500	-	-	-
2. Protection sales				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2012	-	-	-	-
AVERAGE VALUES	-	-	-	-
Total 31/12/2011	-	-	-	-

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

Books/Derivative types	Positive fair value	
	Total 2012	Total 2011
A. REGULATORY TRADING BOOK	161	7,546
a) Credit default products	161	7,546
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	161	7,546

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

Books/Derivative type	Negative fair value	
	Total 2012	Total 2011
A. REGULATORY TRADING BOOK	3,207	-
a) Credit default products	3,207	-
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	3,207	-

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	-	-	263,765	20,000	-	-	-
- notional value	-	-	260,805	20,000	-	-	-
- positive fair value	-	-	161	-	-	-	-
- negative fair value	-	-	2,799	408	-	-	-
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	115,000	165,805	-	280,805
A.1 Credit derivatives on loans with reference obligation - qualified	-	-	-	-
A.2 Credit derivatives on loans with reference obligation - unqualified	115,000	165,805	-	280,805
B. Banking book	-	-	-	-
B.1 Credit derivatives on loans with reference obligation - qualified	-	-	-	-
B.4 Credit derivatives on loans with reference obligation - unqualified	-	-	-	-
Total 31/12/2012	115,000	165,805	-	280,805
Total 31/12/2011	120,000	142,500	-	262,500

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

The internal model used for estimating counterparty risk for derivatives was also applied to credit derivatives in the portfolio.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair values and future exposure by counterparty

<i>(in thousands of euro)</i>	Government s and Central Banks	Other public authorities	Banks	Finance companies	Insurance companies	Non- financial companies	Other entities
1) Bilateral financial derivative agreements							
- positive fair value	-	-	312,053	31,560	-	-	-
- negative fair value	-	-	149,914	31,760	-	-	-
- future exposure	-	-	118,605	30,539	-	-	-
- net counterparty risk	-	-	126,439	32,139	-	-	-
2) Bilateral credit derivative agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) Cross-product agreements							
- positive fair value	-	-	567,038	163,397	-	-	-
- negative fair value	-	-	150,210	-	-	-	-
- future exposure	-	-	346,458	28,882	-	-	-
- net counterparty risk	-	-	371,676	27,480	-	-	-

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 2012, Banco Popolare Group, in addition to the typical periodic measurements on the liquidity profile, carried out quarterly measurements on new indicators provided for in Basel III.

The Group's liquidity risk limit system 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 Funding and Liquidity Department within 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 financial instrument assets – prior to planned haircuts – whose characteristics can be determined in advance by the European Central Bank.

In 2012, the Group continued issuing covered bonds and self-securitisations, that were also used as collateral for accessing the instruments made available by the European Central Bank to provide liquidity to the European banking system.

QUANTITATIVE INFORMATION

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

<i>(in thousands of euro)</i>	On demand		1 - 7 days		7 - 15 days		15 days – 1 month		1 - 3 months		3 - 6 months		6 months – 1 year		1 – 5 years		Over 5 years		Infinite life			
	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO		
Cash assets	2,587,747	199,005	27,866	310,015	183,522	505,370	2,135,962	1,860,823	68,577	23,278												
A.1 Government securities	-	-	-	-	54	200,615	990	114,885	39,626	-												
A.2 Other debt securities	-	-	20,000	46,201	164,283	302,151	2,133,594	1,745,938	24,922	50												
A.3 UCI units	19,775	-	-	-	-	-	-	-	-	-												
A.4 Loans:	2,567,972	199,005	7,866	263,814	19,185	2,604	1,378	-	4,029	23,228												
- Banks	728,174	199,005	7,866	232,894	19,185	2,604	1,378	-	-	23,228												
- Customers	1,839,798	-	-	30,920	-	-	-	-	4,029	-												
Cash liabilities	3,544,211	1,605,585	7,867	7,134	19,444	4,370	1,944,629	387	2													
B.1 Deposits and current accounts	3,422,065	-	-	-	-	-	-	-	-	-												
- Banks	2,755,729	-	-	-	-	-	-	-	-	-												
- Customers	666,336	-	-	-	-	-	-	-	-	-												
B.2 Debt securities	1	-	-	-	245	400	1,943,229	-	-	-												
B.3 Other liabilities	122,145	1,605,585	7,867	7,134	19,199	3,970	1,400	387	2	-												
Off-balance sheet transactions	10,378,784	540,847	5,471	33,085	138,847	598,466	300,947	268,354	168,567	554												
C.1 Financial derivatives with equity swap	2,514	540,847	5,471	33,085	138,847	598,466	300,947	268,354	168,567	554												
- Long positions	21	266,066	3,693	13,367	76,266	138,713	109,631	163,497	84,437	271												
- Short positions	2,493	274,781	1,778	19,718	62,581	459,753	191,316	104,857	84,130	283												
C.2 Financial derivatives without equity swap	10,372,924	-	-	-	-	-	-	-	-	-												
- Long positions	5,457,296	-	-	-	-	-	-	-	-	-												
- Short positions	4,915,628	-	-	-	-	-	-	-	-	-												
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	-	-	-	-	-	-	-	-	-	-												
C.6 Guarantees received	-	-	-	-	-	-	-	-	-	-												
C.7 Credit derivatives with equity swap	-	-	-	-	-	-	-	-	-	-												
- Long positions	-	-	-	-	-	-	-	-	-	-												
- Short positions	-	-	-	-	-	-	-	-	-	-												
C.8 Credit derivatives without equity swap	3,346	-	-	-	-	-	-	-	-	-												
- Long positions	139	-	-	-	-	-	-	-	-	-												
- Short positions	3,207	-	-	-	-	-	-	-	-	-												

1.2 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in US Dollars

<i>(in thousands of euro)</i>	On demand		1 - 7 days		7 - 15 days		15 days – 1 month		1 - 3 months		3 - 6 months		6 months – 1 year		1 – 5 years		Over 5 years		Infinite life		
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	
Cash assets	51,956	-	-	56	5,494	1,094	1,018	82	2,203	383	-	-	-	-	-	-	-	-	-	-	-
A.1 Government securities	-	-	-	-	5,305	-	111	-	106	35	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	771	907	82	2,097	348	-	-	-	-	-	-	-	-	-	-	-
A.3 UCI units	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	51,956	-	-	56	789	323	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Banks	16,365	-	-	56	189	323	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Customers	35,591	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash liabilities	38,976	-	-	58	190	327	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	38,976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Banks	19,948	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Customers	19,028	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	58	190	327	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	17,381	5,753	3,868	25,279	68,138	88,389	100,918	8,069	290	290	131	159	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with equity swap	-	5,753	3,868	25,279	68,138	88,389	100,918	8,069	290	290	131	159	-	-	-	-	-	-	-	-	-
- Long positions	-	1,406	436	10,844	29,557	49,240	60,679	5,083	131	131	159	-	-	-	-	-	-	-	-	-	-
- Short positions	-	4,347	3,432	14,435	38,581	39,149	40,239	2,986	159	159	-	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without equity swap	17,360	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Long positions	8,644	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Short positions	8,716	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.6 Guarantees received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swap	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swap	21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Long positions	21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

1.2 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in GB Pounds

<i>(in thousands of euro)</i>	On demand		1 - 7 days		7 - 15 days		15 days – 1 month		1 - 3 months		3 - 6 months		6 months – 1 year		1 – 5 years		Over 5 years		Infinite life	
	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP
Cash assets	1,835		123						145				249		5,734		123			
A.1 Government securities	-		-		-		-		-		-		-		-		-		-	
A.2 Other debt securities	-		123						145				249		5,734		123			
A.3 UCI units	-		-		-		-		-		-		-		-		-		-	
A.4 Loans:	1,835		-		-		-		-		-		-		-		-		-	
- Banks	1,735		-		-		-		-		-		-		-		-		-	
- Customers	100		-		-		-		-		-		-		-		-		-	
Cash liabilities	6,917																			
B.1 Deposits and current accounts	6,917																			
- Banks	4,566																			
- Customers	2,351																			
B.2 Debt securities	-		-		-		-		-		-		-		-		-		-	
B.3 Other liabilities	-		-		-		-		-		-		-		-		-		-	
Off-balance sheet transactions	4,183		1,241		18,372		44,044		12,341		4,385									
C.1 Financial derivatives with equity swap	-		539		1,241		18,372		44,044		4,385									
- Long positions	-		409		1,155		9,186		15,698		4,140									
- Short positions	-		130		86		9,186		28,346		245									
C.2 Financial derivatives without equity swap	4,183		-		-		-		-		-		-		-		-		-	
- Long positions	1,447		-		-		-		-		-		-		-		-		-	
- Short positions	2,736		-		-		-		-		-		-		-		-		-	
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	-		-		-		-		-		-		-		-		-		-	
C.6 Guarantees received	-		-		-		-		-		-		-		-		-		-	
C.7 Credit derivatives with equity swap	-		-		-		-		-		-		-		-		-		-	
- Long positions	-		-		-		-		-		-		-		-		-		-	
- Short positions	-		-		-		-		-		-		-		-		-		-	
C.8 Credit derivatives without equity swap	-		-		-		-		-		-		-		-		-		-	
- Long positions	-		-		-		-		-		-		-		-		-		-	
- Short positions	-		-		-		-		-		-		-		-		-		-	

1.2 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in Swiss Francs

(in thousands of euro)	On demand		1 - 7 days		7 - 15 days		15 days - 1 month		1 - 3 months		3 - 6 months		6 months - 1 year		1 - 5 years		Over 5 years		Infinite life		
	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	
Cash assets																					
A.1 Government securities	249	-	-	-	-	-	-	-	35	-	-	-	-	-	-	48	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	20	-	-	-	-	-	-	19	-	-	-	-	-
A.3 UCI units	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29	-	-	-	-	-
A.4 Loans:																					
- Banks	249	-	-	-	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-
- Customers	249	-	-	-	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-
Cash liabilities																					
B.1 Deposits and current accounts	87,677	-	-	-	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-
- Banks	87,677	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Customers	86,806	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	871	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions																					
C.1 Financial derivatives with equity swap	3,456	332	-	-	-	-	-	-	186	-	-	-	-	-	-	332	-	-	-	-	-
- Long positions	-	332	-	-	-	-	-	-	186	-	-	-	-	-	-	332	-	-	-	-	-
- Short positions	-	194	-	-	-	-	-	-	-	-	-	-	-	-	-	154	-	-	-	-	-
C.2 Financial derivatives without equity swap	3,456	158	-	-	-	-	-	-	186	-	-	-	-	-	-	178	-	-	-	-	-
- Long positions	1,403	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Short positions	2,053	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.6 Guarantees received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swap	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swap	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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	CURRENCIES	OTHER CURRENCIES	CURRENCIES	OTHER CURRENCIES	CURRENCIES	OTHER CURRENCIES	CURRENCIES	OTHER CURRENCIES	CURRENCIES	OTHER CURRENCIES	CURRENCIES	OTHER CURRENCIES	CURRENCIES	OTHER CURRENCIES	CURRENCIES	OTHER CURRENCIES	CURRENCIES	OTHER CURRENCIES	CURRENCIES
Cash assets	45,237		11		91		-		799		662		13		57		45			
A.1 Government securities	-		-		-		-		-		19		-		-		45			
A.2 Other debt securities	-		-		-		-		69		-		-		57		-			
A.3 UCI units	-		-		-		-		-		-		-		-		-			
A.4 Loans:	45,237		11		91		-		730		643		13		-		-			
- Banks	22,764		11		91		-		730		643		13		-		-			
- Customers	22,473		-		-		-		-		-		-		-		-			
Cash liabilities	30,344		11		91		-		734		659		13		-		-			
B.1 Deposits and current accounts	30,344		-		-		-		-		-		-		-		-			
- Banks	26,544		-		-		-		-		-		-		-		-			
- Customers	3,800		-		-		-		-		-		-		-		-			
B.2 Debt securities	-		11		91		-		734		659		13		-		-			
B.3 Other liabilities	-		-		-		-		-		-		-		-		-			
Off-balance sheet transactions	1,700		8,413		1,410		897		18,069		2,920		7,839		3,167		181			
C.1 Financial derivatives with equity swap	-		8,413		1,410		897		18,069		2,920		7,839		3,167		181			
- Long positions	-		4,151		1,410		457		17,363		2,885		7,200		1,952		63			
- Short positions	-		4,262		-		440		706		35		639		1,215		118			
C.2 Financial derivatives without equity swap	1,700		-		-		-		-		-		-		-		-			
- Long positions	848		-		-		-		-		-		-		-		-			
- Short positions	852		-		-		-		-		-		-		-		-			
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	-		-		-		-		-		-		-		-		-			
C.6 Guarantees received	-		-		-		-		-		-		-		-		-			
C.7 Credit derivatives with equity swap	-		-		-		-		-		-		-		-		-			
- Long positions	-		-		-		-		-		-		-		-		-			
- Short positions	-		-		-		-		-		-		-		-		-			
C.8 Credit derivatives without equity swap	-		-		-		-		-		-		-		-		-			
- Long positions	-		-		-		-		-		-		-		-		-			
- Short positions	-		-		-		-		-		-		-		-		-			

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 adopts a reporting model, including a management reporting system, that provides information to the Corporate Bodies and Top Management (significant losses and related recoveries, overall measurement of the risk profile, capital absorption and risk management policies implemented and/or planned), as well as an operational reporting system (reported operating losses), that supports appropriate risk management in the relevant areas.

For purposes of calculating the regulatory requirement, the Group has used, since the Supervisory Instructions of 30 June 2008, the standardised method 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.

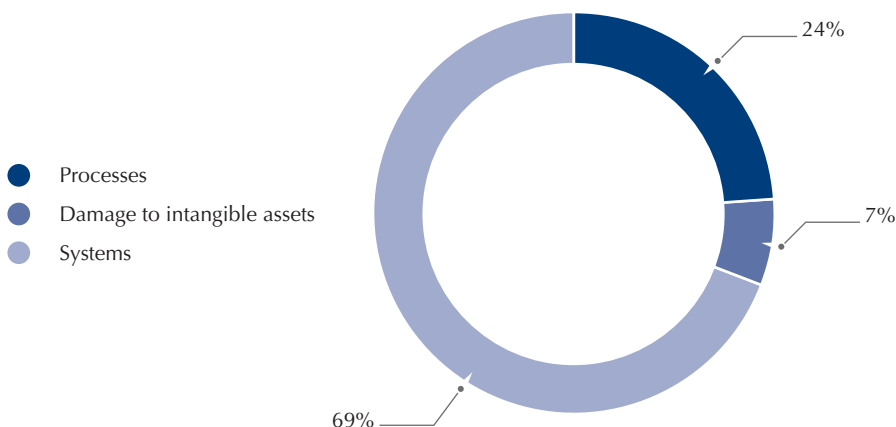
Legal disputes

For a description of the primary legal disputes and the possible related losses, refer to “Part B - Assets – Section 13 Tax assets and tax liabilities” and “Part B - Liabilities Data - Section 12 Provisions for risks and charges”.

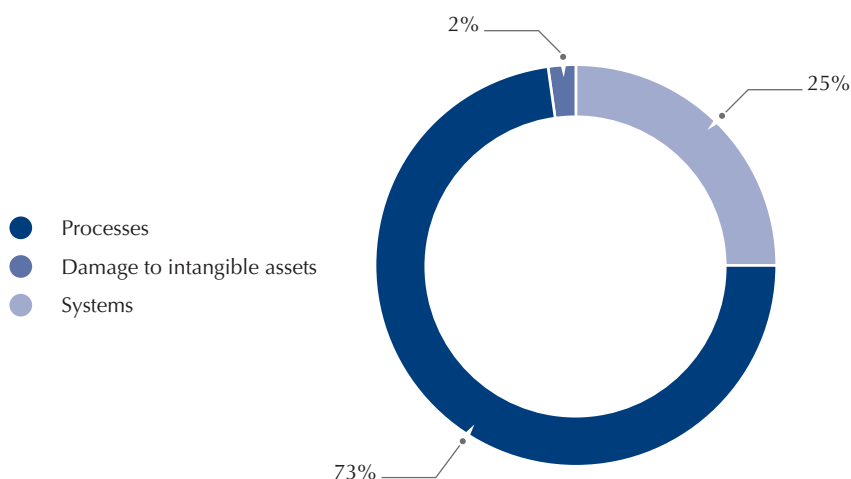
QUANTITATIVE INFORMATION

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 200 euro (minimum relevance threshold) and with an event starting date after 1 January 2012, 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.

Breakdown by gross loss



Breakdown by frequency



PART F – INFORMATION ON CAPITAL

Section 1 – Capital and reserves

The information provided below refers to the breakdown of regulatory capital calculated as envisaged in current Bank of Italy instructions, and in particular the new formats established in Circular no. 155/91 on implementation of European directives on capital adequacy (2006/48/EC and 2006/49/EC) – i.e. Basel 2 – implemented by Circular no. 263 “New prudential supervisory instructions for banks”.

B.1 Capital and reserves: breakdown

<i>(in thousands of euro)</i>	2012	2011
1. Share capital	121,164	121,164
2. Share premium reserve	72,590	72,590
3. Reserves	398,967	250,371
- profit	398,967	250,371
a) legal	24,233	24,233
b) statutory	-	-
c) own shares	-	-
d) other	374,734	226,138
- other	-	-
4. Equity instruments	-	-
5. (Own shares)	-	-
6. Valuation reserves:	(704)	33
- Available-for-sale financial assets	(571)	(10)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Discontinued operations	-	-
- Actuarial gains (losses) on defined benefit plans	(133)	43
- Portion of valuation reserves relating to investments measured at equity	-	-
- Special revaluation laws	-	-
7. Profit (Loss) for the year	113,359	148,596
Total	705,376	592,754

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

<i>(in thousands of euro)</i>	Total 2012		Total 2011	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	-	-	-
2. Equity instruments	302	(873)	5	(15)
3. UCI units	-	-	-	-
4. Loans	-	-	-	-
Total	302	(873)	5	(15)

The net positive reserve can be broken down as follows:

- SIA-SSB for -302 thousand euro;
- Sivori – UnicaSim for 14 euro units;
- GROUP S.r.l. for -258 euro units;
- Unipol GF S.p.A. for -873 thousand euro.

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

<i>(in thousands of euro)</i>	Debt securities	Equity instruments	UCI units	Loans
1. Opening balances	-	(10)	-	-
2. Positive changes	-	390	-	-
2.1 Increases in fair value	-	339	-	-
2.2 Reversal of negative reserves to the income statement	-	-	-	-
due to impairment	-	-	-	-
due to realisation	-	-	-	-
2.3 Other changes	-	51	-	-
3. Negative changes	-	(951)	-	-
3.1 Decreases in fair value	-	(930)	-	-
3.2 Write-downs for impairment	-	-	-	-
3.3 Reversal of positive reserves to the income statement: due to realisation	-	-	-	-
3.4 Other changes	-	(21)	-	-
4. Closing balances	-	(571)	-	-

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 2010, 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 book, transactions of re-securitisation and guaranteed bank bonds.

On 18 May 2012, Banca Popolare Group received authorisation from Bank of Italy to use certain methodologies based on its internal models, including:

- Internal model to measure market risks (generic and specific on equity securities, generic on debt securities and position risks on UCI units) for calculating the related separate and consolidated capital requirement, based on the provisions of Circular no. 263 of 27 December 2006;
- The model applies to Banco Popolare S.C. and Banca Aletti S.p.A..

As a result of the adoption of the internal models, there was a significant decline in risk-weighted assets, with a corresponding improvement in the capitalisation ratio.

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 2010, 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.

As at 31 December 2012, this prudential filter was nil in the regulatory capital of Banca Aletti Spa.

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 envisaged in subsections 3 and 4 of Document I, chapter 2, section II.

The Tier 1 capital does not include innovative or non-innovative equity instruments.

2. Tier 2 capital

Tier 2 capital mainly comprises valuation reserves, subordinated liabilities issued (for the portion calculated pursuant to the previously indicated regulation) as well as any preference shares not included in Tier 1 Capital.

3. Deductions from regulatory capital

This includes:

- a) a 20% share in a Securities Brokerage Company, entirely deducted;
- b) various equity interests in banks and financial company, each less than 10% of the entity's share capital;
- c) subordinated instruments issued by banks, if not equity investments, held in the proprietary portfolio.

The elements in points b) and c) were deducted as necessary for the portion of their overall amount that exceeds 10% of the value of Tier 1 and Tier 2 capital before deductions.

The aggregate amount of deductions was recognised in Tier 1 and Tier 2 capital within their respective capacity limits.

4. Tier 3 capital

There are no Tier 3 capital components.

B. QUANTITATIVE INFORMATION

<i>(in thousands of euro)</i>	Total 2012	Total 2011
A. Tier 1 capital prior to application of prudential filters	689,103	575,305
B. Tier 1 prudential filters	(571)	-
B.1 Positive IAS/IFRS prudential filters	-	-
B.2 Negative IAS/IFRS prudential filters	(571)	-
C. Tier 1 capital gross of items to be deducted (A+B)	688,532	575,305
D. Items to be deducted from Tier 1 capital	1,250	995
E. Total Tier 1 capital (C-D)	687,282	574,310
F. Tier 2 capital prior to application of prudential filters	-	10
G. Tier 2 prudential filters	-	(5)
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	-	(5)
H. Tier 2 capital gross of items to be deducted (F+G)	-	5
I. Items to be deducted from Tier 2 capital	625	500
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)	687,282	574,310
O. Tier 3 capital	-	-
P. Regulatory capital including Tier 3 (N+O)	687,282	574,310

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.

Effective from the prudential supervisory reporting as at 30 June 2012, Banco Popolare Group and Banca Aletti are authorised to use internal models to calculate capital requirements against market risk, as more fully described in section 2.1.

For exposures other than those subject to the new internal models, from which credit, counterparty, market and operational risks arise, the respective “standardised methodologies” will continue to be applied.

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.

During the year, some of these ECAIs repeatedly downgraded their ratings for Italy until, in July 2012, based on Bank of Italy’s classification table, the rating passed from “Creditworthiness Class 2” to “Class 3”.

For this reason, given the same weighted amounts, an increase in risk-weighted assets occurred in reference to “public sector entities” and “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	
	2012	2011	2012	2011
A. RISK ASSETS				
A.1 Credit risk and counterparty risk				
1. Standardised approach	8,453,207	9,190,398	620,350	413,292
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			49,628	33,063
B.2 Market risk ⁽²⁾			74,483	210,100
1. Standardised approach			26,860	210,100
2. Internal models			47,150	-
3. Concentration risk			473	-
B.3 Operational risk			51,288	53,081
1. Basic approach			-	-
2. Standardised approach			51,288	53,081
3. Advanced measurement approach			-	-
B.4 Other prudential requirements			-	-
B.5 Other calculation components			(43,850)	(74,061)
B.6 Total prudential requirements ⁽³⁾			131,550	222,183
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			1,644,379	2,777,293
C.2 Tier 1 capital ratio			41.80%	20.68%
C.3 Total capital ratio			41.80%	20.68%

(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

The table below presents the disclosure related to compensation to directors and strategic executives of Banca Aletti in 2012.

<i>(in thousands of euro)</i>	2012 AMOUNTS		2011 AMOUNTS	
	DIRECTORS	EXECUTIVES	DIRECTORS	EXECUTIVES
Gross annual remuneration	909	471	806	609
Short-term benefits	5	-	6	5
Post-employment benefits	4	2	4	9
Severance indemnity	-	-	-	-
Share payments	-	-	119	-
Total	918	473	935	623

2. Information on related party transactions

Based on IAS 24 and specifically in reference to Banca Aletti, related parties are defined as:

- the parent company Banco Popolare Soc. Coop., which acts as the Parent Company of the Banking Group of the same name;
- the companies subject to significant influence from Banca Aletti;
- other Group companies;
- strategic executives for Banca Aletti (directors, executives and auditors), the Parent Company (directors and auditors) and Group companies (directors, executives and auditors);
- 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

<i>(in thousands of euro)</i>	Parent company	Other Group companies	Subsidiaries	Associates	Strategic executives	Other related parties	TOTAL	% impact on financial statements
Financial assets held for trading	1,724,051	79,487	-	-	-	-	1,803,538	21.7%
Due from banks	3,721,618	2,813	-	-	-	-	3,724,431	90.3%
Due from customers	-	938	-	576	-	-	1,514	0.1%
Other asset items	9,811	2,758	446	3	-	-	13,018	6.6%
Due to banks	3,600,459	31,615	-	-	-	-	3,632,074	79.6%
Due to customers	-	-	3,264	35,471	1,250	1,861	41,846	5.3%
Securities in issue	1,943,229	-	-	-	-	-	1,943,229	n/a
Financial liabilities held for trading	473,506	5,468	-	77,718	-	-	556,692	8.7%
Fair value financial liabilities	-	-	-	-	-	-	-	n/a
Other liability items	17,419	6,060	242	-	-	-	23,721	2.7%
Guarantees granted and commitments	1,239	210	-	-	-	-	1,449	0.3%
Direct deposits	-	-	-	-	908	7,806	8,714	0.3%
Indirect deposits	-	-	-	-	37,023	727,470	764,493	5.2%

<i>(in thousands of euro)</i>	Parent company	Other Group companies	Subsidiaries	Associates	Strategic executives	Other related parties	TOTAL	% impact on financial statements
Interest income and similar revenues	109,059	3,079	-	-	-	-	112,138	64.8%
Interest expense and similar charges	(71,580)	(20)	(88)	-	-	-	(71,688)	68.5%
Interest margin	37,479	3,059	(88)	-	-	-	40,450	59.2%
Commission income	12,514	5,337	-	8,256	-	-	26,107	14.6%
Commission expense	(125,846)	(20,324)	-	(712)	-	-	(146,882)	94.1%
Net commissions	(38,374)	(8,869)	(176)	7,544	-	-	(39,875)	-179.1%
Administrative expense	(11,395)	(26,934)	244	-	(781)	-	(38,866)	39.0%
- Personnel costs	(1,782)	1,231	444	-	(781)	-	(888)	2.0%
- Other administrative expense	(9,613)	(28,165)	(200)	-	-	-	(37,978)	69.0%
Other operating income / expense	6,479	987	7	(45)	-	-	7,428	72.5%

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

<i>(in thousands of euro)</i>	Investment Banking	Wealth Management & Sales	Total 31/12/2012	Total 31/12/2011
1) EARNINGS MARGIN	74,649	(7,168)	67,481	46,010
2) Other operating income	161,363	89,151	250,514	272,255
3) OPERATING INCOME (1+2)	236,012	81,983	317,995	318,265
4) Operating costs	(34,456)	(55,622)	(90,078)	(93,417)
5) OPERATING PROFIT (3+4)	201,557	26,361	227,917	224,848
6) Write-downs, provisions and Gains / (Losses) from measurement/disposal of investments	-	(747)	(747)	(274)
7) PROFIT/(LOSS) ON CURRENT OPERATIONS BEFORE TAX	201,557	25,614	227,170	224,574

Breakdown by business segment - Balance sheet data

<i>(in thousands of euro)</i>	Investment Banking	Wealth Management & Sales	Total 31/12/2012	Total 31/12/2011
Due from customers	1,923,972	8,903	1,932,875	1,417,904
Total assets	14,547,748	30,835	14,578,583	12,405,237
Due to customers	270,961	520,390	791,351	987,525
Total liabilities	12,112,233	2,466,351	14,578,583	12,405,237

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 activities, 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.





Reconciliation of the 2011 Balance Sheet and the 2011 Restated Balance Sheet

Assets	31/12/11	restated in application of new IAS 19	31/12/2011 restated
10 Cash and cash equivalents	19,376	-	19,376
20 Financial assets held for trading	6,260,677,437	-	6,260,677,437
30 Fair value financial assets	16,453,767	-	16,453,767
40 Available-for-sale financial assets	1,653,731	-	1,653,731
60 Due from banks	4,589,123,077	-	4,589,123,077
70 Due from customers	1,417,903,934	-	1,417,903,934
100 Equity investments	21,030,734	-	21,030,734
110 Property, plant and equipment	1,292,945	-	1,292,945
120 Intangible assets	20,937,595	-	20,937,595
<i>of which: goodwill</i>	20,937,595	-	20,937,595
130 Tax assets	5,184,218	-	5,184,218
a) current	-	-	-
b) prepaid	5,184,218	-	5,184,218
150 Other assets	70,960,098	-	70,960,098
Total	12,405,236,912	-	12,405,236,912

Liabilities and shareholders' equity	31/12/11	restated in application of new IAS 19	31/12/2011 restated
10 Due to banks	3,619,319,747	-	3,619,319,747
20 Due to customers	987,524,791	-	987,524,791
30 Securities in issue	1,884,775,595	-	1,884,775,595
40 Financial liabilities held for trading	5,195,883,225	-	5,195,883,225
80 Tax liabilities	7,638,808	-	7,638,808
a) current	3,927,344	-	3,927,344
b) deferred	3,711,464	-	3,711,464
100 Other liabilities	105,409,149	-	105,409,149
110 Employee termination indemnity	2,917,028	-	2,917,028
120 Provisions for risks and charges	9,014,587	-	9,014,587
b) other provisions	9,014,587	-	9,014,587
130 Valuation reserves	(9,970)	43,310	33,340
160 Reserves	250,370,871	-	250,370,871
170 Share premium reserve	72,590,205	-	72,590,205
180 Share capital	121,163,539	-	121,163,539
200 Profit for the year	148,639,337	(43,310)	148,596,027
Total	12,405,236,912	-	12,405,236,912

Reconciliation of the 2011 Income Statement and the 2011 Restated Income Statement

Income Statement items	31/12/11	restated in application of new IAS 19	31/12/2011 restated
10 Interest income and similar revenues	118,826,809	-	118,826,809
20 Interest expense and similar charges	(70,432,051)	-	(70,432,051)
30 Interest margin	48,394,758	-	48,394,758
40 Commission income	147,925,306	-	147,925,306
50 Commission expense	(104,758,850)	-	(104,758,850)
60 Net commissions	43,166,456	-	43,166,456
70 Dividends and similar revenues	57,283,793	-	57,283,793
80 Trading gains/losses	166,743,458	-	166,743,458
90 Hedging gains/losses	31,201	-	31,201
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)	-	(1,445,640)
120 Earnings margin	318,474,023	-	318,474,023
130 Net write-downs / Reversals for impairment of:	(82,945)	-	(82,945)
a) loans	(82,945)	-	(82,945)
b) available-for-sale financial assets	-	-	-
140 Net profit from financial management	318,391,078	-	318,391,078
150 Administrative expense:	(101,510,026)	(59,738)	(101,569,764)
a) personnel costs	(49,242,580)	(59,738)	(49,302,318)
b) other administrative expense	(52,267,446)	-	(52,267,446)
160 Net provisions for risks and charges	(617,200)	-	(617,200)
170 Net write-downs/reversals on property, plant and equipment	(600,996)	-	(600,996)
180 Net write-downs / Reversals on intangible assets	(3,397)	-	(3,397)
190 Other operating income (expense)	8,914,808	-	8,914,808
200 Operating costs	(93,816,811)	(59,738)	(93,876,549)
210 Gains (Losses) on investments	-	-	-
240 Gains (Losses) on investment disposals	85	-	85
250 Profit (Loss) on current operations before tax	224,574,352	(59,738)	224,514,614
260 Income tax for the year for current operations	(75,935,015)	16,428	(75,918,587)
270 Profit (Loss) on current operations after tax	148,639,337	(43,310)	148,596,027
290 Profit for the year	148,639,337	(43,310)	148,596,027

Reconciliation of the 2011 Statement of Comprehensive Income and the 2011 Restated Statement of Comprehensive Income

Item	31/12/2011	restated in application of new IAS 19	31/12/2011 restated
10 Profit (Loss) for the year	148,639,337	(43,310)	148,596,027
Other income items after tax			
20 Available-for-sale financial assets	(2,734,197)	-	(2,734,197)
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	-	43,310	43,310
100 Portion of valuation reserves relating to investments measured at equity	-	-	-
110 Total other income items after tax	(2,734,197)	43,310	(2,690,887)
120 Comprehensive income (Items 10+110)	145,905,140	-	145,905,140

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

<i>(in millions of euro)</i>	31/12/2011	31/12/2010 standardised	Changes
Income Statement Data			
Earnings margin	1,543.2	1,659.0	(7.0%)
Net commissions	1,000.7	1,015.2	(1.4%)
Operating income	2,898.1	3,001.0	(3.4%)
Operating costs	(1,862.7)	(1,900.6)	(2.0%)
Operating profit	1,035.4	1,100.4	(5.9%)
Profit/(loss) on current operations before tax	354.2	381.8	(7.2%)
Profit before impairment	493.2	212.7	132.0%
Profit for the year	(2,188.0)	212.7	
Balance sheet data			
Total assets	121,582.3	116,629.3	4.2%
Due from customers (gross)	76,011.2	77,954.3	(2.5%)
Financial assets and hedging derivatives	15,416.4	14,287.8	7.9%
Shareholders' equity	7,756.0	10,104.7	(23.2%)
Customer financial assets			
Direct deposits	90,785.2	90,395.4	0.4%
Indirect deposits	46,639.7	55,940.6	(16.6%)
- Asset management	17,342.1	20,439.3	(15.2%)
- Mutual funds and Sicavs	4,889.6	6,275.0	(22.1%)
- Securities and fund management	2,087.6	3,115.1	(33.0%)
- Insurance policies	10,364.9	11,049.1	(6.2%)
- Administered assets	29,297.6	35,501.3	(17.5%)
Organisation			
Average workforce and other personnel	14,031.0	14,507	
Number of branches	1,683.0	1,748	

(*) Arithmetic mean calculated monthly and does not include directors and auditors

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	227
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	50

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

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