Annual report

2013

BANCA ALETTI
GRUPPO BANCO POPOLARE

ANNUAL REPORT 2013

Banca Aletti & C. S.p.A.

(Banco Popolare Banking Group)
under the management and coordination of Banco Popolare

Registered Office: Via Roncaglia 12 – 20146 Milan, Italy
Fully paid-up share capital € 121,163,538.96
Milan Register of Companies
Tax Code and Registration number 00479730459
VAT no. 10994160157
Registered Bank
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund

CORPORATE OFFICERS

	Board of Directors
Chairman:	Vittorio Coda
Deputy Chairman:	Mario Minoja
Chief Executive Officer:	Maurizio Zancanaro
Directors:	Alberto Bauli Bruno Bertoli Davide Maggi Giorgio Olmo Bruno Pezzoni Francesco Saita
	Board of Statutory Auditors
Chairman:	Alfonso Sonato
Standing Auditors:	Franco Valotto Angelo Zanetti
Alternate Auditors:	Marco Bronzato Alberto Acciaro
	Deputy General Manager
	Franco Dentella
	Manager responsible for the preparation of corporate accounting documents
	Roberto Gori
	Independent Auditors
	Reconta Ernst & Young S.p.A.

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FINANCIAL HIGHLIGHTS

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

	31/12/2013	31/12/2012	Changes
Income statement (*in millions of euro*)			
Interest margin	112.9	67.5	67.3%
Net commissions	11.1	22.3	(49.9%)
Operating income	305.7	318.0	(3.9%)
Operating costs	(94.7)	(90.1)	5.2%
Operating profit	210.9	227.9	(7.5%)
Profit/(loss) on current operations before tax	128.5	187.2	(31.4%)
Net profit/(loss) on current operations	47.1	113.4	(58.4%)
Profit for the year	47.1	113.4	(58.4%)
	31/12/2013	**31/12/2012**	**Changes**
Balance sheet (*in millions of euro*)			
Total assets	12,113.7	14,578.6	(16.9%)
Net loans to customers	1,824.0	1,932.9	(5.6%)
Financial assets and hedging derivatives	6,527.8	8,347.3	(21.8%)
Shareholders' equity	754.8	705.4	7.0%
Customer financial assets (*in millions of euro*)			
Direct deposits	434.7	2,490.8	(82.5%)
Indirect deposits	15,389.4	14,676.0	4.9%
- Asset management	13,599.9	12,846.1	5.9%
- Mutual funds and Sicavs	544.6	514.6	5.8%
- Securities and fund management	12,975.8	12,246.2	6.0%
- Insurance policies	79.6	85.4	(6.7%)
- Administered assets	1,789.5	1,829.9	(2.2%)
Organisation and operating performance			
Average workforce	447	440	1.7%
Number of branches	34	35	(2.9%)
Net loans to customers per employee (*€/1000*)	4,080	4,396	(7.2%)
Operating income per employee (*€/1000*)	684	721	(5.2%)
Operating costs per employee (*€/1000*)	212	204	3.7%
Operating profit per employee (*€/1000*)	472	517	(8.7%)
Profitability ratios (%)			
ROE	6.7%	19.1%	(65.2%)
Interest margin / Operating income	36.9%	21.2%	74.1%
Net commissions / Operating income	3.6%	7.0%	(47.9%)
Operating costs / Operating income	31.0%	28.3%	9.4%

REPORT ON OPERATIONS

OUTCOME OF POLICIES AND STRATEGIES

The economic context

Global scenario

2013 was a transition year for the global economy that showed moderate growth, due to stabilisation in international financial conditions; in fact, global GDP is estimated to have grown 2.9%, compared to 3.2% in 2012. Emerging economies continued to grow, although at a lower rate than in the past (+4.5% estimated for 2013, compared to +4.9% in 2012[1]), while developed countries recorded, on average, moderate growth (+1.2% compared to +1.5% in the previous year). However, economic dynamics were not consistent among industrialised countries: while the United States maintained satisfactory growth, though lower than 2012, and Japan's growth accelerated, due to a mix of deflationary monetary policies and a substantial public spending programme, the Eurozone economy remained stagnant.
More specifically, in the United States, despite the restrictive tone in relation to debt policies, with the automatic reduction of public spending and the exacerbation of difficulties surrounding the fiscal cliff negotiations during the first half of the year, household income improved during the year, supported by consistent growth in stock markets and trends in real estate prices. This allowed both private consumption and investments in residential real estate to remain stable. The improvement in businesses' profitability and liquidity levels, combined with growth in forecasts for private demand, provided impetus for non-residential fixed investments and increases in inventories. As a result of these factors, as well as growth in exports, the U.S. GDP increased 3.2% in the fourth quarter of 2013. For the 2013 full year, the increase was 1.9%, according to available estimates, compared to 2.8% in 2012. Broken down into its components, consumer spending showed a positive contribution, growing +2.0% in 2013 (+2.2% in 2012), exports were up +2.8% (+3.5% in 2012) while imports increased +1.4% (+2.2% in 2012) and gross fixed investments grew +5.4% (+9.5% in 2012). The latter includes the positive trend in residential investments, +12.0% (+12.9% in 2012), confirming the recovery of the American real estate market, while manufacturing investments in machinery grew +2.9% (+7.6% in 2012).
The positive trend in the GDP was reflected in labour market conditions, which improved continually throughout the year with a gradual reduction in unemployment, down from 7.8% in December 2012 to 6.7% in December 2013. In addition, fears about default on U.S. debt, caused by the temporary lack of an agreement between the Administration and Congress regarding public funds, did not seem to have had significant effects on either economic growth or performance of financial markets, despite the initial tensions.
In Japan, at the beginning of 2013, the Abe government adopted stimulus measures for 20 trillion yen (of which more than 10 trillion in additional expenses), which were supported by significant purchases of public debt by the Central Bank. The economy quickly began to recover and GDP grew 4.1% on an annual basis in the first quarter and 3.8% in the second. At the same time, business and consumer confidence became decidedly positive. The growth began to slow down in the third quarter (+1.1% GDP for the quarter) and the trade surplus began to decline, reflecting the effects of weakness in the yen on the value of imports. After reaching a high of 45.7 in May from 39.9 in December 2012, the consumer confidence index fell to 42.5 in November as concerns intensified regarding the management of the enormous public debt (the public debt/GDP ratio was around 230% at the end of 2013), and due to the significant drop in the exchange rate. Available data for the fourth quarter result in an estimate for Japan's annual GDP around 2.3% (+2.0% in 2012).
In the first part of the year, the Chinese economy experienced a slowdown in external demand and difficulties emerged in the domestic lending sector, which was affected by a series of bankruptcies with considerable effects on internal demand. Beginning in the second quarter, credit restrictions increased and, in June, interbank exchanges dropped, pushing the overnight rate to 25% in the second ten-day period of the month, compared to 5% in the first ten-day period. This led the government to initiate a package of economic support measures, causing GDP to reach a 7.8% annual rate in the third quarter, compared to 7.5% in the second quarter and 7.7% in the first. Beginning in September, exports began to grow again, reaching USD 207.2 billion in December from USD 202.2 billion in November (USD 199.2 billion in December 2012). Other available indicators for the last quarter indicate an estimated annual GDP growth of 7.7% in 2013 (7.9% in 2012).
The declining trend in prices of raw materials and the generally moderate economic growth exerted little pressure on inflationary dynamics, particularly in industrialised countries. Consumer prices in the United States grew 1.5% through the end of 2013, while in Japan the aforementioned stimulus policies brought consumer prices to a 1.4% trend rate in December. Chinese inflation remains at 2.5%. As regards raw material dynamics, the price of crude oil ended 2013 around the same levels as the beginning of the year. Agricultural raw material prices are decidedly lower, due to good harvests, particularly in the U.S., while industrial metal prices showed more vitality.

European and Italian Scenario

In the second quarter of 2013, the Eurozone economy ended 18 months of recession. During the period, and until the end of the year, there were signs of recovery. However, the dichotomy between the North and South of the Eurozone

1 International Monetary Fund (IMF) estimate.

remains evident: nearly all of the peripheral countries are finding it difficult to turn the economic situation around, due to strict policies to balance public accounts.
Lower available household income, curbed by restrictive fiscal policies and difficulties in the labour markets of many partner countries, resulted in continued fragility in private consumption, which, after zero growth in the first quarter and 0.2% growth in the second, increased only 0.1% in the third quarter for the cyclical rate (-0.4% trend rate). Gross fixed investments fell 1.5% in the first quarter compared to the previous quarter, then grew 1% and 0.2%, respectively, in the second and third quarters, contained by the high level of uncertainty, relative weakness in demand, low forecasts for profitability, as well as restrictive lending policies adopted in certain countries. After a drop of 0.9% in the first quarter of the year, exports grew 2.1% in the second before slowing to 0.3% in the third. Overall, GDP increased 0.1% in the third quarter compared to the previous quarter, after growth of 0.3% in the second and slight drop in the first (-0.1%). The annual figure, which includes the positive performance in the last quarter (+0.3% cyclical), recorded a slight decline of -0.4%. This estimate is in line with forecasts and shows a slight improvement compared to the decline in 2012 (-0.6%). As regards inflation, consumer prices increased at the end of 2013 for a 0.8% trend rate, a considerable drop from the corresponding figure for 2012 (+2.2%), consistent with the general economic weakness.
In Italy, 2013 began with tensions in the political scenario, associated with the approach of elections on 24 and 25 February, the results of which did not lead immediately to a stable government, prolonging the uncertainty, with the resulting negative impact on household and business confidence and on their spending decisions. The broad-based coalition government formed on 28 April 2013 as well as Italy's release from the EU procedure for excessive public deficits eliminated two significant factors of uncertainty, allowing for a gradual reduction in the BTP-Bund spread, which dropped to 215 bps at the end of the year.
The Italian GDP, after posting negative results in the first two quarters of the year (-0.6% and -0.3%, respectively), in the third quarter ended the long series of declines that began in mid-2011, posting a positive change from the previous quarter (-1.8% trend change). This was made possible by businesses beginning the processes of restocking inventories as well as a less negative trend in consumption, but still weak (-0.2% compared to the previous level of -0.4%), also due to the high level of direct and indirect taxation on households (the VAT rate was increased from 21% to 22% in October). Similar to the European Union, Italy also benefitted from the recovery in exports (increasing 0.7% in both the second and third quarters, after the drop of 1.2% in the first three months of the year). Due to the positive performance in exports and the drop in imports that continued over several quarters and only halted in June through September, the current account of the payment balance should return to positive in 2013, after ten straight years of negative values. There are more disparate signals from investments: machinery investments were down 1.1% cyclical in the third quarter of 2013, after growing 0.3% in the second quarter and falling 1.7% in the first three months of the year. Construction investments during the third quarter, on the other hand, halted the long, nearly uninterrupted series of declines that began in 2008.
Full year estimates for 2013 indicate a decrease in the GDP of 1.9%, an improvement over the 2012 figure of -2.4%, due to the positive performance in the fourth quarter of the year, during which GDP improved 0.1% compared to the previous quarter. Economic signals at the end of the year seem particularly encouraging: manufacturing production increased 0.7% on average during the fourth quarter compared to the previous, business confidence grew to 98.2 in December compared to 96.6 in September and net exports continued to be positive.
Consumer prices increased at a 0.7% trend rate at the end of the year (compared to 2.4% at the end of 2012), confirming the recessionary tone of economic activity that dominated the majority of the year. With regard to public finances in 2013, including due to extraordinary factors[2], requirements in the government sector increased markedly, having a negative impact on the amount of debt, estimated at 132.7% of GDP for the year in question, but not on net borrowing of public administrations, which, despite the drop in GDP, remained within the 3% threshold at the end of the year, in line with European objectives. Based on these elements, Parliament approved the 2014 Financial Stability Law in December.

Monetary and economic policy interventions and the situation in financial markets

During the year, monetary policies adopted by the major central banks remained very expansive. Bank of Japan, as previously mentioned, reinforced its already heavily expansive policy. The Federal Reserve repeated its intention to maintain official rate at the current low level until the employment rate is lower than 6.5%, confirming the 2% objective rate for long-term inflation. The ECB, in light of the banking crisis in Cyprus during the initial months of the year, repeatedly gave assurances that the method of full assignment of amounts requested in refinancing transactions in the Eurosystem would remain in place as long as necessary. Furthermore, with the absence of consumer price tensions in the Eurozone, the European Central Bank reduced the reference rate on refinancing transactions on 8 May to 0.50% from the previous level of 0.75%, while the marginal rate was reduced from 1.5% to 1.0%. Subsequently, on 7 November, the reference rate was reduced an additional 25 basis points.
During 2013, the debate continued, in alternate phases and with fluctuating reactions in financial markets, over the Fed's possible tapering of bond purchases on the market for 85 billion per month, as the labour market continued to improve. At the beginning of May, financial market operators began to show concerns over a possible early termination of the quantitative easing programme in the United States, along with worries over the crisis in Cyprus and the slowdown in the Chinese economy, which resulted in a temporary increase in volatility in financial markets and

[2] Major factors include capital contributions from ESM and EIB, the annual flow of loans to member countries as part of assistance programmes and the effects of measures regarding prior deficits of public administrations for the portion in the current account already recognised in previous year.

triggered an outflow of capital from emerging countries that continued for the remainder of the year. The U.S. 10-year government bond rate increased by 75 bps in a period of a couple of weeks, leading to a moderate increase in the yield of the German Bund. In later months, the lessening of these fears, fostered by the Fed taking a less aggressive position, brought a level of calm back to the markets. In December, the FOMC decided to reduce the aforementioned interventions by USD 10 billion, beginning in January 2014. This decision had only a marginal impact on markets in Western economies, as the change had already been considered several times.
The expansive monetary policies contributed to the particularly strong performance of stock markets, which in some cases reached record highs. Examples of the strong performance include +57% for the Nikkei, +26.5% for the Dow Jones Industrial Average and +25.5% for the Frankfurt Dax. For government securities, results diverged between countries with high ratings and others. Long-term rates in the U.S. finished the year with a slight increase compared to the beginning, although levels remain historically low. Core European government securities also declined during the year, although to a lesser extent. On the other hand, the treasuries of peripheral European countries showed consistently increasing yields, with the consequent marked reductions in the spread with the 10-year Bund. In particular, the yield differential between the 10-year BTP and Bund closed the year at 215 bps, compared to 319 at the beginning of the year, a decline of 104 bps. The reduction of country risk also had a positive impact on the risk premium required by the corporate bond market, not only in Italy but for the rest of the Eurozone as well, due to the general improvement in sovereign risk. Concurrently, the average premium on credit default swaps for the six largest Italian banks fell at the end of the year to 220 bps, with a total reduction of 150 bps over the course of the year, thereby reducing the differential with the leading French and German banks.
Two important developments regarding oversight of the European credit system during the last quarter also helped to support the markets. In September, the European Commission approved the legislative package[3] on the European banking union that establishes single oversight through a new entity, the Single Supervisory Mechanism (SSM), consisting of the ECB, as coordinator, and the national authorities of the participating countries, who will assist the ECB in preparing and implementing the provisions inherent in the designated supervisory duties. Furthermore, on 18 December, a compromise agreement was signed regarding the creation of a mechanism for resolving the banking crisis. Specifically, the agreement includes setting up a single fund that, following a transition period, will reach a level of 55 billion euro and, though initially developed on a national basis, will be unified at the European level by 2025. During the transition, any necessary resources to resolve a banking crisis will be provided by governments or the ESM (European Stability Mechanism), as envisaged by the procedures for recapitalising financial institutions. The agreement on the European banking union, accompanied by the enactment of Single Supervision, produced its first effects beginning in November, with the launch of the Asset Quality Reviews on the situation of banking intermediaries that will be subject to ECB supervision in the future, including the fifteen largest Italian institutions. This exercise is expected to generate considerable advantages in the banking system. In fact, it should make banks' financial statements more transparent and comparable among different countries, reducing the fragmentation in financial markets and improving deposit conditions. Following the assessment, stress tests will be performed, carried out in coordination with the European Banking Authority (EBA), to better evaluate the risk profile of the aforementioned intermediaries.

Domestic banking industry

Overall, 2013 was not a brilliant year for the Italian credit system. Loans were down during the year, reflecting both tensions on the supply side, which temporarily subsided in the summer, as well as weakness in the economic cycle on the demand side. The increase in credit risk, evidenced by the high number of bad loans, as well as their continually increasing trend, together with restrictions placed on capital requirements and the impending new related regulations (Basel 3), limited the propensity of intermediaries to disburse credit. However, the forecasted situation and uncertainties about the real economy have markedly reduced credit demand to finance manufacturing investments and operating assets. On the liabilities side, funding conditions improved measurably with the gradual lessening of sovereign risk and the reduction of the spread on the 10-year BTP compared to the German Bund.
Specifically, based on data provided by ABI (Italian Banking Association), the stock of loans to households and non-financial companies at the end of December was down to a 4.0% trend rate, an improvement from the -4.5% posted in November. An analysis by type of lender shows that in December there was a pronounced contraction in loans to businesses (-5.9% trend rate) and a more contained reduction in those to households (-1.3%). Credit quality continued to deteriorate, benefitting only indirectly and marginally from payments made by the public administration to creditor companies. In December, gross bad loans reached 154.4 billion euro, a trend increase of 24.7%, while net bad loans amounted to 80.4 billion euro, a 24.1% increase compared to twelve months earlier.
With the aforementioned improved perception of sovereign risk on interbank markets, and thus Italian risk, funding restrictions on both interbank markets and in direct retail deposits lessened. Despite the improved climate of the markets, aggregate data on the sum of deposits and bonds decreased 1.9% in December compared to the prior year, the sum of the 1.9% increase in resident customer deposits and a drop of 9.8% in the bond market. As regards the specific types of deposits, current accounts increased at a 2.7% trend rate at year end, while time deposits, consisting of the sum of fixed term deposits and those repayable with advance notice, net of deposits associated with

[3] The package establishes regulations for central supervision by the ECB over all of Europe's "systemic" banks. The regulations are expected to be fully implemented by September 2014.

securitisation transactions, grew 2.0%. The re-composition between bonds and deposits, in favour of the latter, also had a positive impact on the cost of funding, reducing it over the course of the year.
Lower risk for the country, together with the expansive measures undertaken by the ECB to contrast periods of liquidity tensions on the interbank market, affected the performance of banks' deposit and loan rates. The average loan rate in euro to household and non-financial companies increased to a limited extent, from 3.79% in December 2012 to 3.83% in December 2013. The average rate on bank deposits from household and non-financial companies declined from 2.08% in December 2012 to 1.89% in December 2013 (a drop of 19 bps), as the combination of a decline of 27 bps on deposit rates in euro (from 1.25% to 0.98%) and an increase of 8 bps on average rates on bank bonds (from 3.36% to 3.44%). As a result, the gap between the deposit and lending rates widened by 23 bps, to 1.94% in December 2013 compared to 1.71% the year before. The mark-up, or the difference between the average rate on loans in euro to families and non-financial companies and the 3-month Euribor, reached 355 bps from 360 bps at the end of 2012. The mark-down, or the difference between the 3-month Euribor and the average rate on deposits from private customers, was -161 bps, an improvement from -189 bps in December 2012.
Profitability for the banking system in 2013 was hindered by the compression in the interest margin (expected to be down 10.7%) and the higher cost of credit, associated with the substantial amount of bad loans and their consistent rate of growth, sharpened by the significant adjustments imposed by the Supervisory Authority as part of the review conducted in the first part of the year. However, there are positive signs from the increased commission income related to growth in asset management. In fact, the asset management sector closed 2013 with a positive balance in net deposits of 65 billion euro from the beginning of the year, the best result since 1999. Deposits in mutual funds grew 48.7 billion during the year, divided between Italian funds (+11.4 billion) and foreign funds (+37.3 billion). The total amount of mutual fund deposits was 560 billion euro at the end of 2013, compared to 525 billion at the end of 2012.

Exposure with Greece, Portugal, Ireland and Spain

During 2013, after a period of intensification in the initial months and additional swings in the middle of the year, the sovereign risk for peripheral Eurozone countries began to decline significantly in the second half, reaching its lowest level in December. Specifically, in the first half a growing indifference in peripheral European countries associated with specific tensions related to the Italian elections, their uncertain results, and the renewed difficulties in Greece and in the Spanish banking system combined with the banking crisis on the island of Cyprus. The improvement in European financial market conditions began during the launch of the OMT programme by the ECB in the second half of 2012, and then halted at the beginning of February 2013, with the eruption of the Cypriot banking crisis. The following March, the European Commission, the European Central Bank and the International Monetary Fund reached a bailout agreement in the amount of 10 billion euro, conditioned on the closure of Laiki Bank, the recapitalisation of the entire credit sector for the island, and the involvement of depositors of over 100 thousand euro, as well as, obviously, the Bank's shareholders. The local government was also forced to begin a process of consolidating public debt and initiate structural reforms to regain competitiveness and resolve the existing macroeconomic imbalances, including through a privatisation programme. Having resolved the Cypriot crisis, at least temporarily, the sovereign risk of peripheral European countries began to diminish, supported by the ECB's decision at the beginning of March to lower the reference rate on refinancing transactions from 0.75% to 0.50%, while the marginal rate was reduced from 1.5% to 1.0%, as previously mentioned.
Sovereign risk began to rise again during the second ten-day period of the month as worries heightened over a looming credit crisis in China due to excessive growth in loans from the "shadow" banking system, consisting of non-bank intermediaries that, having an impact on global growth, could have caused problems in the weaker European economies. Additionally, these worries combined with fears about the Fed beginning to taper its quantitative easing programme, generating an appreciable increase in uncertainty in financial markets and thereby causing the sovereign risk of peripheral Eurozone countries to increase. The intervention of Chinese authorities and the calming of concerns about a sudden withdrawal of extraordinary monetary stimulus in the United States, led the risk premium in financial markets to stabilise during the summer. The additional 25 bps reduction in the reference rate by the ECB and the significant progress made toward a European banking union, with the launch of the Single European Supervisor and the subsequent preliminary agreements on the delicate issues for resolving the banking crises, provided even more reassurance to financial markets in the second half of the year.
Specifically, the BTP-Bund spread reached a low of 255 bps at the end of January, then, as the elections neared, began to widen, particularly after the uncertain results of the elections. It reached its absolute maximum for the year of 350 bps, corresponding to the height of the Cypriot banking crisis, then began to diminish again as the Letta government took office. It reached a new low around the second ten-day period of May, before rising again due to the international uncertainty related to the aforementioned problems. As fears over the tapering of quantitative easing and the Chinese crisis began to lessen between June and July, the spread on peripheral bonds compared to the Bund began to shrink. At the beginning of July, based on these positive developments in the Eurozone and the calming of the domestic political situation, Italian government securities did not suffer any particular shocks with the lowering of the rating on public debt, from BBB+ to BBB, by Standard & Poor's. Spanish public debt also benefitted from the growing risk propensity in the market: due to the appreciable improvement in the economy in the second half of the year, the Bonos-BTP spread became negative on more than one occasion. The year closed with 10-year BTP yield differentials compared to Bonos and the Bund at the low levels of 215 bps and 220 bps, respectively.
Ireland government securities performed satisfactorily, even with expectations at the end of the year that the country would no longer receive official support from European authorities. The 10-year yield differential with the Bund was

similar to Italian levels, down to 150 bps at the end of the year. At the beginning of 2014, Ireland returned to the primary market with the issue of 10-year bonds with notable success and achieved an upgrading of the sovereign rating from Moody's, which brought it above the investment grade threshold and with a positive outlook. The performance of 10-year Portuguese bonds compared to the Bund was positive for the year, declining 85 bps to 425 bps. Finally, there was a significant drop in the spread for 10-year Greek bonds, from 1017 bps to 655 bps at the end of the year, evidence that the turnaround policies adopted and the objectives achieved have been effective.

SIGNIFICANT EVENTS

Closing of the Banca Aletti tax audit and explanation of the dispute with Inland Revenue

On 21 February 2013, the audit of the Bank, initiated by the Milan Tax Unit of the Finance Police in February 2011, was completed, which concerned the dividends distributed as per art. 89 of the Consolidated Income Tax Act for the years 2005, 2006, 2007, 2008 and 2009. The audit involved 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. The single stock futures transactions that were under audit by the Finance Police are part of the broader activities of trading of listing financial instruments performed on the Bank's behalf. Accordingly, these are typical and ordinary transactions for an investment bank such as Banca Aletti.

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 as they were 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, which the Bank promptly challenged. 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. Based on the results in the reports on findings issued by the Finance Police, and in consideration of the tax assessments issued by the Lombardy Regional Administration (relative only to missed withholding taxes in 2006), Banca Aletti would have been exposed to a tax change of 457 million euro plus penalties and interest.

These claims are based on mere presumptions.

While confident of the legitimacy of its transactions and the baselessness of the allegations made, the Bank underwent a long consultation on the matter with Inland Revenue, as is typical is such cases, resulting in the Lombardy Regional Administration and the Central Tax Assessment Department formulating a proposed settlement to the pre-litigation dispute at the end of 2013, which included the Bank making a payment of 89 million euro in taxes, 16.5 million euro in penalties and 16 million euro in interest, for a total of 121.5 million.

The decision taken by the Board of Directors of Banca Aletti, with the agreement of the Parent Company, to accept the proposed out-of-court settlement of the aforementioned dispute follows an evaluation of pure economic expedience, obtained by comparing the uncertain expected charges associated with a formal dispute with the tax authorities with the certain charges associated with the proposed settlement. In calculating the expected charges from a formal legal dispute, it was necessary to consider the risk of a partial adverse outcome and the costs of bringing forward the dispute. In that respect, judicial guidelines emerging from an analysis of disputes founded on “abuse of rights” were taken into due consideration. These analyses showed a trend of finding for the tax authorities in cases such as this, in which the taxpayer did not have the possibility of refuting through the evidence those preliminary elements on which the tax authorities based their case. It should also be noted that the reduction by one-sixth of the penalties for agreeing to the settlement proposed by the tax authorities ensures that the out-of-court resolution has a significant advantage with respect to proceeding with a formal dispute, in that the possibility of a partial adverse result, though weighted in relation to the probability of occurrence, would carry the full penalties. Finally, the out-of-court settlement had other advantages that are difficult to quantify, but no less important, associated with resolving an uncertain situation against a claim for an extremely large amount that, otherwise, could have been continued for many years, penalising the valuation and image of the Bank and the entire Group.

As a result of the decision, the actions to conclude the disputes will be taken during 2014 in reference to the years audited. The entire potential liability is covered by a specific allocation for risks and charges of 81.5 million euro through a charge to the 2013 income statement. The remaining 40 million euro had already been charged to the previous year's income statement.

Bank of Italy audit reviews

BANK OF ITALY - AUDIT REVIEWS PURSUANT TO ART. 54 OF CONSOLIDATED LAW ON BANKING

On 16 May 2013, Bank of Italy initiated audit reviews of Banca Aletti pursuant to art. 54 of the Consolidated Law on Banking. These audits were concluded on 11 October 2013.
The “Audit Report” containing the findings of the audits was sent to the Bank for the Board of Directors’ meeting, convened for said purpose, on 8 January 2014.
The Bank will present its comments on the “Audit Report” to the Supervisory Authority in the envisaged timeframe.

BANK OF ITALY - FINANCIAL INFORMATION UNIT: AUDIT REVIEWS PURSUANT TO ART. 47, SUBSECTION 1 OF ITALIAN LEGISLATIVE DECREE NO. 231 OF 21 NOVEMBER 2007

On 20 September 2013, Bank of Italy - Financial Information Unit - initiated audit reviews of Banca Aletti pursuant to art. 47, subsection 1 of Italian Legislative Decree no. 231 of 21 November 2007.
Bank of Italy - Financial Information Unit - initiated similar audit reviews of the subsidiary Aletti Fiduciaria S.p.A. at the same time.
On 23 December 2013, the reviews were concluded of both companies, as communicated with a registered letter sent on 9 January 2014, received on 16 January 2014.

Sale of Lehman receivables

As was thoroughly discussed in financial statements in previous years, Banca Aletti has receivables resulting from the exposure to the OTC derivative department of three Lehman Brothers Group companies (which defaulted in September 2008) for a total of 13,192 thousand euro, recognised in the financial statements for a net value of 3,930 thousand euro following impairments of 9,262 thousand euro.
In its own portfolio, the Bank also had bonds issued by Lehman Brothers Group companies for a book value of 918 thousand euro, which was written off in previous years.
During the first half of 2013, the Bank initiated negotiations to sell said receivables that resulted in two transactions, described below, with IlliquidX LLP, a British company specialising primarily in trading in securities in default on behalf of certain institutional investors.
The bonds owned by the Bank were sold on 15 May 2013 (with payment settlement between May and June 2013) for a total value of 498 thousand euro. Note that during the first half of 2013, additional payments were received of 161 thousand euro resulting from partial distributions envisaged in the issuer’s repayment plan. The total of these amounts, 659 thousand euro, were recorded in item 80 of the Income Statement “Trading gains/(losses)".
For receivables resulting from the exposure to the OTC derivative department, the Bank sold, also on 15 May 2013, receivables from Lehman Brothers SA (Zurich) for an amount equivalent to 76% of the exposure permitted by the procedure, collecting a total amount of 3,321 thousand euro on 16 July 2013.
The sales transactions allowed the Bank to recognise income of 2,259 thousand euro in the Income Statement as at 30 June 2013.
As regards receivables from Lehman Brothers SF New York, a further impairment was made for 932 thousand euro, following the “reduction” of the receivable originally requested of Bank Aletti in the application to be included in the bankruptcy proceedings of the financial company. The impairment was recognised in item 130 of the Income Statement “Net write-downs/reversals for impairment”.
During the second half of 2013, two additional payments were received from partial distributions envisaged in the repayment plan, 263 thousand euro for the position with Lehman Brothers SF New York and 114 thousand euro for the same position but disbursed by Lehman Brothers Holding Inc., parent company, as guarantor. Additionally, the Bank continued negotiations to sell said receivables during the second half of 2013, which resulted in the conclusion of another transaction IlliquidX LLP, as described below.
Among the residual receivables resulting from the exposure to the OTC derivative department, the Bank sold, on 10 October 2013, receivables from Lehman Brothers SF New York for an amount equivalent to 55% of the exposure permitted by the procedure net of payments previously received, collecting a total amount of 140 thousand euro on 17 October 2013.
This sale transaction, along with the payments received from the aforementioned partial distributions and excluding the net exposure that is still outstanding as at the sale date, was recognised for 223 thousand euro in item 100 of the Income Statement “Gains on disposals”.
Furthermore, note that during the second half, following the commencement of informal negotiations with the counterparty to include the receivable in the bankruptcy proceedings and legal analysis performed together with external consultants, the Bank decided to further reduce the net exposure to Lehman Brothers International (Europe), with registered office in London, by 931 thousand euro.

Merger of Credito Bergamasco and Banca Italease into the Parent Company

In its meeting of 26 November, the Board of Directors of Banco Popolare prepared and approved the merger proposal of the subsidiaries Credito Bergamasco and Banca Italease in the Parent Company.
These transactions will bring about savings from cost synergies, organisation simplification, more efficient adoption and implementation of Group strategies and reduction of tax charges currently incurred based on governing regulations.

From an equity perspective, the merger of **Credito Bergamasco** will also improve the Group's position for the forthcoming application of provisions introduced by the "Basel 3" prudential regulations containing new limits in calculating Common Equity Tier 1 Capital for Credito Bergamasco's equity attributable to minority interests.

The merger will not change Credito Bergamasco's close ties to its local customers and shareholders. For this purpose, a specific local division will be created with offices in Bergamo and, corresponding to said division, a Local Committee for Consultation and Credit will be established, consisting of members appointed from shareholders representing the economic, business and trade interests for Credito Bergamasco's local area. Additionally, the Fondazione Credito Bergamasco will continue to support the Bank's traditional communities.

In its Measure of 18 February 2014, Bank of Italy authorised the merger of Credito Bergamasco in Banco Popolare, in accordance with art. 57 of the Consolidated Law on Banking.

As regards **Banca Italease**, the merger will follow the effective date of the Credito Bergamasco merger and will be completed by 31 December 2014 with the simplified procedure envisaged in art. 2505 of the Italian Civil Code for merging fully owned companies, on the assumption that Banco Popolare will possess 100% of the share capital of Banca Italease by the date on which the merger agreement is signed. Following Banca Italease merger, although it will no longer be an independent legal entity, it will become part of a specially created business division within the Group.

For both mergers, for accounting and tax purposes, the effects of the transactions of the merged companies will be recognised in the financial statements of Banco Popolare effective 1 January 2014.

These mergers represent the completion of the rationalisation of the corporate structure launched in 2011 that involved the merger of the Group's "Local Banks", leading to the achievement of efficiency and profitability objectives while, at the same time, protecting the brands, and the traditional business in service of local customers of each of the banks.

RECLASSIFIED BALANCE SHEET AND INCOME STATEMENT

Balance sheet data

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

BALANCE SHEET **Reclassified assets** ***(in thousands of euro)***	**31/12/2013**	**31/12/2012**	**Changes**	
Cash and cash equivalents	22	20	2	10.7%
Financial assets and hedging derivatives	6,527,846	8,347,251	(1,819,405)	(21.8%)
Due from banks	3,591,170	4,123,891	(532,721)	(12.9%)
Due from customers	1,823,961	1,932,875	(108,914)	(5.6%)
Equity investments	20,460	20,460	-	-
Property, plant and equipment	746	974	(228)	(23.4%)
Intangible assets	20,938	20,938	-	-
of which: goodwill	20,938	20,938	-	-
Other asset items	128,580	132,174	(3,594)	(2.7%)
Total	**12,113,723**	**14,578,583**	**(2,464,860)**	**(16.9%)**

BALANCE SHEET **Reclassified liabilities** ***(in thousands of euro)***	**31/12/2013**	**31/12/2012**	**Changes**	
Due to banks	5,267,172	4,560,402	706,770	15.5%
Due to customers and debt securities in issue	750,284	2,737,312	(1,987,028)	(72.6%)
Financial liabilities	5,119,023	6,396,678	(1,277,654)	(20.0%)
Provisions	133,228	49,674	83,554	168.2%
Other liability items	89,203	129,141	(39,939)	(30.9%)
Shareholders' equity	754,814	705,377	49,437	7.0%
- Share capital and reserves	707,711	592,017	115,694	19.5%
- Profit for the year	47,102	113,359	(66,257)	(58.4%)
Total	**12,113,723**	**14,578,583**	**(2,464,860)**	**(16.9%)**

Income Statement Data

Banca Aletti closed 2013 with a decrease in net profit of 58.4%, from 113.3 million euro as at 31 December 2012 to 47.1 million euro as at 31 December 2013.
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)*	31/12/2013	31/12/2012	Abs. change	% change
Interest margin	**112,893**	**67,481**	**45,412**	**67.3%**
Net commissions	11,148	22,265	(11,117)	(49.9%)
Net other operating income	182	89	93	104.0%
Net financial income	181,429	228,159	(46,730)	(20.5%)
Other operating income	**192,759**	**250,513**	**(57,754)**	**(23.1%)**
Operating income	**305,652**	**317,994**	**(12,342)**	**(3.9%)**
Personnel costs	(48,378)	(45,596)	(2,782)	6.1%
Other administrative expense net of recoveries	(45,792)	(43,736)	(2,056)	4.7%
Net write-downs on property, plant, equipment and intangible assets	(577)	(746)	169	(22.7%)
Operating costs	**(94,746)**	**(90,078)**	**(4,668)**	**5.2%**
Operating profit	**210,905**	**227,916**	**(17,011)**	**(7.5%)**
Net write-downs for impairment of loans	(4)	4	(8)	(200.0%)
Write-downs on other assets	(1,700)	(21)	(1,679)	7995.2%
Net provisions for risks and charges	(80,736)	(39,909)	(40,827)	102.3%
Gains (Losses) on investments	-	(821)	821	(100.0%)
Profit (Loss) on current operations before tax	**128,465**	**187,170**	**(58,705)**	**(31.4%)**
Income tax	(81,363)	(73,810)	(7,553)	10.2%
Profit (Loss) on current operations after tax	**47,102**	**113,360**	**(66,258)**	**(58.4%)**
Profit for the year	**47,102**	**113,360**	**(66,258)**	**(58.4%)**

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 305 million euro.
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 222.1 million euro, against placements totalling 9.4 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.
Trading in listed securities and derivatives (including proprietary trading, market making on single stock futures, trading and market making on supranational governments and corporate bonds) generated revenues of 34.9 million euro.
Capital Markets activities and trading on behalf of third parties together generated operating income of 10.7 million euro.
Operating income from Investment Management and Private Banking was 37.8 million euro, against 24.8 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 5.9% and generated net commissions of 31.3 million euro. Administered deposits and direct deposits contributed 6.2 million euro.
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)	31/12/2013	31/12/2012	Change since 31/12/2012
Customer financial assets	**15,824**	**17,167**	**(7.8%)**
Direct deposits	435	2,491	(82.5%)
Indirect deposits	15,389	14,676	4.9%
- Asset management	13,600	12,846	5.9%
- Mutual funds and Sicavs	545	515	5.8%
- Securities and fund management	12,976	12,246	6.0%
- Insurance policies	80	85	(6.7%)
- Administered assets	1,789	1,830	(2.2%)

The performance of customer deposits shows an improvement in 2013 in the indirect component, 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.
The change in direct deposits is due to the settlement of two bond loans that had reached maturity.

Productivity and profitability ratios

	31/12/2013	31/12/2012	Change since 31/12/2012
Productivity ratios			
Net loans to customers per employee (€/1000)	4,080	4,396	(7.2%)
Operating income per employee (€/1000)	684	721	(5.2%)
Operating costs per employee (€/1000)	212	204	3.7%
Operating profit per employee (€/1000)	472	517	(8.7%)
Profitability ratios (%)			
ROE	6.7%	19.1%	(65.2%)
Interest margin / Operating income	36.9%	21.2%	74.1%
Net commissions / Operating income	3.6%	7.0%	(47.9%)
Operating costs / Operating income	31.0%	28.3%	9.4%

ECONOMIC, FINANCIAL AND RISK MANAGEMENT POLICIES

Capital adequacy and major risks

The negative trends in the macroeconomic context (low economic growth rates and the ensuing higher rates of insolvency of borrowing companies) 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 continued its activities aimed at maintaining a solid equity position. In particular, in 2013 the Group announced an invitation to bearers of Tier 1 and Tier 2 financial instruments to sell these securities to Banco Popolare. This repurchase transaction had the objective of recalibrating the composition of regulatory capital of Banco Popolare and the Group, given the impending regulatory amendments envisaged in the Basel 3 standards.

After obtaining approval from Bank of Italy to use internal models to measure market and credit risks (effective from the regulatory reports as at 30 June 2012), the Group's capital ratios improved significantly, with a trend of essential stability during 2013 and, in particular, for the core component.

The additional strengthening of capital requirements envisaged by Basel 3 aims to promote financial stability on a global level. The application of Basel 3 rules will considerably improve capital, both in qualitative terms (gradually excluding innovative hybrid instruments and applying deductions directly from Common Equity Tier 1), as well as quantitative terms (minimum Common Equity Tier 1 Ratio of 4.5% and minimum Tier 1 Capital Ratio of 6%).

The increase in capital proposed and resolved by the Board of Directors of Banco Popolare at the end of January 2014 is part of this context, and should allow the Group to reach a "fully phased" CET1 ratio of 10%. This is a concrete action, with the goal of strengthening the Group's capital, that will improve the Group's competitive position in the domestic financial market as well as ensure the safety margins necessary to undertake significant growth in business activities, safeguarding the traditional orientation of Banca Popolare, with its close ties to households and businesses in its local areas.

The same reasoning applies to the merger of Credito Bergamasco in Banco Popolare as well as simplifying and optimising the Group's corporate structure. For the capital perspective, the merger will also improve the Group's position for the forthcoming application of provisions introduced by the Directive 2013/36/EU and EU Regulation no. 575/2013 ("Basel 3" prudential regulations) containing new limits in calculating Common Equity Tier 1 Capital for Credito Bergamasco's equity attributable to minority interests.

Furthermore, note that as part of assuming supervisory responsibilities under the Single Supervisory Mechanism, in November 2013 (for a period of 12 months), the European Central Bank began a comprehensive assessment of the situation of banks, by means of a thorough risk analysis, an asset quality review and stress tests to verify the stability of financial statements in stress scenarios. The Group immediately took action to respond to the requests that will be formulated in the coming months.

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.

The risk-sensitive data in the loan portfolio (PD and LGD) is also useful in developing strategic plans and the budget, to define the Group's credit policies in terms of allocation of the portfolio by sector/segments of economic activity and by geographic area, to guide/limit the level of concentration of the loan portfolio, as well as to define risk-based pricing and budget objectives of commercial operators.

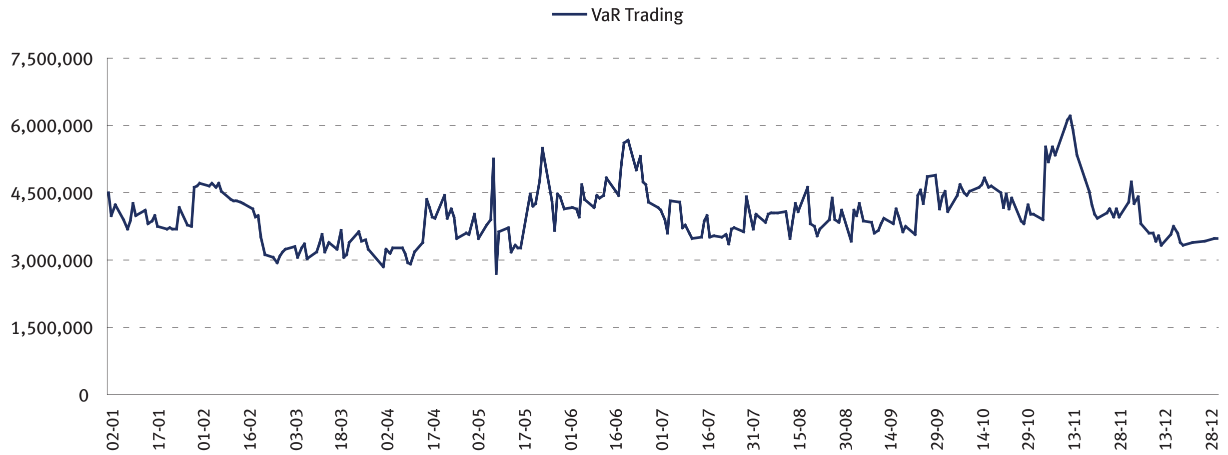
Management control of credit risks is performed through a model portfolio for estimating VaR risk, belonging to the "default model" category, applied monthly to credit exposures of the Group's banks, limited to performing, cash and unsecured loans to ordinary and other customers resident in Italy. The 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 components of expected losses and unexpected losses. 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).

Specific organisational units in the Group are responsible for managing non performing 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.

Non performing 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 non performing 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 the Group Banks 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 in reference to the issuer) 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 2013 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 ensure a more accurate measurement of the exposure to operational risks, improve management practices and risk measurement techniques, reduce the frequency and severity of operational loss events in the medium term, and adopt solutions in line with best practices in the sector, the Group has developed a measurement and management system (rules and processes, players, role and responsibilities, IT models and application) that are consistent with regulatory requirements envisaged for advanced AMA models.
Risk is measured using an internal methodology according to VaR logic, which is based on quantitative and qualitative analyses. The quantitative assessment is based on internal loss data, gathered through the loss collection process and supplemented with external loss data for the Italian banking industry (DIPO consortium back flows, set up as part of the ABI - Italian Banking Association - by the major Italian banking groups) and data from the risk self-assessment process, which includes qualitative data indicated as part of the continuous assessment of internal and external operating context.
Trend data on operational losses, as well as continual analysis of the internal and external operating context and forecasts, indicate that Banco Popolare Group's production activities are carried out in an operating context that is deemed favourable.
This judgement is further supported by, among other things, historical trend for operational losses, which is decidedly decreasing in the period 2007-2013, as a result of first, second and third levels of control that are notably strengthened over the period in consideration, as well as continuous actions to prevent and mitigate risks.
Consistent with the primarily commercial and retail banking nature of Banco Popolare Group, the main capital absorption factors regard the "Commercial Practices" category, followed by "Processes", which together represent a predominant part of the total risk and that is chiefly manifested in the Group's commercial network.
In reference to cases of "External Fraud", to combat the greater sophistication of techniques for identity theft, cloning of cards and theft from automated bank machines, the Group undertakes a constant reinforcement of information security protection measures, which helps contain the average severity of losses of this type.
Appropriate mitigation actions are underway against the types of risks highlighted above, including, in particular, personnel training initiatives (specifically in the network) regarding the various business areas (Credit, Finance - MiFID, Anti-Money Laundering, etc.).
As regards liquidity, Banco Popolare Group, in addition to the typical periodic measurements, acquired the tools necessary to calculate the new indicators envisaged in Basel 3 regulations and required by Bank of Italy and the EBA, according to the regulations' stringent timeframes.

Specifically, 2014 will be the first year of monthly reporting on the short-term LCR (Liquidity Coverage Ratio), whose minimum limit (60%) will become effective starting next year.
The Group's liquidity profile continued to be stable throughout 2013, and in the first part of 2014. This result was corroborated by the levels achieved in Basel 3 ratios, which were always above the minimum prudential threshold of 100%.
Furthermore, in 2013 a new parameterisation, "Mean Life" was 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 estimation metrics and the value at risk in measuring interest rate risk.
For more information on specific credit, financial and operational risks, refer to Part E of the Notes to the Financial Statements related to risk management.

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, in reference to both performing loans as well as the non performing portfolio, as a result of recent provision policies.
The Group continues to have a slightly bullish profile in interest rate risk that, should market rates rise, would result in an increase in the interest margin. The current rate level, and forecasts that rates will remain stable at these levels, make the risk of a scenario of falling rates irrelevant.
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, which were further enhanced over the last year and a half as part of the AMA project to validate the internal model for regulatory purposes, 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 loan 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 2013, the Group undertook activities to optimise the process of producing the Basel 3 indicators required by Bank of Italy and the EBA, with the objective of accelerating the timing and frequency of the measurements.
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

Beginning in the first quarter of 2014, the Group began preparing the supervisory reporting on liquidity ratios envisaged by Basel 3, with the technology and informational developments necessary to meet the requirements and the specific requests in the recently issued regulations.

Counterparty risk

Processes for monthly management reporting and monitoring of risk ceilings at the overall Group level were completed during 2013, providing trends in counterparty risk and its key elements, through aggregate and detailed views.
In February 2013, a project to develop a Contract Archive with 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. In addition, a project to implement the salient parameters and elements of risk mitigation contracts for SFT transactions (GMLSA/GMRA) was launched.
During the year, the Group participated in a Quantitative Impact Study (QIS) regarding:

- application of new Basel 3 regulations, with particular reference to risk resulting from variability in the credit risk components (CVA Risk) and risks associated with transactions undertaken with central counterparties;
- new methodological proposals by the Basel Committee for calculating counterparty risk exposure.

Moreover, a project began to generally strengthen the processes and IT architecture, focused on introducing more sophisticated methodologies to calculate exposures and improving support tools for risk management and monitoring activities.
As part of the initiatives aimed at more prudent and effective counterparty risk management, Banca Aletti participated indirectly in the LCH (London Clearing House) for trading/settlement of OTC derivatives, with resulting benefits in terms of risk mitigation and calculation of minimal capital requirements.

Revision of rating scale and introduction of regulatory LGD in decision-making responsibilities

In Bank of Italy's letter authorising the use of internal models for credit and market risk measurement, the Supervisory Authority defined an action plan, with the most significant items as follows:

- revision of rating scale;
- introduction of regulatory LGD in decision-making responsibilities

Both changes were made by Banco Popolare during 2013 and implemented beginning in December 2013.
The new rating scale will provide a more accurate and granular risk measurement, passing from the former 9 classes to the current 11.
Similarly, in order to calculate the metrics for the internal AIRB credit risk measurement system, the necessary actions were taken to introduce LGD in the automatic calculation in decision-making responsibilities.

Rating

Rating agency	Short-term borrowings	Long-term borrowings	Credit Watch / Outlook
Standard & Poor's	B	BB	Negative

On 24 February 2013, Standard & Poor's lowered its long-term rating of Banco Popolare and its subsidiaries Credito Bergamasco and Banca Aletti to BB and the short-term rating to B. The rating was reduced as a result of the lowering in Italy's long-term rating from BBB+ to BBB on 9 July 2013 and the subsequent reduction for the banking industry, as part of review that involved the entire system.

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 implemented the "Group Regulation for the Manager responsible for the preparation of corporate accounting documents".

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

The corporate accounting manager is guaranteed:

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

With regard to operating tools, the corporate accounting manager:

- makes use of an adequate, specifically dedicated Group business unit;
- may call for external advice on problems of an accounting, tax or legal-administrative nature, and obtain professional services necessary to perform his duty in compliance with current regulations and the assigned budget;
- has 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 statement 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 under their control correspond with accounting records and that the controls carried out by those units in the reporting period were complete and accurate.

Internal control system analysis regarding the preparation of corporate accounting disclosures
The overall assessment of the internal control system for financial reporting purposes is the preliminary phase to preparation of the corporate accounting manager's report to the Board of Directors and release of the regulatory certification. This task is performed every six months by the corporate accounting manager by obtaining, analysing and consolidating assessments on the real effectiveness of 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 Assertions to be monitored;
- ineffective performance of controls discovered during testing.

To resolve any identified anomalies, the corporate accounting manager implements or promotes remedial action and submits proposals, with the agreement with the Chairman of the Board of Directors, to the corporate accounting manager of the Parent Company, Banco Popolare, of projects 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 2013:

Corporate and Institutional Sales Department

To optimise and obtain the best organisational structure, the Large Corporate Sales and Institutional Sales Departments were consolidated into a new Department, known as Corporate and Institutional Sales.

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

	Workforce	%.	Employees	%	Seconded In	%	Seconded Out	%
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)
31/12/2013	444	(0.2)	449	2	26	(31.6)	31	(6.1)

and certain statistics of a general nature:

	2011	%	2012	%	2013	%
Grades						
Area 2	1	0.2	1	0.2	1	0.2
Area 3 – grades 1 and 2	62	14	59	13	62	14
Area 3 – grades 3 and 4	52	12	62	14	54	12.2
Managers – levels 1 and 2	102	24	103	23	102	23
Managers – levels 3 and 4	193	45	196	44	202	45.5
Executives	24	5.5	24	5.4	23	2.2
	434		445		444	
Gender						
M	271	62	271	62	272	61.3
F	163	38	174	40	172	38.7
Education						
University degree	242	56	248	56	256	57.7
High school diploma	187	43	190	43	181	40.8
Other	5	1.2	7	1.6	7	1.6
Average age	41 Y 7 M		42 Y 3 M		43 Y 1 M	
Average seniority	5 Y 9 M		6 Y 2 M		6 Y 9 M	

Selection, Recruitment and HR Management

Approximately 350 CVs were received during the year.
26 recruitments were arranged: 20 of which involving personnel from Group companies, 6 new hires, of which 1 with temporary contracts.
There were 16 terminations, 5 of which involving personnel from Group Companies.
Also during the year, 13 employees were seconded in from the Group, 18 secondments were terminated, whilst 7 were seconded out to Group companies and 5 were terminated.
During the year 12 transfers/changes were arranged within the Bank and new responsibilities assigned to 7 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, 3 new temp contracts were arranged, whilst 5 temporary agency employees were hired.
As at 31 December, there were no temporary employees.
During the year a total of 6 new work experience and orientation schemes were implemented.

Training

During the year, special attention was given to planning and providing specific training initiatives to improve technical and managerial skills in the Private Network.
In particular, an important project to develop communication-relational skills was launched, with the objective of strengthening and developing commercial relationships with customers considered in high standing. The initiative was undertaken with the support of Mercer, an international consulting firm, and was designed for all private bankers, involving a total of 176 resources for 521 training days. The project then had a development module, in the second half, with specific reference to managerial skills for those in positions of responsibility. This training initiative involved the heads of business units and managers of commercial development, involving 29 resources for 58 training days in 2013.
Consistent with the focus over the years on anti-money laundering issues, new training initiatives were developed, according to the various levels of responsibility and expected supervision: initiatives with internal trainers for the distribution network on reporting suspect transactions and involving 106 resources for 106 training days, and initiatives for area managers, conducted by officials from the Finance Police, involving 6 resources for 3 training days.
In addition, there were training programmes for professional continuing education on certain specific regulatory matters for the finance and private banking sector, principally related to placement of insurance products. This important initiative involved 103 individuals for a total of 206 continuing education days and 50 individuals for a total of 200 base training days.
As regards mandatory training, a considerable investment was made to respond to training needs as part of workplace safety regulations (so-called “State-Region Agreement”), involving 109 individuals for 109 training days. Furthermore, mandatory continuing education on first aid and emergency management was provided, involving 19 resources for 14 training days.
Following the establishment of the ORM (Operational Risk Management) Representative as the individual responsible for safeguarding against operational risks, the relative training was developed, involving 8 resources for a total of 8 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 involvement of 78 resources for 270 training days.
During the year, development programmes were designed and carried out by the Group to better prepare employees to handle increasingly competitive and challenging environment. In particular:
- an important development initiative dedicated to the youngest employees in collaboration with Bocconi University Business School was launched; this training programme, known as “Masters in Banking”, lasts 18 months and involves 5 resources for a total of 110 days of classroom training;
- the “skills coaching” project was developed for area managers, in collaboration with a specialised, external company and involving 7 resources for a total for 14 days;
- a training programme for managers of central organisational units, regarding changes in the organisational context, involving 45 resources for a total of 90 training days.

Finally, for certain topics, distance learning tools were used (web-based courses on Administrative Liability of Banks, Anti-Money Laundering, Privacy, Workplace Health and Safety, Payment Services Directive, MiFID, Transparency and Operational Risks). Specifically, a new course was developed for all resources to explain innovations in relation to due diligence contained in the Bank of Italy Measure issued 3 April 2013, titled “Measure containing implementation provisions for customer due diligence”.

Relations with Trade Unions

During 2013, meetings with trade union representatives took place as part of Group meetings with union delegations on matters under their competence.

Internal Audit

Internal Auditing for Banca Aletti is part of an outsourcing agreement for activities of the Banco Popolare Audit Department. The Parent Company’s Internal Audit carries out its activities primarily through the Finance Audit Department, which is responsible for performing analyses and audits on brokerage/investment banking activities of Banca Aletti and the investment services offered in the branch network. The Bank’s other risk areas are audited by other structures within the Group Audit Department (Governance and Operations Audit Department, ICT Audit Department).
The internal audit process consists of a set of activities aimed at third-level controls of the regular functioning of operations and risk dynamics, including through on-site audits, as well as the adequacy of the organisational structure and other components of the internal control system. Possible improvement areas are immediately brought to the attention of the Bank’s Board of Directors and Internal Control Bodies.

During the year, audits were conducted focusing on the following areas:
- finance and rendering of investment services, in particular, UCI placements, asset management, telephone banking and on-line trading services, as well as OTC derivatives;
- compliance, with specific reference to anti-money laundering and privacy regulations.
Audits conducted on the Bank's distribution network focused on operating areas managed by peripheral structures and, in particular, the organisational processes in use, compliance with internal regulations as well as conduct of representatives.

Compliance

The Banco Popolare Group places great importance on the monitoring of compliance risk, maintaining that compliance with legislation and regulations envisaged by the Supervisory Authorities to safeguard effective propriety in business relationships with customers are core elements of the Bank's activities, given its nature based on trust.

Control of compliance risk is assigned to the Compliance Department, established as part of the Risk Department. The Compliance Department is divided into specialised functions related to the following issues:
- Rendering of banking services and cross-business governance activities;
- Rendering of investment services;
- Rendering of collective asset management and trust services;
- Preventing money laundering and the financing of terrorism.

In 2013, the Compliance Department's activities with regard to Banca Aletti focused on all of the areas considered most significant for compliance risk purposes, and in particular:
- rendering of investment services, insider trading and market abuse prevention;
- insurance brokerage;
- managing conflicts of interest at various levels of the Group; both in reference to investment services, as well as credit;
- anti-money laundering and the fight against terrorism;
- transparency and propriety in performing banking services;
- usury prevention;
- protecting customers' privacy and personal data;
- equal treatment in the bonus and incentive system.

MiFID

During the year, a project was launched at the Group level, which will continue through 2014, designed to strengthen the advisory process for investments, in line with the recent ESMA (European Securities and Markets Authority) Guidelines on advisory/adequacy in investment services. This project will structure the service model in a manner that is increasingly more responsive to customers' needs, including through greater knowledge of the customer.

In addition, compliance audits were carried out on investments services, both through remote auditing based on indicators of potential anomalies as well as through audits focused on central processes, with particular reference to processes associated with providing advisory services and informational transparency with customers.

Relations with the Courts and anti-money laundering activities

The structures set up by the Group actively collaborate with judicial authorities and administrative/tax authorities in investigations and verifications, as well as in the requirements associated with anti-money laundering regulations.

Transparency

During the year, following specific audits carried out concurrent with ordinary monitoring activities and advisory support, the Group refined and strengthened the organisational oversight aimed to ensure compliance with applicable regulations regarding the effective transparency and propriety in conduct with customers in providing banking services.
Moreover, following the end of the public consultation phase for the draft of new transparency regulations, which envisage certain changes with respect to current regulations, a gap analysis was conducted to verify the impact of the new regulations, not yet issued, and to evaluate any actions necessary for compliance.

Usury

During 2013, the Group's "Regulation on preventing usury risk" was updated to implement information contained in certain procedural modifications made to systems that govern the calculation of Effective Global Rates (TEG).

In addition, specific compliance audits were conducted with the objective of monitoring the adequacy and efficacy of internal procedures for verifying compliance with the threshold usury rates established quarterly.

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 2013, External Relations organised and managed approximately 80 different events for both institutional and private customers, in collaboration with Group Banks. Specifically, exclusive visits to museums, historic buildings and churches in cultural cities where Banca Aletti is present, meetings on specialised matters aimed at professionals and entrepreneurs, as well as golfing events. For institutional customers, sector trade shows were organised and managed with stands presenting the Bank's 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

Activities continued to maintain and update the various communication tools used and develop the visual presentation of panels and stands for trade shows and exhibitions.
During the year, the two final editions of the Aletti Inside newsletter were prepared and the 2013 edition of the Art Brochure, "Viaggio sulle orme del tempo" [Voyage in the footprints of time], was created for our external and internal customers.
As regards product communications, two new communication tools were created for the Certificates area, known as "Coupon Premium Certificate" and "Star Certificate", in addition to the traditional newsletter, "Il punto sui Mercati" [Market Perspectives]. As regards on-line communications, the project to develop the new institutional site "www.alettibank.it" was launched, with the objective of completely revising the current site, in terms of both graphics and content. The institutional site "alettibank.it", the product site "aletticertificate.it", and the subsidiary "alettitrust.it" continued to be monitored and updated by SGS BP. The update of the site "alettifiduciaria.it" commenced, with the collaboration of the relevant departments.

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 finance specialists, although to a lesser extent than in the past.
Articles, largely journalistic/editorial and often presented as an interview, contributed to establishing and strengthening the Aletti brand, and to circulating news on the bank's activities.

Technology services

Investment Management Division

During the year, transactions in derivative financial instruments continued, limited to certain trading management lines (financial leverage greater than one).
In the first part of the year, amendments were made to management contracts in preparation for the launch of repurchase transactions in foreign currencies. In the second part of the year, the implementation to manage hedges of positions in foreign currencies through currency repurchase agreements was released in production. Similarly, the automation of data flows between the application used by operators and those used by currency trading departments (the Parent Company's exchange rooms) was completed and activated. This initiative considerably reduced operational risks in comparison to the previous manual process.
As regards the activities of the Advisory Desk (advanced consultancy for key customers), changes were made in the systems during the year aimed at continually improving customer service and compliance with new regulatory provisions. Concurrently, preliminary analyses were completed on changing the calculation of portfolio performance from the "balances" model to the "movements" model. The resulting application updates were delayed, with the agreement of the Group units responsible for application developments, and activities were refocused on studying the possibility of automatically generating multiple investment proposals to submit to customers. Application developments were conducted in the first half of the current year.

"Private" Customer Division

During the year, upgrades of the application developed for advanced portfolio advisory services continued, with some production releases that contributed to consolidating the platform, with particular regard to optimising operating processes, enriching the available information and analysis, as well as renewing the graphic layout of reports to customers.
To properly manage the new graphic layouts of reports to customers, it was necessary to update the base software of all the private bankers' workstations, which was completed in November 2013.

Structured Products Division

The year was almost completely dedicated to activities related to the upgrade to version 6.X of the Risque application, which concluded in mid-January of the current year due to the complexity of the project.
Following decisions taken with regard to indirect participation in the LCH (clearinghouse for settling OTC derivatives), the application developments necessary to launch the new operations were initiated, also based on the chosen clearing broker. The project is expected to be completed in the first quarter of the current year.

Trading & Brokerage Division

In the first half of the year, particular attention was given to the possible migration to the new platform for LSE reporting by actively participating in the relevant work groups in collaboration with Borsa Italiana. After certain instabilities in the service were found, Borsa Italiana decided to postpone the various project phases to 2014.
Concurrently, analyses were carried out to identify a single application suite for the operations of the Cash and Derivatives Brokerage Desk, which would replace the various trading and middle management applications currently in use, optimising both costs and operating processes. Following the completion of software selection (expected in the first quarter), the project will begin and is expected to develop throughout all of 2014.
In the last part of 2013, the connection with the back-up intermediary was released into production, including for order collection from the Banca Aletti units.
The development and update activities on customer contracts was completed, in preparation for the launch of securities lending transactions in the equities segment, a service offered exclusively to Private customers from the end of the first quarter. In the second half of the year, the functional analysis for the securities lending project in the bond segment was completed. The project will be completed during the first half of the current year.

Information on Subsidiaries

Aletti Fiduciaria

2013 was characterised by the economic crisis that burdened the country, affecting the economic, manufacturing and financial sectors.
The trust segment, already affected by the economic difficulties, had to confront actions by Parliament that encumbered companies with additional expenses related to regulation and taxation, resulting in additional requirements for trust companies with increased costs for activities that must be put in place.
Despite this context, Aletti Fiduciaria confirmed its position as a leading trust company, with administered deposits of 1.8 billion euro for 1,500 customers and more than 1,800 existing relationships.
The essential stability in assets, which resulted in net profit of 581 thousand euro, is evidence of Aletti Fiduciaria's role as a qualified professional in providing trust services to the Group's private and corporate customers, capable of meeting customers' needs, even in a period of crisis.
The reorganisation project for the trust sector envisages the merger of Aletti Trust in Aletti Fiduciaria S.p.A. in 2014.
This transaction will simplify the structure of Banca Aletti product companies, achieving synergies of costs and revenues, including during the current economic context, optimising the rendering of high value-added services in Private Banking.
The merger will begin generating results in the first quarter of 2014, while the accounting and tax effects will be brought forward to 1 January 2014.

Aletti Trust

The year just ended was characterised by substantial activities to promote services to protect and transfer personal and business assets, ensuring constant and qualified support to the network of the Parent Company, Banca Aletti.

Commercial development activities were suspended during the second half of the year due to the project to merge Aletti Trust in Aletti Fiduciaria, approved by the Parent Company Banco Popolare with the Board of Directors' resolution of 12 November 2013, followed by the Single Shareholder Banca Aletti, with the Board resolution of 12 December 2013, and finally, by the Boards of Directors of Aletti Trust and Aletti Fiduciaria on 19 December 2013.

The merger will result in the termination of the merged company through the cancellation of its share capital, without replacement, which will be carried out with a simplified procedure pursuant to art. 2505 of the Italian Civil Code applied by analogy, with the expectation that both companies are 100% owned by Banca Aletti and, hence, the merger will take place without calculating a share exchange ratio or cash settlement.

In accordance with art. 2504-bis of the Italian Civil Code, the merger will produce effects in the first quarter of 2014, while the accounting and tax effects will be brought forward to 1 January 2014. In addition, as this is a merger of a wholly owned company, it will be neutral in terms of both the consolidated income statement and the Group's capital ratios.

This transaction is part of a larger process to simplify and rationalise the trust structures of Banco Popolare Group that, in 2010, included the merger of two trust companies, Aletti Fiduciaria and Nazionale Fiduciaria. This merger will further simplify the structure of the product companies of Banca Aletti and the Parent Company Banco Popolare, achieving synergies of costs and revenues, even in the current economic context, and optimising the rendering of high value-added services in Private Banking.

Research and Development

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

Privacy Protection

The Bank has always considered the safeguarding of privacy and the security of data and information as fundamental elements in the trust-based relationship between the Bank and customers, and therefore, worthy of the utmost attention and protection in terms of security measures to be adopted and proper management, which characterise its activities.
Privacy is protected and ensured by fulfilling the prescriptions of Italian Legislative Decree no. 196/2003 - Personal data protection act - related to security policies to be adopted, levels of privacy, integrity and availability of data processed and provisions and guidelines issued by the Antitrust Authority for protecting of personal data, and in compliance with guidelines adopted by the Parent Company Banco Popolare.

EVENTS AFTER THE FINANCIAL STATEMENTS DATE

Rating change for Banco Popolare Group

On 3 February 2014, Standard & Poor's communicated their decision to change the long-term rating of Banco Popolare and the subsidiaries Credito Bergamasco and Banca Aletti to "Credit Watch Negative".
Moreover, Moody's Investors Service improved its outlook on all Banco Popolare ratings from "Negative" to "Positive". At the same time, the long-term rating of Ba3 and the short-term rating of NP were confirmed.

Payment of tax assessment for 2008

In February, pursuant to art. 15, subsection 2-bis of Italian Legislative Decree no. 218/97, the Bank decided to pay the tax assessments and the penalties for 2008.

Banco Popolare share capital increase

In its meeting of 24 January 2014, the Board of Directors of Banco Popolare resolved a share capital increase for a maximum amount of 1.5 billion euro, which will be submitted to the Extraordinary Shareholders' Meeting for approval on 1 March 2014.
Specifically, the transaction is part of the Board of Directors' powers, pursuant to art. 2443 of the Italian Civil Code, to increase share capital against payment within 24 months of the Shareholders' Meeting resolution, up to the maximum amount indicated above. Hence, ordinary shares will be issued for offer in option to shareholders with the right to establish, in the forthcoming offer, the issue price of the newly issued ordinary shares, the option ratio, and the dividend rights.
The transaction is expected to be completed in the first half of 2014, depending on market conditions, the necessary technical times, and on obtaining the required authorisations. Banco Popolare collaborated with Mediobanca and UBS Investment Bank, who will act as Global Coordinators and Joint Bookrunners, as part of the pre-underwriting agreement in which they committed to guarantee the subscription of the share capital increase for any unsubscribed portion at the end of the offer, at the standard terms and conditions for this type of transaction, up to a maximum amount of 1.5 billion euro.

The share capital increase will allow the Group to reach a capitalisation level that is vastly superior to the increasing requirements envisaged in the progressive implementation of the prudential supervisory rules, which are part of the set of regulations commonly known as the "Basel 3 scheme". This objective is an essential prerequisite to ensure the maintenance of capital ratios adequate for the Group's leading position in the national market, with the advantages that result from this competitive positioning.

The increase in its financial resources will allow Banco Popolare to reduce its cost of funding and acquire the margins necessary to preserve the strong history and mission of Banca Popolare, that of supporting households and businesses in its local markets.

Finally, in order to simplify the administrative management processes from the higher number of outstanding shares from the share capital increase, the Board of Directors will submit to the Extraordinary Shareholders' Meeting the grouping of shares in a ratio of 1 new ordinary share with regular entitlement for every 10 existing ordinary shares to be carried out prior to the launch of the offer in option. The transaction in and of itself is neutral for shareholders and has no impact on the share price.

In the same meeting, the Board of Directors resolved to fully repay with cash the Banco Popolare 2010/2014 4.75% Convertible Bond Loan. At the natural maturity date for the loan (24 March 2014), every outstanding convertible bond will be repaid, in the nominal amount (6.15 euro each), for a total maximum amount of 996 million euro plus interest at the rate provided for in the Regulation.

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.

Thus, with the aim of providing information in the financial statements that is as up-to-date and qualified as possible, in 2013 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 2013 with global AUM (administered and managed assets) of 13.7 billion euro.
This year was characterised by growth in the earnings margin in the private segment (at the Group level), compared to the previous year, as a result of a slight drop in the service margin and a marked improvement in the earnings margin. 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, led many customers to maintain defensive positions, while taking advantage of selective restructuring opportunities for diversified portfolios.
Despite the low levels of interbank monetary rates, the constant management of the Italian banking system aimed at maintaining high levels of retail direct deposits continued to attract short-term investments.
In spite of the combination of factors described above, performance in asset management was decidedly positive, reinvigorating the recovery process that began to be evident in 2012.
The year was also characterised by continued contraction in financial availability due to the persistent stagnation in the real economy and increasingly selective 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 seventh year, with fully synchronised cooperation with the Group’s Corporate Network. Although the economic situation is not favourable, deposit flows were positive, but lower than the past, confirming the high potential of the market in the medium term. In this context, note that since the launch of activities in 2006, 3.8 billion euro has been collected in deposits.
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 80 in 2013).
As regards training, a three-day classroom programme was initiated and completed for all of the network regarding relationship management with contacts of high standing.
From an organisational perspective, the Trento unit was merged into the Verona unit in the second half of the year, to obtain more efficient commercial management.
After this aforementioned change, at the end of 2013 the Banca Aletti network comprised 8 Area Offices, 34 Units and 185 Private Bankers.

Investment Management

In 2013, global economic growth was approximately +2.9% on average (according to the IMF estimates), less than the estimates at the beginning of the year as well as the growth seen in 2012 (+3.2%). Growth in developed countries (estimated as +1.2%) was not offset to the extent in the past by growth in emerging countries (estimated at +4.5%).
The economy in the United States reflected political difficulties. The arduous compromises between Democrats and Republicans in order to arrive at agreements on fiscal policy and the debt ceiling led to automatic linear cuts in federal spending (“sequester”) at the beginning of March, and the “shutdown” (1-17 October), or the closing of the federal administration for non-essential activities. Despite the heavy fiscal restrictions, the American economy is estimated to have grown by 1.6% in 2013 according to the IMF. On the other hand, the Eurozone economy, as a whole, is estimated to have posted negative growth (-0.4%), although during 2013 there was evidence of a progressive, but slow, improvement. The differentials in growth among the various member countries have not diminished: Germany continues to be the driving engine of the economy while peripheral countries are still in recession. Uncertainties about the European financial crisis and the strength of the euro that dominated previous years and gradually eased during 2012, came back to the forefront in the first quarter with the Cypriot financial crisis, and then subsided due to the first rescue of a European country. Weakness in economic growth and the labour market in particular (unemployment rate of 12.1%, an historical high), and the slowdown in inflation (negative rate in certain peripheral countries) led the ECB to cut the official refinancing rate in May and November, bringing it down to 0.25%. Moreover, the ECB stated formally that it was ready to intervene with the use of unconventional monetary policy tools.
The growth rate of the Japanese economy should stand at a vigorous +2%, due to the impetus provided by Prime Minister Shinzo Abe, after years of stagnation, through a plan (“Abenomics”) of ambitious fiscal and growth policies, accompanied by massive quantitative easing by the Bank of Japan (doubling of the monetary base in two years). The considerable weakening of the Japanese yen, which supports exports but is also useful for the recovery of inflation forecasts after years of deflation (Central Bank target of 2%).
Despite the rather contained global macroeconomic expansion, actions (expansive monetary policies and the use of

unconventional instruments), statements by Central Banks, and the liquidity provided to the system have had a decisive impact in 2013 in reducing investors' aversion to risk.
In fact, the MSCI World Index in US dollars posted a 24% increase. At the end of 2013, many equity indices reached historical highs or highs in comparison to recent years. Note the +29.6% growth in the S&P 500 and the +25.5% growth in the German Dax. In contrast to 2012, the stock exchanges of peripheral Eurozone countries showed satisfactory performance (+16.6% for the FTSE MIB and +21.4% for the Spanish IBEX). The Japanese Topix posted results of +51.5%, reduced to 20% if translated to euro. Overall, the performance of stock exchanges for emerging countries was disappointing. The MCSI Index for emerging countries in local currencies posted results of +1%.
The bond market suffered (in particular American government bonds, and, in part, also German bonds) beginning in May, when there began to be rumours about the reduction in monthly purchases by the Federal Reserve ("tapering"), a decision that was then taken in the December FOMC meeting. U.S. and German 10-year government securities showed a drop in yields equivalent to +120 bps and +60 bps, respectively. The yields on Japanese government securities, that were already extremely low, instead posted a slight increase. Government securities of peripheral European countries posted a general decline in yields. The spread between 10-year Italian and German securities continued to compress, passing from 300 bps at the beginning of the year to 200 bps. Conversely, the yield differential on securities issued by emerging countries and government securities in dollars grew from 257 bps to 308 bps, after reaching a high of 375 at the end of June. Considering the performance of the bond market in euro, the JPM GBI Global Unhedged index in euro posted negative performance of -8.6%, mainly attributable to the general depreciation of the principal currencies against the euro.
The euro appreciated 4.2% against the US dollar, 2.3% against the British pound, 1.5% against the Swiss franc, 10.4% against the Canadian dollar and 21.2% against the Australian dollar. It was also particularly strong against currencies of emerging countries. Moreover, the yen showed further depreciation, as a result of "Abenomics", against both the euro and the US dollar (-21% and 18%, respectively).
Portfolio management activities favoured tactical management for all asset classes, with a positive contribution to performance. In addition, the positioning of Italian government securities was maintained, which provided positive performance to the lines. Overall, the management lines closed the year with performance that was essentially either equal to or greater than the reference parameters. Total return on managed products showed positive results, around +3% on average.
As at 31 December 2013, AUM was 13,120 million euro, up 6% compared to the end of 2012. Net deposits were positive for the institutional segment, while net deposits for the private and retail segment were negative.
As regards internal service activities, the project for currency forward transactions in individual management continued.
The Advisory Desk service, for direct and accredited Private customers, reflected the difficult market context (also due negative impacts on household wealth caused by weakness in the real economy), and decidedly diminished the contribution to the commercial network during the year. As at 31 December 2013, there were 74 active contracts, with a countervalue of 165 million euro. Activities for development 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

During 2013, the interest rate market's performance was in range and was dependent on expectations regarding monetary policies implemented by the most important central banks. The main market movers were, first, expectations on European banks' repayment of LTROs to the ECB, and, subsequently, the announcements of the tapering of quantitative easing policy by the Fed. Abundant liquidity in the markets and the low yields on government securities with higher ratings forced institutional investors to seek higher yields, encouraging the contraction of the spreads between peripheral markets and core markets.
As regards the rate curve, movements in the various maturities were in range, while lower uncertainty regarding short-term rates resulted in a decline in their volatility level.
Liquidity in the primary markets was affected by the upcoming international regulations on counterparty risk levels. The greatest impact is expected on non-collateralised markets in terms of volatility, in which many counterparties are noticeably reducing their activities.
In terms of flows, in 2013 the low market rates and the forecasts for the euro curve led to a 25% reduction in hedging product volumes to 1.2 billion euro, while investment product volumes were essentially stable at 5.7 billion euro, despite the dramatic slowdown during the last quarter.
In 2013, equity markets saw a net reversal of the trend seen in recent years. A general increase in prices and a progressive decrease in volatility levels and implicit correlation characterised the entire year.
As a result, in the derivative market, forward market liquidity, volatility and correlation returned to sufficient levels after many years, facilitating both risk hedging activities as well as the search for opportunities associated with assuming risk positions in the market, not just in high-cap securities and not only in the short term.
There was renewed interest in structuring for products indexed to equity markets, with a marked increase in volumes distributed by the networks of Banco Popolare Group. This allowed the Bank to expand its offer for retail and private customers, both in terms of product innovation as well as for the indexing, which is now also linked to mid-cap securities.

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.
New types of pay-outs on underlying equities were developed and implemented during the year, based on advanced allocation strategies.
As regards interest rate derivative transactions, a project to develop a new quotation and control system for market data related to interest rate options continued, which aims to optimise risk management in the current financial context, according to the most recent theoretical developments used in the market.
Finally, the procedures for updating the Bank's position keeping system were completed, which resulted in the necessity to revise and update the software for the proprietary pricing models developed by the Financial Engineering department.

Trading & Brokerage

Once again this year, global financial markets were strongly influenced by monetary policies adopted by the principal central banks. The liquidity provided by central banks in the U.S., Japan and Europe kept interest rates low across the entire yield curve through June. The statement by the Chairman of the Federal Reserve regarding a possible future reduction in the amount of securities purchased each month by the bank resulted in a rapid steepening of the rate curve in the United States and Europe. The backlash in the primary equity markets was evident but with a contained duration, as the general increase that started at the beginning of the year, mainly in the American market, continued through December.
These policies encouraged and supported the purchase of government bond securities of peripheral countries, with orders from both domestics and internal investors.
Trading on behalf of third parties thus benefitted, strengthening the trend of growth that began last year and posting a clear improvement in market prices for bonds, that includes the MOT and the primary MTFs, placing the Bank in fifth place in terms of traded volumes, for a 5.14% share. Flows in domestic securities increased on an annual basis of 9%, which were distributed across both Borsa Italiana and the Equiduct market as a result of the introduction of the Best Execution Dynamic.
As regards the bond portfolio management strategy for government securities, in the first part of the year, bonds belonging to the short-term portion of the yield curve were preferred, while in the second half, there was a gradual lengthening in duration as investors sought higher yields, however, maintaining a very dynamic approach.
Despite having recorded very respectable performance during the year, corporate/financial securities were characterised by a level of liquidity lower than the average for the previous year, which led to a preference for short-term securities with high credit quality and a satisfactory level of liquidity.
Also with regards to equity portfolio management, in the first half of the year, a cautious approach was adopted, characterised predominantly by neutral market strategies and diversifying investments in listed securities over eight European exchanges. In the second half, with the first faint signs of recovery in the European economy, the "directional" component was adjusted upward, with the expectation of a consolidation of the recovery and prices.
Securities Lending activities showed a slight increase in volumes compared to the previous year, with an average countervalue of 1.7 billion euro.
Transactions in non-government bonds increased, confirming the trend that began in 2012, with an average countervalue of 250 million euro. Transactions in public debt securities remained constant compared to the prior year, while there was a slight decrease in equity transactions.
Banca Aletti continued to offer Specialist services to listed companies and real estate funds and to perform the role of Primary Market Maker on Single Stock Futures listed on the IDEM market of Borsa Italiana.

Capital Markets

Equity Capital Markets

The continued difficult situation in financial markets gave rise to only 2 new listings on the MTA in 2013, compared to 15 on the AIM Italia. In addition, there were 13 share capital increases, 7 takeover bids and 2 purchase and exchange of securities transactions. Banca Aletti participated in placement and guarantee consortiums related to the Moleskine SpA and Moncler SpA public offerings, the takeover bids of Marcolin, Impregilo, Meridiana Fly, Camfin, Mid Industry Capital and RCF SpA (in the latter two cases, in the role of Intermediary appointed for coordinating the collection of subscriptions), as well as the purchase and exchange of securities for Acegas-APS and Mittel.

In June, Banca Aletti signed a commitment, that was preceded by a similar pre-guarantee commitment in April, for a countervalue of 10 million euro, for the impending share capital increase of RCS Mediagroup SpA. Following this transaction and as a result of the commitments assumed, on 22 July, Banca Aletti subscribed 798,440 RCS Mediagroup ordinary shares, for a total countervalue of 986,073 euro, calculated at the unit subscription price. All the shares subscribed were sold at prices essentially equivalent to the subscription price in the days immediately following.

In December, Banca Aletti signed a commitment for a countervalue of 40 million euro for the share capital increase of Banca Monte dei Paschi di Siena, which was expected to begin by January 2014. However, the transaction was not initiated within the deadline and the commitment expired on 31 January 2014.

Debt Capital Markets

In January 2013, Banca Aletti participated, as Joint Book Runner, in the 3-year senior unsecured bond issue carried out by Banco Popolare for a total of 1.25 billion euro, reserved for institutional investors.

In May, 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 1.4 billion euro.
In the second half of the year, Banca Aletti participated in the public subscription offering for 2013-2019 fixed-rate bonds issued by Mittel SpA for a total of 100 million euro, as well as the 2013-2016 fixed-rate bond placement issued by ICCREA Banca for a total of 500 million euro, reserved for institutional investors.

Equity Research

With equity markets receiving significant support from the liquidity injections provided by central banks, research activities in 2013 were concentrated in developing hedges, which had begun in the previous year and continued over the course of the 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.

Sales

Group Networks Distribution

In 2013, distribution strategies and structuring and placement activities for investment products in the Group were characterised by continued interest in the placement "window" of collective asset management products of distribution shares.
In this context, the collaboration between the Group's product businesses, Banca Aletti and Aletti Gestielle and the merger of the respective structuring and managing expertise, brought about the creation of two new GIS (Gestielle Investment Sicav) segments, placed for 1.5 billion euro.
The transaction offered subscribers the opportunity for protected exposure to changes in equity markets, in a phase of falling bond yields.
Transactions in asset management products represented for Banca Aletti an opportunity to diversify revenue sources, as the current situation in interest rate and credit markets makes it difficult to structure traditional bond products, both in the form of third-party bond issues and unit-linked policies.
As regards third-party issues, despite the difficult market context, the opportunity was welcomed to place the Iccrea Banca bond issue, a new issuer for the Bank, diversifying issuer risk in the customer portfolio.
The Group's bond structuring and placement volumes increased over 2012.
Certificates placement achieved the best annual result ever, surpassing 1 billion euro in placements, and confirming customers' satisfaction with products that allow them to participate in equity market dynamics with forms of capital protection.

Corporate & Institutional Sales

As regards commercial activities for “non-captive” customers, the sovereign debt crisis and its repercussions on financial markets influenced, as in 2012, commercial strategies for the distribution networks and in the portfolio choices of institutional customers.
At the beginning of 2013, public issues by the Italian banking system, dedicated to institutional customers, began to show signs of recovery.
In subsequent months, the uncertainty associated with the Italian political elections and resulting public debt tensions generated a sizeable drop in new issues.
Demand for high-yield securities and difficulties in accessing bank credit in Europe stimulated bond issues by non-financial companies.
Banca Aletti participated as Bookrunner in the placement of the Banco Popolare’s public issue in January and as Dealer Manager in the public buy-back of subordinated securities of Banco Popolare Group launched in May.
Bond trading on the secondary market was assisted by certain market dynamics becoming drawn out, and led many institutional investors to reposition toward government securities.
With reference to equity markets, institutional investors continued to prefer companies with higher capitalisations, resulting in a downturn in volumes in Italian small/mid caps.
Transactions were begun with two new intermediaries that activated the link with Banca Aletti in foreign equity markets and the Agrex segment of Borsa Italiana.
With respect to commercial activity carried out through distribution networks outside the Group, the preference for direct deposit products and insurance content, as well as the elevated risk aversion, led to a drop in Certificates volume and asset management products.
As regards interest rate hedging products, the offer for Covered Warrants Euribor Caps to customers holding mortgages at floating rates continued. However, volumes were down, in line with changes in customer loans in the banking sector.
For risk hedging activities performed for corporate customers, the persistently low short-term interest rates resulted in lower adoption of hedging instruments for liabilities indexed to floating rates. Transactions to manage interest rate risk were carried out primarily on new disbursements associated with long-term project financing. The instruments used continued to be plain vanilla, effective hedging products: corporations favoured interest rate swaps.
Particular attention continued to focus on exchange rate risk exposures, considering the swings in the euro with respect to other major currencies. During the year, given the numerous fluctuations in both directions for the euro/dollar rate, hedging transactions were carried out both by exporters to dollar areas as well as by importers. The instruments used were mostly simple forward and flexible forward transactions or structured, plain vanilla options.

BUSINESS OUTLOOK

The global economic situation, in particular in the United States and Japan, is strengthening, despite growing criticalities associated with the initiation of “tapering” by the Fed, in developing or newly developed countries, which are expected to curb global acceleration in 2014. In the Eurozone, economic growth appears to be gradually consolidating and modest progress is forecasted. However, a certain underlying fragility remains, linked in particular to macroeconomic and financial imbalances that are as yet unresolved and the possibility that these will manifest themselves in a new increase sovereign debt risk for peripheral countries.
In this framework, the Italian economy is moving toward a faint and difficult recovery in 2014, and growing, albeit slowly, in the following year. Despite the fact that the last part of 2013 saw stabilisation of household consumption and investments in construction, external demand will remain the determining growth factor, favouring a certain impetus in manufacturing investments for businesses focusing on foreign markets. Household demand should also marginally improve, although there will be no recovery in the labour market until 2015.
The operating context for the Italian banking system last year was difficult, despite decided improvement, as discussed in the section related to the economic context. In particular, the reduction in the BTP-Bund spread had a positive impact on the risk premium required on banking assets[4], supporting a partial reopening of foreign and wholesale financing channels. Nonetheless, the cost of funding remained high and the increase in the mark-up was not sufficient to maintain the interest margin, including against reduced loan volumes. The major issue is linked to the continued increase in bad loans and the resulting higher impairments, which led to a marked increase in the cost of credit.
Hence, conditions in the reference scenario remain complex and demanding. It is assumed that in the coming months the factors that contributed to the improvement in the operating context for banking will continue, although some of the impetus has probably diminished, while there are not yet signs of a significant reversal in the trends for credit quality.
In line with statements made by its Chairman, the ECB should maintain its extremely expansive monetary policies in the absence of a substantial change in consumer prices in the Eurozone, leaving short-term market rates at modest levels and ensuring ample liquidity to the system. Unless there are incidents involving Eurozone sovereign debt risk, interbank markets should continue to normalise.
At the end of 2013, the Fed began to reduce its quantitative support (so-called “tapering”), causing a certain amount of success toward normalising monetary conditions in international markets, having been able to, at least until now, link operators’ expectations to the stated intention of maintaining short-term interest rates at extremely expansive level.
The gradual launching of the European Banking Union contributed to easing the link between government securities and the European banking system, strengthening the latter, prospectively, beyond the short term. However, some residual risk remains for the upcoming months regarding the possibility of negative equity for certain institutions, including Italian, following the AQR (Asset Quality Review) and the stress tests conducted by the EBA and ECB. There may also be segmenting effects on the cost of funding following the definition of bail-in and state aid rules, linked to the introduction of the Single Resolution Mechanism for banking crises in the Eurozone.

In this framework, as regards assets, the anaemic growth will keep demand for credit weak, which will continue to reflect the viscosity of the offer, restricted by regulatory coefficients and the necessary prudence in credit rating valuation process, signifying stagnant loan volumes. In the near term, no changes are expected in the deterioration of credit quality, and the cost of credit will remain high, much greater than pre-crisis levels.
In terms of assets, direct deposits are expected to recover, after the drop in 2013, in the more stable components, consistent with the Basel 3 liquidity requirements. Current accounts are expected to increase, especially for time deposits, while bonds are still expected to decrease, due to large number of maturing bonds, despite the recovery in issues by institutional customers.
The banking spread should remain essentially stable, due solely to the effects of loan re-pricing, consistent with the deterioration in its quality, that will support the high level of the mark-up. Overall, the difficulties in expanding the interest margin will continue, slowed by the modest performance of traded volumes and weakness in the mark-down, as a result of the aforementioned re-composition toward more costly forms, including a recovery in issues for institutional customers, and intense competition for retail deposits.
Hence, Italian banking profitability will remain under pressure. The current challenges will force banks to consider changes to the business and customer service models while, in the near term, careful control of operating costs will continue to be the primary lever for offsetting declining profitability.
Specifically, having acknowledged the arduous market context, the Group approved certain important strategic actions with the objective of strengthening traditional credit intermediation activities and taking advantage of market opportunities in expectation of improvement in the macroeconomic outlook.
The Board of Directors resolved a share capital increase for 1.5 billion euro to strengthen the Group’s capital (bringing the CET1 level to the same level as the main competitors in the market), a return to investing in traditional commercial banking activities, to generate value for customers and shareholders, and, finally, to promote itself as an aggregating party in the event of consolidations in the banking sector.
Furthermore, to support the share capital increase, a new business plan was presented to the markets, including the strategic guidelines for 2014-2018, quantified in terms of financial and economic effects, which will drive a recovery in

[4] Spread required on bank bond issues and premium required on equity instruments.

credit intermediation activities as the reference context begins to improve. The plan's key objectives are the recovery of profitability to once again allow dividend distributions to shareholders, focusing mainly on a drastic reduction in cost of credit, improving the financial spread and the continuation of cost containment actions.
Finally, in 2014, the new organisational structure of the commercial network ("hub and spoke") will be implemented, approved in 2013, in which, along with cost efficiencies, a new customer support model was proposed that will add value as a result of a shortened chain of command and a more efficient capability for responding to customers' needs.

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

Disclosure regarding changes in the unavailable profit reserve established pursuant to Legislative Decree no. 38 of 28 February 2005 is provided below.

Note that, 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.

Based on the provisions of art. 6, subsection 3, the reserve described in subsection 2 is reduced for the amount corresponding to the amount of realised gains, including through amortisation, or if the gains are cancelled out due to write-downs.

In reviewing the draft of the guide prepared by the Italian Accounting Board (OIC) in reference to the profit distribution and reserves, on 30 September 2009, CONSOB, with the agreement of Bank of Italy and ISVAP, noted that "in its opinion" and in the absence of specific legislation, distribution of profits not explicitly mentioned in Legislative Decree no. 38/05 should be considered to fall under the general principles established in art. 6 of said Decree. This article identifies two categories of fair value gains recognised in the income statement: "distributable", as expressly defined by regulation (trading portfolio, exchange rate and hedging transactions), and "non-distributable" (including those associated with the use of the fair value option), consisting of all other gains that can only be distributed when realised.

The Bank established a corresponding restriction on unrealised gains recognised on all financial assets and liabilities for which the fair value option rule was applied, based on a conservative interpretation of Legislative Decree no. 38/05 provided by the three supervisory authorities.

In particular, Banca Aletti's financial statements include only financial assets for which the fair value option rule was applied, in item 30 under Assets.

In 2013, the valuation of financial assets held at fair value resulted in the recognition of cumulative gains on specific securities in the income statement, net of tax effects, for a total of 461,976.10 euro, which is charged in full to the unavailable reserve.

PROFIT ALLOCATION PROPOSAL

We propose that the Shareholders' Meeting approves the Financial Statements as submitted and allocates the profit for the year of 47,102,341.41 euro as follows:

- Unavailable reserve as per art. 6, subsection 2 of Legislative Decree no. 38 of 28 February 2005, net of tax effects, for a total of 461,976.10 euro;
- Other available reserves for the residual amount of 46,640,365.31 euro.

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

(in thousands of euro)	Current	New
Share Capital	121,163.54	121,163.54
Share premium reserve	72,590.21	72,590.21
Legal reserve	24,232.71	24,232.71
Other available reserves	488,093.50	534,733.86
Unavailable reserve as per art. 6 of Leg. Dec. no. 38 of 28/2/2005	-	461.98
Valuation reserves	1,631.48	1,631.48
Total Shareholders' Equity	**707,711.43**	**754,813.77**

Chairman of the Board of Directors

Vittorio Coda

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

1. The undersigned, Vittorio Coda, as Chairman of the Board of Directors of Banca Aletti & C. S.p.A., and Roberto Gori, as Manager responsible for the preparation of corporate accounting documents for Banca Aletti & C. 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 Separate Financial Statements as at 31 December 2013.

2. The assessment of the adequacy and effective application of the administrative and accounting procedures in preparing the Separate Financial Statements as at 31 December 2013 was based on an internal model defined by Banca Aletti & C. S.p.A., using as a reference the document 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 Separate Financial Statements as at 31 December 2013:

a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no.1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the results of the accounting books and accounting records;

c) are suitable for providing a true and fair representation 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, 25 February 2014

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 2013

Dear Shareholders,

The separate financial statements as at 31 December 2013, including the *Notes to the Financial Statements* and *Report on Operations*, were approved by the Board of Directors on 25 February 2014 and made available to the Board of Statutory Auditors on that same date, which, for the preparation and submission, renounced the deadline determined by art. 154-ter, subsection 1-ter, of Legislative Decree no. 58/1998 (hereinafter Consolidated Law on Finance).
The Board of Statutory Auditors makes reference to supervisory activities provided for reference regulations and, in particular, art. 149 of the Consolidated Law on Finance, standards of conduct for boards of statutory auditors recommended by the Italian Accounting Profession and Consob regulations.
The financial statements were certified by RECONTA ERNST & YOUNG S.p.A., as BANCA ALETTI (hereinafter, the Bank) is subject to the mandatory accounting audit, and are 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 2013, the Board of Statutory Auditors, appointed by the Shareholders' Assembly on 19 April 2012 for the period 2012-2014, performed its supervisory activities by acquiring information, both through periodic meetings with the managers of business departments, particularly the managers of Audit and Compliance, as well as by participating in Board of Directors' meetings.
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 the Consolidated Law on Finance. 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 relationship between the investee companies of BANCO POPOLARE Group (hereinafter, the Group) were based on criteria of rational centralisation of the BANCO POPOLARE Parent Company (hereinafter, the Parent Company), that are part of the exercise of its management and coordination powers during the course of the year.
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.
The Board acknowledged the Bank's primary management transactions and also the significant actions and/or events that took place during 2013, for which adequate disclosure is provided in the *Report on Operations* and the *Notes to the Financial Statements*:
- the out-of-court settlement for the reports on findings and the tax assessments, which took place during the year in question;
- audit reviews by Bank of Italy pursuant to art. 54 of Legislative Decree no. 385/1993 (hereinafter the Consolidated Law on Banking) and by the Financial Information Unit pursuant to art. 47, subsection 1 of Legislative Decree no. 231/2007 (hereinafter, Anti-Money Laundering Decree).
The Board has acknowledged that, at present, the Board of Directors has approved the appropriate responses to be sent to Bank of Italy in reference to the report on the audits conducted pursuant to art. 54 of the Consolidated Law on Banking.

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, related party and connected party transactions were reviewed by the Administrative Body based on the specific, current 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 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. 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.
The Board of Statutory Auditors notes that the Bank has outsourced many activities to the Group's Central Structures and other Group companies and that these services are contractually regulated. Outsourced activities are subject to constant monitoring according to an internal organisational model, further refined in 2013 with the update of the Structure Regulation, which more precisely identifies the "Outsourced Activities Contacts" in the Bank's individual organisational units and a "Outsourced Activities Coordinator" as part of the Operations

Coordination department. The results from the monitoring were submitted to the Board of Directors, usually on a quarterly basis, in a specific report.
The Board of Statutory Auditors continually verified the results from the monitoring as part of its periodic meetings with the Manager of the Operations Coordination Department and promptly and pro-actively encouraged the solution of the principal issues reported by the Bank to the Parent Company and other delegated Group companies.

03. The Board of Statutory Auditors oversaw compliance with art. 136 of the Consolidated Law on Banking and the Supervisory Instructions, as implemented in a specific internal regulation, updated in 2013 for recent regulatory amendments.
Moreover, the Board notes that during 2013, no transactions were carried out that should be submitted to the decision-taking processes envisaged in the aforementioned regulations (unanimous vote of the members of the Administrative Body and favourable vote of all members of the Board of Statutory Auditors).
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, including the opinion on consistency envisaged by art. 14, subsection 2, paragraph e) of Legislative Decree no. 39/2010.
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*, 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. 39/2010 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 2013, 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 2013 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.
The Board of Statutory Auditors notes that the mandate of the Independent Auditors is expiring and, in accordance with art. 17 of Legislative Decree no. 39/2010, cannot be renewed. Therefore, the Board requests that the Shareholders' Meeting confer the new mandate for the accounting audit based on the proposal currently being formulated by this Board.

05. In 2013, 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.

07. In 2013, 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	*230 thousand euro*
Other services (tax return signoff, QI Audit)	*76 thousand euro*

- to Ernst & Young Financial Business Advisory S.p.A:

Other services (compliance with global investment performance standards – GIPS)	*50 thousand euro*

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 2013, the 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 "Regulation on control policies and procedures for risk assets and conflicts of interest with related parties".

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 the course of its supervisory activities, the Board of Statutory Auditors made two communications jointly with the Surveillance Body as per Legislative Decree no. 231/2001 (hereinafter Surveillance Body 231/01) to Bank of Italy and the Financial Information Unit, pursuant to art. 52 of the Anti-Money Laundering Decree, related to delayed entries in the AUI single database and customer due diligence.

10. The Board of Statutory Auditors participated in the annual Shareholders' Meeting and in the 16 Board of Directors meetings called by the Bank and performed its own activities through 29 meetings:

- 24 meetings for regular audits,
- 2 meetings with for Private branch audits,
- 3 meetings with the Board of Statutory Auditors of the Parent Company.

Audits are performed through visits to the office in Milan, Via Roncaglia, and visits to certain Private branches. The Board of Statutory Auditors met with the Bank's senior management and managers of various company departments, to obtain information, data and operating programmes.

The managers of the central offices were requested 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.

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, including 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 structure reflects the organisational model adopted by the Group, with certain operating activities outsourced to the Group's Central Structures or other Group companies.

In addition, actions continued to optimise the Bank's Central Structures, in order to achieve a better organisational structure.

These actions included:

- the completion of outsourcing to the Parent Company's Anti-Money Laundering Department of the relevant activities, as envisaged by the specific Group Regulation, with the resulting termination of the Anti-Money Laundering Oversight Department and the identification of the Bank's contact for anti-money laundering issues as the Manager of the Operations Coordination Department.
- the centralisation of the Bank's risk management activities for asset management (retail, VIP, private and institutional) in the Parent Company's Risk Management Department, specifically, in the Asset Management and Customer Risks Office, which is part of the Market Risk Department.

In reference to the 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 that the Parent Company, upon request from the Bank of Italy, prepared and sent on 28 February 2013, the Board of Statutory Auditors was periodically updated on the status of the Action Plan developed following said audit, including for the Bank, during the Board of Directors meetings and the meetings with the Managers of the Central Structures for the Parent Company. An update to the Action Plan, including an additional item, was prepared by the Parent Company and sent to Bank of Italy on 10 October 2013.

The Board of Statutory Auditors recommends that the Bank, in consideration of Bank of Italy's response in reference to the report on the audits conducted pursuant to art. 54 of the Consolidated Law on Banking, performs constant monitoring and oversight on outsourced activities provided by the Group, as part of its management independence and in consideration of the specific issues.

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*,
- *Monitoring and Controls*.

Note that the first five areas are managed by the Bank through service contracts with the Parent Company that, as previously noted, are subject to constant monitoring by the respective "Outsourced Activities Contact".

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. In addition, the Board examined the "*2012 Internal Audit Annual Report in accordance with art. 14 of the Joint Consob-Bank of Italy Regulation*", taking into consideration comments by the Bank's Central Structures submitted to the Board of Directors for the necessary decisions.

The Board of Statutory Auditors made an assessment of the Group's **Compliance** Department, receiving adequate support on the specific issues under their competency. Moreover, the "*Compliance Department Annual Report – 2012 Group Compliance Department*" was reviewed in relation to the Bank.

The Board of Statutory Auditors periodically met with the Group **Anti-Money Laundering** Manager as well as the Bank Contact to monitor activities, and in particular, the status of audits underway and planned, as well as the status of the "Action Plan" initiatives, discussed in point 12, and encouraging the prompt reporting to the Supervisory Authority.

As a result of the review of the control system and to comply with the provisions of Legislative Decree no. 39/2010 that envisages oversight by the Board of Statutory Auditors on the **information processes related to the financial statements**, the Board met periodically with the *Manager responsible for the preparation of corporate accounts*, 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:

- operational risks, market risks, counterparty risks, credit risks, commercial 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. The Board also reviewed the "*Risk Management Department Report on activities performed in 2012 as per art. 13, subsection 2 of the Joint Bank of Italy-Consob Regulation*", in relation to the Bank.

Furthermore, the Board acknowledged, particularly in reference to the Bank, the results of the "*Assessment of OTC Derivatives*" performed at Group level by the consulting firm KPMG Advisory S.p.A. from the mandate granted by the Parent Company and focused on verifying the robustness of the management and control model for OTC derivatives, which found the model to be essentially adequate and consistent with market practices. This Assessment was subject to a thorough analysis by Bank of Italy as part of its audit.

In 2012, the Group was authorised by Bank of Italy to use its own 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 capital requirement. This authorisation was also extended to the Bank, which, through the Parent Company, provided appropriate reporting during 2013 on refinements requested by the Supervisory Authority when the authorisation was issued.

Note that in 2013 the Group continued to develop the AMA framework for operational risk management and measurement, in order to adopt the AMA methodology to calculate the capital requirement for this type of risk, at the consolidated level and subsequently for the Bank. The Parent Company's Risk Management Department provided adequate, periodic reporting on actions taken to implement this methodology in Board of Directors meetings.

The actions associated with this project include the strengthening of decentralised oversight of operational risk with the introduction in the Bank of specialised roles, known as "ORM Contacts", assigned to the managers of operating structures, and an "ORM Coordinator", assigned to the Operations Coordination Manager.

The Board of Statutory Auditors met periodically with the Bank's **Surveillance Body 231/01**, with which it exchanges information on a regular basis. Additionally, audits were performed on specific issues, if necessary.

A continual reporting flow between the Surveillance Body 231/01 was also assured by the fact that a standing auditor is a member of said Body.

During the year under review, the new Organisation, Management and Control Model pursuant to Legislative Decree no. 231/2001 was approved that implemented the observations of the Surveillance Body.

To facilitate dataflow exchange as part of Bank and Group controls, in addition to meetings with the Audit and Compliance Departments, the Group's Anti-Money Laundering Manager, Risk Management representatives, and the Bank's 231/2001 Surveillance Body, the Board of Statutory Auditors also met periodically during the year 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 general, the Board of Statutory Auditors sought to pre-emptively coordinate its activities with all parties that may be involved in the Bank's control system.
In relation to the new Title V provisions of Bank of Italy Circular no. 263, *New Regulations for Prudential Supervision of Banks - 15th Update*, which relates to the *internal control system*, the Board of Statutory Auditors was involved in the analysis performed by the Parent Company's Central Structures, acknowledging the decision taken by the Parent Company to prepare a single report at Group level, which includes the specifics for the Bank.

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 the Consolidated Law on Finance. We shared the procedures adopted to prepare the financial statements with the Independent Auditors.
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 2013.
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 Chairman of the Board of Directors and the *Manager responsible for the preparation of corporate accounting documents,* envisaged by art. 154-bis, subsection 5 of the Consolidated Law on Finance, specifying that 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;
- 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.

These investments were subject to impairment tests, which did not show any evidence of a permanent loss of value that should be reflected in their book value as at 31 December 2013, as described in the *Notes to the Financial Statements*.
Among the activities performed in 2013, 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, the Boards of Statutory Auditors and the Chairman of the Surveillance Body 231/01 of Aletti Fiduciaria S.p.A. and Aletti Trust S.p.A., in compliance with the control structures adopted by the Group.
The activities of the Board of Statutory Auditors with regard to the subsidiaries were performed with the support of the Audit Department, which, as part of their activities, identified certain areas for improving the organisational structure. These improvement areas were subject to further and specific monitoring in 2013 by this Board and the Audit Department.
During the year in question, the reorganisation project for the trust sector that envisaged the merger of Aletti Trust S.p.A. in Aletti Fiduciaria S.p.A. in 2014 was completed, as discussed in the *Report on Operations*.

16. During the year and up to the date this report was prepared, regular meetings were held with the **Independent Auditors** pursuant to art. 150, subsection 3 of the Consolidated Law on Finance; 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, updated in 2013, and the Internal Self-Imposed Code of Conduct issued at Group level.
As regards **Corporate Governance**, the Bank's Board of Statutory Auditors share with the Parent Company its 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 2013, given all of the above, having reviewed the certifications issued jointly by the Chairman of 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 3 March 2014 on the 2013 separate financial statements and providing a positive opinion without additional comments, we can certify that in the Bank's performance of its activities in 2013, 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 2013 and its approval nor for matters pertaining to its scope of responsibility.

* * *

Milan, 3 March 2014

The Board of Statutory Auditors
Alfonso Sonato, *Chairman*
Franco Valotto, *Standing Auditor*
Angelo Zanetti, *Standing Auditor*

INDEPENDENT AUDITORS' REPORT

Building a better working world

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

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

1. We have audited the financial statements of Banca Aletti & C. S.p.A. as of 31 December 2013 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.

   The financial statements of the prior year are presented for comparative purposes. As described in the explanatory notes, Directors have restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditor's report dated March 14, 2013. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion on the financial statements as of 31 December 2013 and for the year then ended.

3. In our opinion, the financial statements of Banca Aletti & C. S.p.A. at 31 December 2013 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, 2013.

Milan, March 3, 2014

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

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

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SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET

Assets		31/12/2013	31/12/2012
10	Cash and cash equivalents	22,343	20,182
20	Financial assets held for trading	6,506,405,488	8,325,797,077
30	Fair value financial assets	17,711,559	16,540,032
40	Available-for-sale financial assets	3,729,004	4,914,144
60	Due from banks	3,591,169,677	4,123,891,644
70	Due from customers	1,823,961,310	1,932,875,159
100	Equity investments	20,460,130	20,460,130
110	Property, plant and equipment	745,868	974,150
120	Intangible assets	20,937,595	20,937,595
	of which: goodwill	*20,937,595*	*20,937,595*
130	Tax assets	15,166,343	4,182,201
	a) current	5,444,634	-
	b) prepaid	9,721,709	4,182,201
	of which: for Law 214/2011	*2,433,150*	*2,177,667*
150	Other assets	113,413,817	127,990,857
	Total	**12,113,723,134**	**14,578,583,171**

Liabilities and shareholders' equity		31/12/2013	31/12/2012 (*)
10	Due to banks	5,267,171,937	4,560,401,889
20	Due to customers	719,438,102	791,351,150
30	Securities in issue	30,845,547	1,945,960,860
40	Financial liabilities held for trading	5,119,023,467	6,396,677,538
80	Tax liabilities	25,739,478	10,632,235
	a) current	20,764,732	6,375,201
	b) deferred	4,974,746	4,257,034
100	Other liabilities	63,463,193	118,509,170
110	Employee termination indemnity	4,149,685	3,727,800
120	Provisions for risks and charges:	129,077,949	45,945,922
	b) other provisions	129,077,949	45,945,922
130	Valuation reserves	1,631,484	(703,345)
160	Reserves	512,326,207	398,966,899
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 (+/-)	47,102,341	113,359,309
	Total	**12,113,723,134**	**14,578,583,171**

(*) *The comparison data for the previous year was recalculated for the reclassification of 40 million euro from liability item 80 "Tax liabilities - a) current" to liability item 120 "Provisions for risks and charges - b) other provisions" For more information, refer to the discussion in Part A - Accounting policies, under Section 4 "Other aspects".*

INCOME STATEMENT

Item		2013	2012 (*)
10	Interest income and similar revenues	230,756,195	172,920,202
20	Interest expense and similar charges	(117,274,182)	(104,630,048)
30	**Interest margin**	**113,482,013**	**68,290,154**
40	Commission income	93,389,284	178,280,880
50	Commission expense	(82,240,927)	(156,015,768)
60	**Net commissions**	**11,148,357**	**22,265,112**
70	Dividends and similar revenues	24,563,648	18,416,259
80	Trading gains/losses	153,126,185	208,649,303
100	Gains (Losses) from disposal or repurchase of:	1,853,124	30,784
	a) loans	1,882,481	-
	b) available-for-sale financial assets	(29,362)	30,784
	d) financial liabilities	5	-
110	Net profit/loss from fair value financial assets and liabilities	1,296,721	259,568
120	**Earnings margin**	**305,470,048**	**317,911,180**
130	Net write-downs/reversals for impairment of:	(1,703,945)	(17,547)
	a) loans	(3,812)	3,854
	d) other financial transactions	(1,700,133)	(21,401)
140	**Net profit from financial management**	**303,766,103**	**317,893,633**
150	Administrative expense:	(106,183,295)	(99,707,922)
	a) personnel costs	(47,440,879)	(44,636,202)
	b) other administrative expense	(58,742,416)	(55,071,720)
160	Net provisions for risks and charges	(80,735,737)	(39,908,677)
170	Net write-downs/reversals on property, plant and equipment	(400,985)	(530,162)
190	Other operating income/charges	12,019,189	10,243,440
200	**Operating costs**	**(175,300,828)**	**(129,903,321)**
210	Gains (Losses) on investments	-	(820,604)
240	Gains (Losses) on investment disposals	1	26
250	**Profit (Loss) on current operations before tax**	**128,465,276**	**187,169,734**
260	Income tax for the year for current operations	(81,362,935)	(73,810,425)
270	**Profit (Loss) on current operations after tax**	**47,102,341**	**113,359,309**
290	**Profit (Loss) for the year**	**47,102,341**	**113,359,309**

(*) The comparison data for the previous year was recalculated for the reclassification of 40 million euro from item 260 "Income tax for the year for current operations" to item 160 "Net provisions for risks and charges". For more information, refer to the discussion in Part A - Accounting policies, under Section 4 "Other aspects".

STATEMENT OF COMPREHENSIVE INCOME

Item		31/12/2013	31/12/2012
10	**Profit (Loss) for the year**	**47,102,341**	**113,359,309**
	Other income items after tax without reversal in the income statement		
20	Property, plant and equipment	-	-
30	Intangible assets	-	-
40	Defined benefit plans	(158,739)	(175,891)
50	Discontinued operations	-	-
60	Portion of valuation reserves relating to investments measured at equity	-	-
	Other income items after tax with reversal in the income statement		
70	Foreign investment hedges	-	-
80	Exchange differences	-	-
90	Cash flow hedges	-	-
100	Available-for-sale financial assets	2,493,568	(560,794)
110	Discontinued operations		
120	Portion of valuation reserves relating to investments measured at equity		
130	**Total other income items after tax**	**2,334,829**	**(736,685)**
140	**Comprehensive income (Items 10+130)**	**49,437,170**	**112,622,624**

2013 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31/12/2012	Changes in opening balance	Balance as at 01/01/2013	Allocation of previous year's results		Changes during the year									Shareholders' equity as at 31/12/2013
							Equity transactions							
				Reserves	Dividends and other utilisation	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	2013 Comprehensive income	
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:	398,966,898	-	398,966,898	113,359,309	-	-	-	-	-	-	-	-	-	512,326,207
a) profit	398,966,898	-	398,966,898	113,359,309	-	-	-	-	-	-	-	-	-	512,326,207
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	(703,345)	-	(703,345)	-	-	-	-	-	-	-	-	-	2,334,829	1,631,484
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the year	113,359,309	-	113,359,309	(113,359,309)	-	-	-	-	-	-	-	-	47,102,341	47,102,341
Shareholders' equity	705,376,606	-	705,376,606	-	-	-	-	-	-	-	-	-	49,437,170	754,813,776

2012 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31/12/2011 (*)	Changes in opening balance	Balance as at 01/01/2012	Allocation of previous year's results		Changes during the year									Shareholders' equity as at 31/12/2012
				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	Stock options			
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	-	-	-	-	-	-	-	-	-		(736,685)	(703,345)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-		-	-
Own shares	-	-	-	-	-	-	-	-	-	-	-	-		-	-
Profit (Loss) for the year	148,596,027	-	148,596,027	(148,596,027)	-	-	-	-	-	-	-	-		113,359,309	113,359,309
Shareholders' equity	592,753,982	-	592,753,982	-	-	-	-	-	-	-	-	-		112,622,624	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

CASH FLOW STATEMENT (DIRECT METHOD)

A. OPERATIONS	31/12/2013	31/12/2012
1. Management	**(35,232,268)**	**(115,021,007)**
- interest income received (+)	313,337,914	87,706,427
- interest expense paid (-)	(195,075,749)	(38,077,107)
- dividends and similar revenues (+)	24,563,648	18,416,259
- net commissions (+/-)	15,221,630	11,689,082
- personnel costs (-)	(44,285,007)	(48,692,984)
- other costs (-)	(57,751,310)	(64,857,651)
- other revenues (+)	12,215,758	10,014,986
- taxes (-)	(103,459,152)	(91,220,019)
2. Cash flow generated/absorbed by financial assets:	**2,534,848,000**	**(1,869,855,255)**
- financial assets held for trading	1,968,080,213	(1,838,134,432)
- fair value financial assets	125,194	173,303
- available-for-sale financial assets	3,649,345	(3,790,423)
- due from customers	110,718,216	(514,966,002)
- due from banks: on demand	(673,568,827)	1,681,829,314
- due from banks: other receivables	1,128,148,002	(1,149,721,382)
- other assets	(2,304,143)	(45,245,633)
3. Cash flow generated/absorbed by financial liabilities	**(2,499,440,867)**	**1,985,338,434**
- due to banks: on demand	1,422,574,822	732,023,660
- due to banks: other liabilities	(715,822,206)	209,120,040
- due to customers	(71,913,048)	(196,173,641)
- securities in issue	(1,837,296,308)	(5,429,235)
- financial liabilities held for trading	(1,277,654,071)	1,200,794,313
- other liabilities	(19,330,056)	45,003,297
Net cash flow generated/absorbed by operations	**174,865**	**462,172**

B. INVESTMENTS		
2. Cash flow absorbed by	**(172,704)**	**(461,366)**
- acquisition of investments	-	(250,000)
- purchase of property, plant and equipment	(172,704)	(211,366)
Net cash flow generated/absorbed by investments	**(172,704)**	**(461,366)**

C. FUNDING		
Net cash flow generated/absorbed during the year	**2,161**	**806**

RECONCILIATION Balance sheet items	31/12/2013	31/12/2012
Cash and cash equivalents – opening balance	20,182	19,376
Total net cash flow generated/absorbed during the year	2,161	806
Cash and cash equivalents – closing balance	**22,343**	**20,182**

NOTES TO THE FINANCIAL STATEMENTS

PART A – ACCOUNTING POLICIES

A.1 – GENERAL SECTION

Section 1 - Declaration of compliance with international accounting standards

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

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

- Systematic framework for the preparation and presentation of financial statements (the “Framework”);
- Implementation Guidance, Basis for Conclusions and other appropriate documents prepared by the IASB or the IFRIC to complete the accounting standards issued.

The main accounting standards applied in the preparation of these financial statements were those in force as at 31 December 2013 (including SIC and IFRIC interpretations).

For an overview of the standards approved in 2013 or those approved earlier but applicable from 2013 (or later), reference should be made to "Section 4 - Other aspects" below, which also describes the main impacts on the Bank.

Section 2 – General preparation principles

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

In preparing the statements and content of the Notes to the financial statements, the Bank applied the Bank of Italy instructions provided in Circular no. 262 of 22 December 2005, “Bank financial statements: presentation formats and rules” and subsequent updates (latest version published on 21 January 2014). Specifically, Bank of Italy’s Circular regards the powers established by the aforementioned Legislative Decree no. 38/2005.

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 are expressed in thousands of euro, unless otherwise indicated.

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.

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 assuming the Bank remains 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 remain 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 the 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 do not include 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 it 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 non performing loans against similar credit classes as at the reporting 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. In addition, the historic change in the banking system that will soon take place with the launch of the Single Supervisory Mechanism and, more precisely, the preparatory Comprehensive Assessment of the European banking system initiated in October by the European Central Bank could result in future modifications to the assessment processes currently in use. For these reasons, the values presented in these financial statements are the expression of management's best assessment, based on reference accounting standards, and it is possible that these assessments, although reasonable, may not be fully confirmed, as different parameters may be used in the scheduled Asset Quality Reviews to be performed by the European Central Bank.

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 (DDM), according to which the value of a business is a function of the flow of dividends 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.
With regard to equity investments, if the financial statements and updated business plans and forecasts of the investees are not available as at the date the Bank's financial statements are prepared, this may introduce additional uncertainty in the process of assessing the value of the equity investment. In these cases, it cannot be excluded that the value attributed to the equity investments on the basis of available information may prove, in the future, to be not fully representative of their recoverable 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 recognising 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 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. Prepaid tax assets are written down to the extent that they are not considered recoverable in relation to profit expectations and the related forecasted taxable income, in consideration of tax regulations, which allow them to be transformed into tax credits under certain conditions. 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
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 will emerge when the pending litigation is concluded. These valuation difficulties impact the nature, quantity and 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.

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 25 February 2014 and will be submitted for approval of the Shareholders' Meeting called for 28 March 2014.

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 2013, the application of certain accounting standards or interpretations issued by IASB and approved by the European Commission became mandatory, whose effects in terms of reporting were implemented in the 2nd update of Circular no. 262 on 21 January 2014. An overview of these changes, relative to the circumstances that apply to the Bank, a description summarising their effects and a reference to the disclosure provided in these Notes is presented below:

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

The amendments to IAS 1 have the objective of ensuring greater clarity in the statement of comprehensive income, by requiring separate reporting of the profit 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).

This data is provided in the statement of comprehensive income and the analytical schedule in Part D of these Notes, as modified in the 2nd update to Circular no. 262.

The changes to IAS 19 relative to employee benefits approved with the aforementioned regulation were adopted in advance by the Bank, beginning with the half-yearly report as at 30 June 2012. Note that early application had no effect on shareholders' equity as at 31 December 2012, 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. For more information, refer to Part B of these Notes (section 11 and section 12 of liabilities).

Regulation no. 1255 of 11 December 2012 - IFRS 13

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.

During the year, a series of activities were undertaken to verify the necessity of introducing methodological refinements to the calculation of the fair value of financial assets and liabilities, based on the guidelines and instructions provided

in said standard, with the objective of obtaining the best estimate of the price for a normal sales transaction of an asset or the transfer of a liability based on existing market conditions on the valuation date. As such, a methodological refinement was introduced during the first half that consisted of the use of the OIS (Overnight Indexed Swap) curve, instead of the previous Euribor curve, for discounting the cash flows of derivative financial instruments. In addition, during the third quarter, a new methodology was developed for calculating write-downs of the fair value of OTC derivative instruments, which assesses that expected loss for the default risk based on both the counterparty's credit rating (CVA - Credit Valuation Adjustment), in place of the previous "Risk Credit Adjustment" methodology, as well as on the Bank's credit rating (DVA - Debt Valuation Adjustment), related to the performing loans non supported by adequate counterparty risk mitigation techniques. For further information on the methodology used, refer to Part A.2 "Notes on the main items of the financial statements" below.
In addition to the aforementioned refinements to the fair value calculation, which were recognised as changes in the estimates in accordance with IFRS 13, the application of the new standard resulted in the inclusion of new quantitative and qualitative information on the fair value hierarchy and the assessment techniques and input used, to be provided prospectively, or, in other words, without the need to restate the comparative information for the 2012 financial statements, in that it was not required for the standards in place at that time. For the fair value disclosure, refer to Part A.4 "Information on fair value", as well as the details provided in the balance sheet tables relative to the breakdown of fair value assets/liabilities on a recurring or non-recurring basis and the items measured at cost for which the reference accounting standards envisage fair value disclosure, as introduced and/or amended by the 2nd update to Circular no. 262.

EC Reg. no. 1256 of 13 December 2012 - IFRS 7
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 with those recognised according to American standards. Specifically, disclosure is required for all financial instruments that were offset in the balance sheet pursuant to IAS 32 and those could potentially be offset, given certain conditions, but presented in the balance sheet as open balances, as they are governed by "framework offsetting agreements or similar agreements", which do not meet the criteria established in IAS 32 for offsetting. In providing disclosure on these agreements, the standard also requires that the effects of financial collateral received or granted be taken into effect.
For disclosure on financial assets and liabilities subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements, refer to the new tables introduced by the aforementioned update to Circular 262 in Part B of the Notes, under "Other information".

EC Reg. no. 301 of 27 March 2013 - IFRS 1, IAS 16, IAS 32, IAS 34
This Regulation refers to the approval on 17 May 2012 by IASB of the "2009-2011 annual improvement cycle for international accounting standards". The limited amendments introduced in this improvement cycle are intended to resolve certain inconsistencies in IFRS as a whole, to provide terminology clarifications and formulate additional guidelines in applying certain requirements.

For purposes of the 2013 financial statements, the Bank applied in advance the amendments to IAS 36, as approved with EC Regulation no. 1374 of 19 December 2013, whose application is scheduled no later than the year beginning 1 January 2014. These amendments aim to clarify that the information on recoverable value of cash generating units must be provided only if there is an impairment, if the recoverable value is based on fair value net of disposal costs. Certain disclosure requirements on fair value and the fair value hierarchy were introduced, relative to assets or groups of assets measured at fair value net of sales costs, as an expression of recoverable value, if it is less than the book value. These clarifications and additional disclosure requirements did not have any impact on the Bank's balance sheet and income statements, as they relate solely to reporting matters.

The following are additional approved standards, applicable from 2014, which the Bank did not apply in advance.

EC Reg. no. 1254 of 11 December 2012 - IFRS 10, IFRS 11, IFRS 12, amendments to IAS 27 and IAS 28 (and subsequent amendments approved with EC Reg. no 313 of 4 April 2013, "Transition guidelines" and EC Reg. no 1174 of 20 November 2013 for subsidiaries owned by investment companies)
With this Regulation, new standards and related amendments to existing standards were approved, which had been approved by the IASB in 2011 and 2012.
The objective of IFRS 10 "Consolidated financial statements" is to provide a single model for consolidated financial statements, which envisages 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.
Based on analyses underway, these changes are not expected to have any impact on the Bank.

Regulation no. 1256 of 13 December 2012 - IAS 32
This Regulation approved the amendment of IAS 32 “Financial instruments - presentation” approved on 16 December 2011 by the IASB. This amendment 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.
Considering the current transactions in financial instruments and the related contractual agreements, there are no significant changes expected from the current presentation method for the balance sheet.

EC Reg. no. 1375 of 19 December 2013 - IAS 39
The amendment introduced in this Regulation envisages the novation of a derivative, designated as a hedge, from an existing counterparty to a new central counterparty, as a result of legislation or regulation, should not result in the termination of the hedge relationship, on that condition that any changes to the hedging instrument is limited to that which is necessary to carry out the replacement of the counterparty. In 2013, this amendment was not relevant for the Bank, as there were no hedging derivatives.

To complete the information, note that as at 31 December 2013, 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”) and 19 November 2013 (“Hedge accounting and amendments to IFRS 9, IFRS 7, and IAS 39”);
Amendment to IAS 19 for defined benefit plans issued on 21 November 2013;
Improvement programme for certain IFRS standards (2010-2012, 2011-2013), approved on 12 December 2013;
IFRIC 21 containing interpretations of certain particular taxes, issued on 20 May 2013.
None of the standards listed above affect the financial statements as at 31 December 2013, as their application is dependent on European Union approval, which had not yet occurred as at the date of this report.

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

For comparison purposes, the figures for the previous year were restated, in terms of their presentation methodology, to allow a fair comparison with financial position and results as at 31 December 2013.

Specifically, the income statement includes the reclassification of 40 million euro from item 290 “Income tax for the year for current operations” to item 190 “Net provisions for risks and charges”. Consistent with this change, in the balance sheet, the balancing entry of this allocation was presented in item 120 “Provisions for risks and charges”, through the reclassification from item 80 “Tax liabilities”, where it had been presented in the financial statements as at 31 December 2012.
This was an allocation charged to the income statement in 2012 for a tax dispute originating from the tax audit completed by the Finance Police on 21 February 2013 with regard to trading activities on the bank’s own behalf of listed financial instruments (trading in Italian and foreign securities and trading in single stock futures on said securities) on lending transactions on foreign securities undertaken by the subsidiary Banca Aletti.
In the financial statements as at 31 December 2012, in the section on events after the reporting date, a specific disclosure was provided in regards to the claims made in terms of the alleged “abuse of rights” that led to the aforementioned tax dispute. At that date, despite the belief that the findings were based on mere conjecture, and not on real and accurate assumptions, it was considered appropriate to consider the possibility of a future out-of-court settlement with the Inland Revenue by allocating a sum of 40 million euro to be charged against the income statement through item 290 “Income tax for the year for current operations” and the recognition of a liability under item 80 “Tax liabilities”. This choice in classification is justified by the fact that there are no grounds for including the amount of the

liability under “Provisions for risks and charges”. At the reporting date, there was no obligation, neither explicit nor implicit with the tax authorities and the recognition of a specific allocation for risks an charges could have had an impact on the decision-taking process or the judgment of the counterparty, with potential prejudice against the Bank.
The decision taken at the end of 2013 by the Board of Directors of Banca Aletti, with the agreement of the parent company, to accept the out-of-court settlement proposal put forth by Inland Revenue generated an implicit liability with tax authorities at the date, with the resulting necessity to make an allocation to the Provisions for risks and charges for the probable liability. For more information, refer to the "Significant events” section in the Report on Operations.

In relation to these developments, and in order to ensure an accurate comparative representation of the effects on the income statements and balance sheet for the dispute in question, it was necessary to reclassify the allocation made on 31 December 2012.

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

The balance sheet as at 31 December 2013 was prepared using the same accounting standards as the previous year’s balance sheet, updated for amendments approved and in effect for the year or that were adopted in advance by the Bank, as described 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 contracts 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 assets and liabilities”.

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 or interim 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. The Group’s impairment policy includes parametric thresholds (associated with the amount or duration of the reduction in fair value), beyond which an impairment must be recognised in the income statement, unless there are exceptional circumstances. These thresholds are identified in consideration of the distinctive characteristics of the various types of investments.
Specifically, for equity instruments, impairment is evidenced by exceeding one of the following thresholds:
- a decrease in fair value of more than 30% of the original book value; or
- a decrease that persists for an uninterrupted period of more than 24 months.

If neither of the above two conditions are met, qualitative analyses are conducted to verify evidence of impairment:
- for debt securities with a decrease in fair value of more than 20% of the original book value, adjusted by the amortised cost;
- for equity instruments with a decrease in fair value of more than 20% of the original book value or a decrease in fair value lasting more than 12 months.

In the latter two cases, the difference between the fair value and book value is not sufficient evidence per se of impairment. It is merely 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 recognised as a result of exceeding the automatic thresholds or through qualitative analysis 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 is 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 cost 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 permitted out of the portfolio 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.

Banca Aletti had no items in this category 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 that is fully available to the lender. 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 the 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 effective 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, substandard or restructured, in accordance with Bank of Italy instructions and consistent with IAS standards.

These non performing 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 original effective 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.

Non performing 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. With regards to performing loans covered by internal models for calculating the capital requirement for credit risk, collective impairment is calculated based on the Basel 2 parameters used in internal models (PD and LGD), adjusted to express a valuation consistent with the requirements set forth in IAS 39. Specifically, expected losses calculated based on Basel 2 parameters are corrected, for accounting purposes, to eliminate those estimation components from the LGD parameter that are essentially of a prudential nature, incorporated in the estimate of recovery flows and rates used to discount said flows. Additionally, IAS 39 requires that write-downs must reflect the result of one or more objective events of impairment that occurred after the loan recognition date. The objective is to determine the latent losses, or those losses that had already been verified at the moment the exposure was measured, but that have not yet been identified in the monitoring process for the specific customer’s degree of risk, with the subsequent transfer of the position from the performing loan portfolio to the non performing loan portfolio. The loan monitoring processes used by Banco Popolare Group are currently calibrated to identify impairment factors for a loan, occurring after it is granted, in a period of less than one year. Considering that the Basel 2 parameters express an expected loss that will occur, on average, in a time period of 12 months, it is necessary to include a corrective factor (known as LCP, Loss Confirmation Period), expressed annually, in order to realign the time horizon inherent in the calculation metrics for the “regulatory” expected loss to the effective average period of time between the deterioration of a counterparty’s credit rating and its classification in non performing loans based on loan monitoring processes that are used over time. Hence, collective impairments are calculated as the product of the latter time interval for loss confirmation and the risk factors used for Basel 2 requirements, adjusted to align them with the provisions of IAS 39.

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 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 that, 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. In particular:

- 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 there is a change in cash flows to be offset in reference to the hedged item. 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.

Banca Aletti had no items in this category at the end of the year.

7 – Equity investments

This item includes interests held in associates or companies subject to joint control.
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 book value, including goodwill, is lower than the recoverable value, an impairment is recognised 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, up to same amount as the previously recognised impairment.

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

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 subject to impairment testing to confirm the adequacy of its book value.
Specifically, impairment testing is performed any time there is evidence of impairment and, in any event, at least once a year. 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 the adequacy of the book value. 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 ceases 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.

Banca Aletti had no items in this category 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, in relation to income taxes.

Income taxes, calculated in compliance with current tax regulations, are recognised on an accruals basis, consistent with the recognition of costs and revenues generating the taxes. Hence, they represent the tax burden, equivalent to the balance between current taxes and the prepaid/deferred component, in relation to profit for the year. Income tax is recognised in the income statement with the exception of taxes relating to items credited or debited directly to shareholders’ equity, for which the related taxes are recognised in shareholders' equity for consistency purposes.

Specifically, current tax liabilities (assets) for the year in progress and previous years reflect the amount of income tax that the bank expects to pay to (recover from) tax authorities, based on a prudential estimate, applying the governing tax rates and regulations at the balance sheet date. 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.

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, also considering the tax regulations that are in effect over time, such as, for example, art. 2 subsection 55 and subsequent of Legislative Decree no. 225/2010, which envisages the transformation of certain prepaid tax assets into tax credits, under certain conditions. Deferred tax liabilities are recognised to the 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 other subjective situations for Group companies.

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 actions, including revocatory actions, estimated outlays for customer complaints regarding securities intermediation, tax disputes, and a reliable estimate of outlays 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 that is fully available to the lender.

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 and 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 also derecognised 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 assets and liabilities”.

Banca Aletti had no items in this category 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 asset 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 severance 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 severance 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, severance 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 severance 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. In particular:

- 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 margins, as described in the section “Fair value measurement methods for assets and liabilities” below;
- gains from the stipulation of financial instruments, for which it is considered that the fair value cannot be measured according to observable market benchmarks, are time-distributed depending on the nature and maturity of the instrument (e.g. guaranteed-capital or protected products);
- for bond issues measured at fair value and not listed on active markets, the measurement technique used to calculate fair value includes, as a corrective factor for cash flows to be discounted, a spread adjustment, with the objective of isolating, from the issue date, any profits implicit in the contractual loan conditions, net of transaction costs.

Share-based payments

The Bank does not have any outstanding share-based payment agreements.
For disclosure completeness, note that these are payments to employees, such as consideration for work activities performed, based on shares representing capital, which consist, for example, in the assignment of:

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

Given the difficulties in directly estimating the fair value of services received to be compensated by the assignment of shares, it is possible to indirectly measure the value of the services received, using the fair value of equity-linked instruments, at the date of their assignment. The fair value of payments settled through the issue of shares is recognised in “Personnel costs” as a balancing entry to an increase in the “Reserves”, based on the accruals criterion for the services provided.
Specifically, if the shares are not immediately “available” to the employee, but will be when the employee has completed a specific service period, the company recognises the cost as a payment for services rendered throughout the vesting period.

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”, as previously described in the sections pertaining to said categories of 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 assets and liabilities

Fair value is defined as the price that would be received for the sale of an asset, or the price paid to transfer a liability, in a regular transaction between market counterparties, at current conditions in the primary (or most advantageous) market on the measurement date.
For purposes of measuring the fair value of assets and liabilities, financial and otherwise, IFRS 13 defines a three-tiered fair value hierarchy, based on the extent to which market parameters can be observed:

1. **Prices observed on active markets (Level 1):**
   The measurement is based on unadjusted market prices for identical assets or liabilities.
2. **Measurement methods based on observable market benchmarks (Level 2)**
   The financial instrument measurement is based 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 from 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, fair value measurements rely on methods largely based on significant input data that cannot be obtained from the market, and therefore call for management estimates and assumptions.

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, which assigns the highest priority to official prices available on active markets and a lower priority to use of the more discretional, unobservable input data, consistent with the fair value hierarchy described above. Specifically, this policy defines:
- the rules for identifying market data, the selection/hierarchy of information sources and the necessary price configurations for valuing financial instruments from active markets and classified according to Level 1 of the fair value hierarchy (“Mark to Market Policy”);
- valuation techniques and related input parameters in all cases in which it is not possible to adopt the Mark to Market Policy (“Mark to Market Policy”);

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 re-composition of the instrument - derived from the prices expressed on an active market (and classified in Level 1 of the fair value hierarchy). A market is considered active when transactions are of a sufficient frequency and volume so as to provide useful information to calculate the price on a continual basis. 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 price) – 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 higher levels of transparency and liquidity for each type of investment.

Mark to Model
When the Mark to Market policy cannot be applied as there are no market prices directly observable on active markets, recourse must 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. *Valuation Model*: 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.

In particular:

- debt securities are measured according to the expected cash flow discounting method, adjusted as necessary for issuer risk;
- unlisted equity instruments are measured on direct transactions in the instrument or similar securities observed over an adequate timeframe as compared to the measurement date, using the market multiples method on comparable companies, and subordinately according to financial, income and equity measurement methods.
- investments in UCI units, other than open-ended harmonised funds, are measured based on the NAVs made available by the fund administrator or management company. These investments typically include private equity funds, real estate funds and hedge funds;
- 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 and in consideration of certain "fair value adjustments" as described in the section below. To discount future cash flows, the Bank uses the OIS (Overnight Indexed Swap) curve as the reference curve, considered to express the risk-free rate.

Fair value adjustments on OTC derivatives

For OTC derivatives, the values obtained by using valuation models, based on risk-free rates, are adjusted to include all the factors considered relevant by market participants, with the objective of most accurately reflecting the realisable price that is effectively possible for a market transaction. This is particularly relevant to the risk model, liquidity risk and counterparty risk.

Risk model: this adjustment is carried out to account for the risk that the pricing model, though validated, may generate fair values that are not directly observable and not immediately comparable with market prices. In general, this applies to structured products that have considerable complexity in the measurement and for which the technique of breaking it down into "additive" components (host instrument and incorporated derivative) may generate some inaccuracies in the measurement, or in the case of pricing or pay-off algorithms that are particularly "exotic" and are not commonly used in the market, or the existence of models that are particularly sensitive to variables that are not easily observable in the market.

Liquidity risk: this adjustment is made to consider the range of the "bid-ask spread", or the effective cost of liquidating the OTC derivative positions in inefficient markets. The effect of the liquidity risk correction is greater the more structured the product, for associated costs of hedging/liquidating, and the more the valuation model is not sufficiently confirmed and used by market operators, as it renders the measurements more reliable.

Counterparty risk: Adjustments are made for counterparty risk for performing derivatives in order to reflect:

- the credit risk of the counterparty for asset positions, known as Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of contractual obligations ("own credit risk") for liability positions, known as Debit Valuation Adjustment (DVA).

The consideration of own credit risk in the fair value measurement of a financial liability is consistent with the measurement performed from the perspective of an entity that holds the same instrument as a financial asset and is expressly envisaged in IFRS 13 ("non-performance risk").
Therefore, the Bank calculates the CVA/DVA corrections in function of the exposures with each counterparty, based on the nature of the counterparty, and in consideration of the effects from the mitigation of counterparty risk by collateral agreements.
These corrections to fair value include the following elements:

- future exposure equivalent to the fair value as at the measurement date, with an add-on that accounts for the future changes in fair value and calculated in compliance with the capital requirements calculation for counterparty risk, according to the Current Value Method (CVM);
- default probability calculated on the residual duration of the contract and calculated based on the prices for the Credit Default Swaps (CDS), where present, rather than on the basis of the internal PD; To measure the Bank's risk, the Banco Popolare CDS was used as the reference value.

For counterparties that have a positive future exposition, the CVA estimate is corrected to account for the probability that, in the course of the transaction, the Bank may fail before the counterparty (CVA calculated in this manner is known as "Bilateral CVA"). In the same manner, for counterparties that have a negative future exposition, the DVA estimate is mitigated by the effect resulting from the probability that, in the course of the transaction, the counterparty may fail before the Bank (DVA calculated in this manner is known as "Bilateral DVA").
In reference to the calculation of the CVA/DVA corrective factors, note that a series of analyses are underway aimed at introducing a set of methodological refinements.

As at 31 December 2013, the CVA/DVA correction factors resulted in the recognition of lower assets and lower liabilities, for a net asset balance of 2,392 thousand euro.

Classification in Level 2 rather than Level 3 is determined based on the observability in markets of the significant inputs used to calculate fair value. A financial instrument must be classified in its entirely within a single level. Therefore, if input belonging to different levels was used in the measurement process, the entire valuation must be classified within the hierarchy level corresponding to the lowest input level, if it is deemed significant in calculating the overall fair value.

The following types of investments are normally considered Level 2:

- OTC derivative financial instruments whose fair value is obtained through pricing models, which make use of both observable and non-observable data; the latter are deemed insignificant in calculating the overall fair value;
- equity instruments not listed on active markets, valued using the market multiple technique with reference to a sample of companies comparable to the company being measure or based on effective transactions that occurred in a time period reasonably near the reference date;
- third-party or proprietary debt securities, not listed in active markets, for which the input, including the credit spread, are available from market sources;
- hedge funds characterised by significant levels of transparency and liquidity, valued based on NAVs provided by the asset management company / fund administrator.

The following financial instruments are typically considered Level 3:

- hedge funds characterised by considerable levels of illiquidity and for which the measurement process for the fund's assets requires a significant amount of estimates and assumptions. Fair value measurement is conducted based on the NAV. The NAVs can be adequately corrected to account for a investment's diminished liquidity, or the time interval between the redemption application date and that of actual redemption, and for any investment exit commissions;
- real estate funds measured on the basis of the most recently available NAVs;
- private equity funds measured based on the most recently available NAVs, adjusted as necessary to account for events that were reflected in the unit price or to reflect a different measurement of the underlying assets of the fund itself;
- illiquid equity securities for which non recent or comparable transactions exits, normally values based on the capital model;
- debt securities characterised by complex financial structures for which sources that are not available to the public are used; these include non-binding prices and otherwise not corroborated by market data;
- debt securities issued by parties in financial difficulty for which management must use its judgment in defining the recovery rate, as there are no significant prices observable on the market.

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".
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 described in the item "Dividends and recognition of revenues".

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 as required by the reference standard, IFRS 7. In particular:

- 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 (PD and LGD), is performed at a risk-free market rate plus a component expressing risk aversion (risk aversion premium) to take into account factors in addition to the probable loss. The fair value thus determined is classified in the hierarchy corresponding to Level 2 or Level 3, depending the significance of unobservable parameters (PD, LDG, and risk aversion premium). More specifically, exposures are considered Level 3 depending on the impact of the aforementioned unobservable input is greater than a significance threshold, identified as 5%, with respect to the fair value obtained by discounting contract cash flows based on market interest rates;
- for medium/long-term "non performing" loans (bad loans, substandard loans, past due loans and restructured loans), the book value is assumed to be equivalent to the financial statement figure and is classified under Level 3 of the hierarchy. For these exposures, the exit price would be considerably influenced by expectations of impairment, resulting from subjective measurements, expressed by the position manager, in reference to the recovery rate and the relative timing; in virtue of which, changes in market interest rates are considered to be a marginal factors in calculating fair value;
- for assets and liabilities payable on demand or with short-term maturity, the book value recognised is considered to be a reasonable approximation of fair value; These include all operating debits and credits associated with lending assets and rendering financial services. The fair value calculated in this manner is conventionally considered to fall under Level 2 of the hierarchy.
- for bond loan issues recognised at amortised cost, the fair value measurement is conducted by referencing the existing listings on an active market or by a measurement technique carried out 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 considerations with regard to the fair value hierarchy, refer to the description above regarding fair value assets and 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 financial assets and 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;
- rather, 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.4 – INFORMATION ON FAIR VALUE

Qualitative information

For a review of the methods used by the Bank to measure the fair value of assets and liabilities, both for measurement in the financial statements as well as disclosure purposes in the Notes for certain assets valued at cost, refer to the section “Fair value measurement methods for assets and liabilities” in Part A.2 “Notes on the main items of the financial statements”, 17 “Other information”.

A.4.1 Fair Value Levels 2 and 3: measurement techniques and input

For assets and liabilities valued at fair value on a recurring basis, for which prices directly observable on active markets are not available, it is necessary to calculate fair value through the “Comparable Approach” and the “Model Valuation”, as described in the section “Fair value measurement methods for assets and liabilities”. Note that for the Bank, the only items valued at fair value on a recurring basis are financial assets and liabilities, as described in more detail below.
Debt securities
Debt securities are measured according to the expected cash flow discounting method (Discounted Cash Flow), adjusted as necessary for issuer risk. For structured securities, the optional components must be measured, also taking into consideration adequate spread to reflect the liquidity risk and model risk that may be inherent in said structures.

Unlisted equity instruments
Unlisted equity instruments are measured on direct transactions in the instrument or similar securities observed over an adequate timeframe as compared to the measurement date, using the market multiples method on comparable companies, and, subordinately, according to financial, income and equity measurement methods.

Investments in UCI units, other than open-ended harmonised funds
These are measured based on the NAVs made available by the fund administrator or management company. These investments typically include private equity funds, real estate funds and hedge funds.

Over the counter derivatives (OTC)
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 and in consideration of certain “fair value adjustments” as described in the section “Fair value measurement methods for assets and liabilities”.
The following table presents a summary of the main types of outstanding derivatives for the Group, mainly attributable to positions held by Banca Aletti and the Parent Company, indicating the related measurement models and key input.

Derivative category	Product	Measurement model	Key input to model
Financial derivatives on interest rates	Swaps	Discounted cash flow - Analytic	Interest rate curves, Interest rate volatility Interest rate correlation
	Cap - Floor	Black and Scholes - Analytic	
	European swaption	Black and Scholes - Analytic	
	Bermudan swaption	Mixture of Hull-White with one factor - Trinomial tree	
	CMS spread option	Kirk - Analytic	
	Bond option	Black and Scholes - Analytic	Interest rates and volatility
Derivatives on inflation rates	Swap, Cap – floor	Lognormal Forward Inflation Model - Analytic	Interest rate and inflation rate curves, Volatility/Correlation for interest/inflation rates calibrated based on market prices
Derivatives on share / share indices / exchange	Plain vanilla option, single asset	Black and Scholes - Analytic	Equity/FOREX volatility, interest rate curves, exchange rates, share indices’ spot price, dividends, repo rates
	American option, single asset	Black and Scholes - Binominal/trinomial tree - finite differences	
	Exotic options	Black and Scholes - Monte Carlo	Equity/FOREX volatility, interest rate curves, exchange rates, share indices’ spot price, dividends, repo rates, correlations
	European options on baskets	Black and Scholes / Mixture of Black and Scholes - Analytic	
	American options with barrier and Spread options	Local Volatility – Monte Carlo	
	Cliquet options, single asset	Heston – Monte Carlo	
	Autocallable options	Black and Scholes hybrid, Hull and White with two factors - Monte Carlo	Equity/FOREX/interest rate volatility, correlations, interest rates, exchange rates, share indices’ spot price, dividends, repo rates
	Dividend swaps	Discounted cash flow - Analytic	Interest rates, exchange rates, dividends
Credit derivatives	Credit default swaps	Discounted cash flow - Analytic	Interest rates, Credit Default Swap curve

The techniques, parameters for calculating fair value, as well as criteria for assigning the fair value hierarchy, are defined and formalised in a specific "Fair Value Policy" adopted by Banco Popolare Group and Banca Aletti. The reliability of fair value measurements is also ensured by the audit activities performed by Risk Management. This department, which is independent from the Front Office units that hold the positions, is responsible for periodically reviewing the list of pricing models to be used for purposes of the Fair Value Policy. These models must represent market standards or best practices and the relative adjustment techniques must ensure a result that is consistent with the measurements that reflect "current market conditions". More specifically, for purposes of correctly calculating fair value, each product is associated with a pricing model, generally accepted by the market and chosen based on the market characteristics and variables underlying said product. If the products are particularly complex or if the current measurement model for existing products is deemed lacking or not adequate, an internal process is activated to supplement the current models. Based on this process, Risk Management carries out an initial validation phase for the pricing models, that can be native to the Position Keeping system or be issued by a specific internal department. Subsequently, Risk Management initiates the phase that seeks to ensure the constant reliability of the validated model.
In detail, the validation activity aims to verify the model's theoretical robustness, though a re-pricing independent of the price, a possible calibration of parameters and a comparison with counterparty prices. If these activities have a positive result, the use of the models is, in any case, dependent on the approval of a specific Group committee, the "Financial Product Innovation Committee". After the validation phase, reviews are continually conducted to confirm the accuracy and consistency with market pricing models in use with the Group, through appropriate actions, if necessary, on models and the related underlying theoretical assumptions. To account for the risk that the pricing model, though validated, may generate fair values that are not directly comparable with market prices, a specific adjustment to the "Risk model" is made, as described in the section "Fair value measurement methods for assets and liabilities".

A.4.2 Measurement processes and sensitivity

Unobservable parameters that may influence the measurement of Level 3 instruments are mainly represented by estimates and assumptions underlying the models used to measure investments in equity securities and UCI units. For these investments, a quantitative analysis of the fair value sensitivity to changes in unobservable input was not developed, as either the fair value was derived from third-party sources with need for any adjustment or it was derived from a model whose input are specific to the entity being measured (e.g., the company's balance sheet values) and for which it is not reasonable to assume alternative values.

A.4.3 Fair value hierarchy

In order to complete the disclosure on transfer between fair value hierarchy levels provided in sections A.4.5.1, A.4.5.2, A.4.5.3 below, note that for securities held as at 31 December 2013 with a different fair value hierarchy classification with respect to 31 December 2912, it is assumed that the transfer between levels refers to existing balances at the beginning of the year.

A.4.4. Other information

As at 31 December 2013, there is no information to be reported pursuant to IFRS 13, paragraphs 51, 93 (i) and 96, as:
- there are no fair value assets measured based on "highest and best use";
- the option to measure fair value at the level of overall portfolio exposure was not taken, which would account for the offsetting of credit risk and market risk of a determined group of financial assets or liabilities.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

As defined in the aforementioned IFRS 13, recurring measurements refer to those assets or liabilities measured at fair value in the balance sheet, based on the instructions or permissions of the reference international accounting standards. Note that for Banca Aletti, the only assets and liabilities measured at fair value on a recurring basis are of a financial nature, as shown in the table below:

Fair value assets/liabilities *(in thousands of euro)*	31/12/2013			31/12/2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	1,942,597	4,563,808	-	2,050,839	6,274,958	-
2. Fair value financial assets	3,547	14,137	28	-	16,419	121
3. Available-for-sale financial assets	-	3,182	547	2,927	1,440	547
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**1,946,144**	**4,581,127**	**575**	**2,053,766**	**6,292,817**	**668**
1. Financial liabilities held for trading	165,315	4,953,577	131	166,509	6,229,960	209
2. Fair value financial liabilities	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**165,315**	**4,953,577**	**131**	**166,509**	**6,229,960**	**209**

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 assets include 3,926,854 thousand euro of derivatives held for trading. In particular:

- listed derivatives (futures and options), equivalent to 184,039 thousand euro, are valued based in prices provided by the Clearing Houses (Level 1);
- Over the counter derivatives (OTC), which amount to 3,742,815 thousand euro, are measured based on models that predominantly use parameters observable on the market or on prices derived from independent sources (Level 2).

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.

Transfers between fair value levels (Level 1 and Level 2)

During the year, only financial assets held for trading were transferred from Level 1 to Level 2, in the amount of 85,008 thousand euro (value at beginning of year). These transfers primarily refer to a limited number of debt securities issued by Banco Popolare; as the pre-established period from the issue date having elapsed during 2013, as provided for in the Regulation, they were no longer subject to handling in the Group's organised securities system.

In the same period, the following assets were transferred from Level 2 to Level 1:

- financial assets held for trading for 28,074 thousand euro (value at beginning of year);
- fair value financial assets for 1,944 thousand euro (value at beginning of year).

The transfer of financial assets held for trading was chiefly due to bond issues by Banco Popolare Group for which, as at 31 December 2'12, the fair value measurement was made using a Level 2 measurement technique, as certain methodological refinements were being implemented for calculating market prices of Group securities. The refinements were completed in the first half of 2013, thus the prices derived from the Group's organised securities system were used for the measurement as at 31 December 2013, without any adjustments.

A.4.5.2 Annual changes in recurring fair value assets (Level 3)

(in thousands of euro)	Financial assets held for trading	Fair value financial assets	Available-for-sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balances	**-**	**121**	**547**	**-**		**-**
2. Increases	**-**	**75**	**-**	**-**	**-**	**-**
2.1 Acquisitions	-	-	-	-	-	-
2.2 Profits recognised to:	-	75	-	-	-	-
2.2.1 Income Statement	-	75	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-
3. Decreases	**-**	**(168)**	**-**	**-**	**-**	**-**
3.1 Sales	-	(75)	-	-	-	-
3.2 Redemptions	-	-	-	-	-	-
3.3 Losses recognised to:	-	(93)	-	-	-	-
3.3.1 Income Statement	-	(93)	-	-	-	-
- of which capital losses	-	(93)	-	-	-	
3.3.2 Shareholders' equity	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balances	**-**	**28**	**547**	**-**	**-**	**-**

A.4.5.3 Annual changes in fair value financial liabilities (Level 3)

(in thousands of euro)	Financial liabilities held for trading	Fair value financial liabilities	Hedging derivatives
1. Opening balances	**209**	**-**	**-**
2. Increases	**125**	**-**	**-**
2.1 Issues	125	-	-
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	**(203)**	**-**	**-**
3.1 Redemptions	-	-	-
3.2 Repurchases	-	-	-
3.3 Profits recognised to:	(203)	-	-
3.3.1 Income Statement	(203)	-	-
- of which capital gains	-	-	-
3.3.2 Shareholders' equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balances	**131**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis *(in thousands of euro)*	31/12/2013				31/12/2012	
	BV	FV L1	FV L2	FV L3	BV	FV
1. Financial assets held to maturity	-	-	-	-	-	-
2. Due from banks	3,591,170	-	3,591,170	-	4,123,892	4,145,700
3. Due from customers	1,823,961	-	1,823,300	661	1,932,875	1,932,875
4. Property, plant and equipment held as investments	-	-	-	-	-	-
5. Non-current assets and discontinued operations	-	-	-	-	-	-
Total	**5,415,131**	**-**	**5,414,470**	**661**	**6,056,767**	**6,078,575**
1. Due to banks	5,267,172	-	5,267,172	-	4,560,402	4,560,402
2. Due to customers	719,438	-	719,438	-	791,351	791,351
3. Securities in issue	30,845	-	30,845	-	1,945,961	1,945,961
4. Liabilities associated with discontinued operations	-	-	-	-	-	-
Total	**6,017,455**		**6,017,455**	**-**	**7,297,714**	**7,297,714**

Key:
BV = Book value
FV = Fair value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Note that for the items “Due from banks” and “Due from customers”, the fair value as at 31 December 2012 was presented in total, without being broken down by level, as this was comparative information not required by IFRS 13 and not provided in the 2012 Financial Statements, on the basis of provision in Circular no. 262.

Assets and liabilities not measured at fair value

For the criteria used to calculate fair value and the levels of the financial assets and liabilities measured at cost, for which fair value was required for disclosure purposes, refer to the section “Fair value measurement methods for assets and liabilities” in Part A.2 “Notes on the main items of the financial statements”, 17 “Other information”.

All of the assets included in “Due from banks” and 99.9% of those in “Due from customers” are classified as Level 2. “Due from customers” exposures classified as Level 3 are essentially non performing loans.

Assets and liabilities measured at fair value on a non-recurring basis

As at 31 December 2013, there were no assets or liabilities measured at fair value on a non-recurring basis.

A.5 Information on “day one profit/loss”

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 2013 totals 0.2 million euro and the residual differences still to be recognised amount to 0.1 million euro.

PART B – BALANCE SHEET DATA

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

(in thousands of euro)	31/12/2013	31/12/2012
a) Cash	22	20
b) Demand deposits with Central Banks	-	-
Total	22	20

Section 2 - Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by product

As at 31 December 2013 financial assets totalled 6,506,405 thousand euro. The breakdown of financial assets is illustrated in the table below.

Items/Amounts *(in thousands of euro)*	31/12/2013			31/12/2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	1,478,644	820,990	-	1,765,004	582,874	-
1.1 Structured securities	186,613	189,039	-	119,520	41,692	-
1.2 Other debt securities	1,292,031	631,951	-	1,645,484	541,182	-
2. Equity instruments	275,529	-	-	163,912	-	-
3. UCI units	4,385	-	-	3,278	-	-
4. Loans	-	-	-	-	-	-
4.1 Repo agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	1,758,558	820,990	-	1,932,194	582,874	-
B. Derivatives						
1. Financial derivatives	184,039	3,742,815	-	118,645	5,691,923	-
1.1 trading	184,039	3,742,815	-	118,645	5,691,923	-
1.2 linked to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	3	-	-	161	-
2.1 trading	-	3	-	-	161	-
2.2 linked to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	184,039	3,742,818	-	118,645	5,692,084	-
Total (A+B)	1,942,597	4,563,808	-	2,050,839	6,274,958	-

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

Items/Amounts *(in thousands of euro)*	31/12/2013	31/12/2012
A. CASH ASSETS		
1. Debt securities	**2,299,634**	**2,347,878**
a) Governments and Central Banks	650,176	735,561
b) Other public authorities	-	-
c) Banks	1,309,119	1,300,363
d) Other issuers	340,339	311,954
2. Equity instruments	**275,529**	**163,912**
a) Banks	42,409	26,600
b) Other issuers:	233,120	137,312
- insurance companies	14,195	5,359
- finance companies	3,652	2,734
- non-financial companies	215,273	129,219
- other	-	-
3. UCI units	**4,385**	**3,278**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**2,579,548**	**2,515,068**
B. DERIVATIVES		
a) Banks		
- fair value	3,399,395	5,030,607
b) Customers		
- fair value	527,462	780,122
Total B	**3,926,857**	**5,810,729**
Total A+B	**6,506,405**	**8,325,797**

As at 31 December 2013, the composition of UCI units was as follows:

- Shares and SICAVs: 2,348 thousand euro;
- Real estate: 2,037 thousand euro.

In June 2013, bonds issued by Lehman Brothers Group that had been held in the Bank's proprietary portfolio were sold to a British company, IlliquidX LLP, for 499 thousand euro. These securities were classified as bad loans and had essentially been written off following the write-downs recognised in the past for a value approximately equal to the book value (918 thousand euro). In addition, prior to selling these bonds, the Bank recognised income related to the partial distributions envisaged in the restructuring plan for 161 thousand euro. Therefore, the total income for the year recognised in item 80 of the Income Statement "Trading gains/(losses)" was 659 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	**2,347,878**	**163,912**	**3,278**	**-**	**2,515,068**
B. Increases	**57,443,518**	**2,335,835**	**5,813**	**-**	**59,785,166**
1. Acquisitions	57,265,148	2,283,843	5,234	-	59,554,225
2. Positive changes in fair value	18,318	17,699	327	-	36,344
3. Other changes	160,052	34,293	252	-	194,597
C. Decreases	**(57,491,762)**	**(2,224,218)**	**(4,706)**	**-**	**(59,720,686)**
1. Sales	(56,452,911)	(2,197,832)	(4,539)	-	(58,655,282)
2. Redemptions	(889,921)	-	-	-	(889,921)
3. Negative changes in fair value	(11,447)	(1,115)	(30)	-	(12,592)
4. Transfers to other portfolios	-	-	-	-	-
5. Other changes	(137,483)	(25,271)	(137)	-	(162,891)
D. Closing balances	**2,299,634**	**275,529**	**4,385**	**-**	**2,579,548**

Section 3 - Fair value financial assets – Item 30

3.1 Fair value financial assets: breakdown by product

Items/Amounts *(in thousands of euro)*	31/12/2013			31/12/2012		
	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	-	45	-	-	43	-
3. UCI units	3,547	14,092	28	-	16,376	121
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	3,547	14,137	28	-	16,419	121
Cost	3,351	13,042	121	-	16,150	135

UCI units include 14,092 thousand euro in units of Hedge Funds (comprising investments in “other assets”), 3,547 thousand euro in units of open-ended harmonised funds, and the remaining 28 thousand euro in Private Equity Funds (known as “Fondo Dimensione Network”).
With regards to the latter, note that the fund management company, Assietta Private Equity SGR SpA, notified the Bank in December 2013 that it had started liquidation procedures, which should last at most 6 months.
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 carried out 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)*	31/12/2013	31/12/2012
1. Debt securities	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments	45	43
a) Banks	-	-
b) Other issuers:	45	43
- insurance companies	45	43
- finance companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCI units	17,667	16,497
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	17,712	16,540

3.3 Fair value financial assets: annual changes

(in thousands of euro)	Debt securities	Equity instruments	UCI units	Loans	Total
A. Opening balances	**-**	**43**	**16,497**	**-**	**16,540**
B. Increases	**-**	**2**	**2,743**	**-**	**2,745**
1. Acquisitions	-	-	1,356	-	1,356
2. Positive changes in fair value	-	2	1,291	-	1,293
3. Other changes	-	-	96	-	96
C. Decreases	**-**	**-**	**(1,573)**	**-**	**(1,573)**
1. Sales	-	-	(1,481)	-	(1,481)
2. Redemptions	-	-	-	-	-
3. Negative changes in fair value	-	-	(92)	-	(92)
4. Other changes	-	-	-	-	-
D. Closing balances	**-**	**45**	**17,667**	**-**	**17,712**

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

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

Items/Amounts *(in thousands of euro)*	31/12/2013			31/12/2012		
	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	**-**	**3,182**	**547**	**2,927**	**1,440**	**547**
2.1 Measured at fair value	-	3,182	547	2,927	1,440	547
2.2 Measured at cost	-	-	-	-	-	-
3 UCI units	-	-	-	-	-	-
4 Loans	-	-	-	-	-	-
Total	**-**	**3,182**	**547**	**2,927**	**1,440**	**547**

“Equity instruments” comprise investments in the following companies:

- SIA-SSB S.p.A. (formerly SIA S.p.A.) for 3,182 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).

Every quarter, the securities included under the above accounting category were subjected to impairment testing consistent with guidelines adopted at Group level, described in "Part A – Accounting policies" of these Notes to the financial statements, to which reference should therefore be made. As at the reporting date, the test did not indicate impairments on said securities.

In January 2013, the “lock up” restriction on Unipol Gruppo Finanziario shares expired and the Bank, with the agreement of the Underwriting Syndicate management, sold the entire shareholding (2,927 thousand euro as at 31 December 2012) that originated in September 2012 from the participation in said Syndicate for the share capital increase of Fondiaria Sai and Unipol Gruppo Finanziario. The recovery of the share’s market price in the initial days of 2013 allowed the Bank to significantly reduce the “Negative valuation reserve” recognised at the end of 2012 (equivalent to 924 thousand euro), recording a net loss of 26 thousand euro in item 100 of the Income Statement, “Gains/losses on sale - available-for-sale securities”.

Additionally, note that during 2013, the Bank was called to subscribe unexercised shares from the share capital increase of RCS-Mediagroup, equivalent to 798,448 shares for 986 thousand euro, as a result of guarantee commitments assumed within the Underwriting Syndicate. These shares were sold during the year for a total of 982 thousand euro, resulting in the recognition of a loss of 4 thousand euro, recorded in item 100 of the income statement, “Gains/losses on sale - available-for-sale securities”.

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

Items/Amounts *(in thousands of euro)*	31/12/2013	31/12/2012
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments	**3,729**	**4,914**
a) Banks	-	-
b) Other issuers:	3,729	4,914
- insurance companies	-	-
- finance companies	533	3,460
- non-financial companies	3,196	1,454
- other	-	-
3. UCI units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**3,729**	**4,914**

4.4 Available-for-sale financial assets: annual changes

(in thousands of euro)	Debt securities	Equity instruments	UCI units	Loans	Total
A. Opening balances	**-**	**4,914**	**-**	**-**	**4,914**
B. Increases	**-**	**3,626**	**-**	**-**	**3,626**
1. Acquisitions	-	986	-	-	986
2. Positive changes in fair value	-	1,742	-	-	1,742
3. Reversals	-	-	-	-	-
- recognised to the income statement	-	X	-	-	-
- recognised to shareholders' equity	-	-	-	-	-
4. Transfers from other portfolios	-	-	-	-	-
5. Other changes	-	898	-	-	898
C. Decreases	**-**	**(4,811)**	**-**	**-**	**(4,811)**
1. Sales	-	(4,807)	-	-	(4,807)
2. Redemptions	-	-	-	-	-
3. Negative changes in fair value	-	-	-	-	-
4. Write-downs for impairment	-	-	-	-	-
- recognised to the income statement	-	-	-	-	-
- recognised to shareholders' equity	-	-	-	-	-
5. Transfers to other portfolios	-	-	-	-	-
6. Other changes	-	(4)	-	-	(4)
D. Closing balances	**-**	**3,729**	**-**	**-**	**3,729**

Item B.1 “Acquisitions” consists solely of the countervalue of the share subscription from the share capital increase of RCS, 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 ordinary shares of Unipol Gruppo Finanziario S.p.A.
Item C.1 “Sales” presents the total amount received from the sale of Unipol Gruppo Finanziario S.p.A. shares and RCS shares, as described above.
Item C.6 “Other changes” shows the realised loss from the sale of RCS shares.

Section 6 - Due from banks – Item 60

6.1 Due from banks: breakdown by product

Transaction type/Values *(in thousands of euro)*	31/12/2013				31/12/2012
	Book value	Fair value (*)			Book value
		Level 1	Level 2	Level 3	
A. Due from Central Banks	**-**				**-**
1. Term deposits	-	X	X	X	-
2. Compulsory reserve	-	X	X	X	-
3. Repurchase agreements	-	X	X	X	-
4. Other	-	X	X	X	-
B. Due from banks	**3,591,170**	**-**	**3,591,885**	**-**	**4,123,892**
1. Loans	1,613,232	-	1,613,232	-	1,257,518
1.1 Current accounts and demand deposits	1,218,615	X	X	X	623,186
1.2 Term deposits	222,936	X	X	X	325,152
1.3 Other loans:	171,681	X	X	X	309,180
Repurchase agreements	124,273	X	X	X	266,416
- Finance leases	-	X	X	X	-
- Other	47,408	X	X	X	42,764
2. Debt securities	1,977,938	-	1,978,653	-	2,866,374
2.1 Structured securities	-	X	X	X	-
2.2 Other debt securities	1,977,938	X	X	X	2,866,374
Total	**3,591,170**	**-**	**3,591,885**	**-**	**4,123,892**
Total fair value (*) as at 31/12/2012					**4,145,700**

(*) For information on calculating fair value, refer to "Part A - Notes on the main items of the balance sheet, 17 - Other information".

Item 1.2 "Term deposits" consists primarily of:

- short-term term deposits with the Parent Company for 1,161 thousand euro;
- the compulsory reserve deposited with the Parent Company for 17,900 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;
- deposits as collateral on financial instrument contracts for 203,875 thousand euro.

Item 1.3 "Other loans" as at 31 December 2013 includes the following:

- sub-item "Repurchase agreements": from repurchase agreements with a countervalue of 13,450 thousand euro (237,141 thousand euro as at 31 December 2012) and securities lending transactions with cash guarantees for a countervalue of 110,823 thousand euro (29,275 thousand euro as at 31 December 2012);
- sub-item "Other": from operating receivables for 28,087 thousand euro and initial margins paid as guarantees for transactions on financial instruments in regulated markets from 19,321 thousand euro.

Item 2.2 "Other debt securities" consists exclusively of bonds issued by the Parent Company Banco Popolare entirely subscribed by the Bank to optimise the liquidity generated by issuing its Certificates. Furthermore, in the last quarter of the year, two of the Bank's issues from 2011, with a nominal value of 1 billion euro each, reached their maturity, and at the same time, two bonds with an equivalent nominal value issued by Banco Popolare (ISIN codes IT0004773328 and IT0004777949) also matured, which were fully subscribed upon issue in order to optimise the Parent Company's treasury activities.

Section 7 - Due from customers – Item 70

7.1 Due from customers: breakdown by product

Transaction type/Values *(in thousands of euro)*	Total 2013						Total 2012		
	Book value			Fair value (*)			Book value		
	Performing	Non performing		L1	L2	L3	Performing	Non performing	
		Acquired	Other					Acquired	Other
Loans	**1,823,300**	**-**	**661**	**-**	**1,823,300**	**661**	**1,928,814**	**-**	**4,061**
1. Current accounts	21,981	-	1	X	X	X	7,415	-	18
2. Repurchase agreements	1,564,363	-	-	X	X	X	1,724,425	-	-
3. Mortgages	-	-	-	X	X	X	-	-	-
4. Credit cards, personal loans and salary-backed loans	-	-	-	X	X	X	-	-	-
5. Finance leases	-	-	-	X	X	X	-	-	-
6. Factoring	-	-	-	X	X	X	-	-	-
7. Other loans	236,956	-	660	X	X	X	196,974	-	4,043
Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8. Structured securities	-	-	-	X	X	X	-	-	-
9. Other debt securities	-	-	-	X	X	X	-	-	-
Total	**1,823,300**	**-**	**661**	**-**	**1,823,300**	**661**	**1,928,814**	**-**	**4,061**
Total fair value (*) as at 31/12/2012							**1,928,814**	**-**	**4,061**

(*) For information on calculating fair value, refer to "Part A - Notes on the main items of the balance sheet, 17 - Other information".

Item 1 "Current accounts" consists chiefly of the balance from variation margins deposited with clearing houses for transactions in listed derivatives for 17,546 thousand euro, and from variation margins from the recent transaction on OTC derivatives with the central LCH (London Clearing House) counterparty for 774 thousand euro. This item also includes overdrafts granted to reliable customers. These overdrafts were collectively written down for 12 thousand euro.

Item 2 "Repurchase agreements" consists solely of securities lending transactions guaranteed by cash for 1,724,425 thousand euro as at 31 December 2012.

Item 7 "Other loans - performing" consists of initial margins released to clearing houses for derivatives settled on Italian and international markets for 69,657 thousand euro and for OTC derivative transactions for 2,785 thousand euro, as well as collateral on securitisation of OTC derivative contracts released to finance companies for 44,084 thousand euro. The residual amount is for operating receivables, primarily for premiums to be collected on Certificates in the process of being placed as at the reporting date.

Item 7 "Other loans - non performing" primarily consists of receivables with Lehman Brothers International (Europe), with registered office in London, for 5,534 thousand euro. Following further analysis by our legal consultants, the receivable was written down for an additional 931 thousand euro at the end of the year, bringing its cumulative write-down provision to 4,874 thousand euro, and resulting in a net exposure of 660 thousand euro.

Note that, as thoroughly described in the "Significant Events" section of the Report on Operations, the net exposure to Lehman Brothers Group is 660 thousand euro, a considerable reduction as a result of the following sales to the British company IlliquidX LLP during 2013:

- receivable with Lehman Brothers SA, with registered office in Zurich. This receivable had a book value of 3,582 thousand euro at the end of the previous year, with cumulative write-downs of 2,519 thousand euro. The sale of this receivable resulted in the recognition of a gain on sale of 1,660 thousand euro, recorded in item 100 of the income statement "Gains on sale";
- receivable with Lehman Brothers Special Financing Inc., with registered office in New York. This receivable had a book value of 4,110 thousand euro at the end of the previous year, with cumulative write-downs of 2,884 thousand euro. During 2013, the Bank acknowledged the communication from the New York bankruptcy court regarding the inclusion of the liability for a smaller amount, equivalent to 1,283 thousand US Dollars. Therefore, in preparing the 2013 half-yearly report, the Bank recognised a net impairment in the book value, while maintaining the recovery rate in place from the previous year, recording a write-down of 932 thousand euro in item 130 of the income statement, "Write-downs for impairment", resulting in a new net exposure of 294 thousand euro. In the second half of 2013, with the collection from the sale of the receivable to the aforementioned company, the Bank recognised 222 thousand euro in item 100 "Gains on sale".

7.2 Due from customers: breakdown by borrower/issuer

Transaction type/Values *(in thousands of euro)*	Total 2013			Total 2012		
	Performing	Non performing		Performing	Non performing	
		Acquired	Other		Acquired	Other
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public authorities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**1,823,300**	**-**	**661**	**1,928,814**	**-**	**4,061**
a) Governments	-	-	-	-	-	-
b) Other public authorities	-	-	-	-	-	-
c) Other entities	1,823,300	-	661	1,928,814	-	4,061
- non-financial companies	191	-	1	420	-	6
- financial companies	1,700,160	-	660	1,908,322	-	3,964
- insurance companies	432	-	-	584	-	-
- other	122,517	-	-	19,488	-	91
Total	**1,823,300**	**-**	**661**	**1,928,814**	**-**	**4,061**

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	31/12/2013			31/12/2012		
	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	25%	25%
2. Società di 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%

In accordance with the reference accounting standards, the impairment test was carried out to verify if the book value of the Bank’s investments was accurate.

It was discovered that the book value was lower than the recoverable value of the individual investments. This standard defines recoverable value as the greater of:

- “value in use”, or the current value of future cash flows that the investment is expected to generate, including its final disposal value;
- “fair value”, less sales costs, or the amount that can be collected from the sale of an asset in a free-market transaction between knowledgeable and available parties.

The impairment tests concluded that it was not necessary to recognise any write-downs to book value as at 31 December 2013.

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	**9,414**	**3,911**	**326**	**6,757**	**8,201**	
1. Aletti Fiduciaria S.p.A.	8,301	3,255	296	6,194	7,705	X
2. Aletti Trust S.p.A.	1,113	656	30	563	496	X
C. Companies subject to significant influence	**336,936**	**526,514**	**1,774**	**155,511**	**12,259**	
1. HI-MTF S.p.A.	5,876	2,813	451	5,209	1,250	X
2. Società di gestione servizi - BP Soc. cons. per azioni	268,975	336,899	2,120	108,008	10,519	X
3. BP Property Management Soc. cons. a r.l.	62,085	186,802	(797)	42,294	490	X
Total	**346,350**	**530,425**	**2,100**	**162,268**	**20,460**	**-**

(*) Note that Banca Aletti does not have any equity investments in listed companies.

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 2012.

10.3 Equity investments: annual changes

(in thousands of euro)	31/12/2013	31/12/2012
A. Opening balances	**20,460**	**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**	**20,460**
E. Total revaluations	**-**	**-**
F. Total write-downs	**10,505**	**10,505**

10.4 Commitments relating to investments in subsidiaries

As at 31 December 2013 the Bank had no commitments to subsidiaries.

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

As at 31 December 2013 the Bank had no commitments to companies subject to significant influence.

Section 11 - Property, plant and equipment – Item 110

Property, plant and equipment totalled 746 thousand euro, net of related provisions for depreciation.

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

Assets/Values *(in thousands of euro)*	31/12/2013	31/12/2012
1 Owned	**746**	**974**
a) land	-	-
b) buildings	-	-
c) furniture and fittings	409	501
d) electronic systems	301	-
e) other	36	473
2 Acquired through finance leases	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture and fittings	-	-
d) electronic systems	-	-
e) other	-	-
Total	**746**	**974**

11.5 Assets for operational use: annual changes

(in thousands of euro)	Land	Buildings	Furniture and fittings	Electronic systems	Other	Total
A. Gross opening balances	**-**	**-**	**4,738**	**801**	**3,680**	**9,219**
A.1 Total net impairment	-	-	(4,237)	(801)	(3,207)	(8,245)
A.2 Net opening balances	**-**	**-**	**501**	**-**	**473**	**974**
B. Increases:	**-**	**-**	**69**	**524**	**-**	**593**
B.1 Acquisitions	-	-	33	140	-	173
(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	-	-	36	384	-	420
C. Decreases:	**-**	**-**	**(161)**	**(223)**	**(437)**	**(821)**
C.1 Sales	-	-	-	-	-	-
(of which for business combinations)	-	-	-	-	-	-
C.2 Depreciation	-	-	(161)	(223)	(17)	(401)
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	-	-	-	-	(420)	(420)
D. Net closing balances	**-**	**-**	**409**	**301**	**36**	**746**
D.1 Total net impairment	-	-	(2,248)	(3,687)	(2,701)	(8,636)
D.2 Gross closing balances	**-**	**-**	**2,657**	**3,988**	**2,737**	**9,382**
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 previous years following full amortisation.

Assets/Values *(in thousands of euro)*	31/12/2013		31/12/2012	
	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 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.
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 for the 2014-2018 period, as well as in reference to the book value of shareholders’ equity as at 31 December 2013 and estimates of “fully loaded” Common Equity Tier 1, as defined by Basel 3.

The “value in use” thus calculated is comfortably greater than 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.

(in thousands of euro)	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 2013, current tax assets amounted to 5,445 thousand euro, corresponding to the IRAP (regional tax) prepayments made in 2013 net of the tax due for 2013.
Current tax liabilities include 17,113 thousand euro, corresponding to the amount of the additional 8.5% IRES introduced in Legislative Decree no. 133/2013 for credit and financial companies for the 2013 tax year

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 2013, "other assets" included Parent Company receivables for IRES for 19,858 thousand euro, equivalent to the estimated 2013 IRES tax, net of prepayments, withholding and tax credit on said amount for that 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 2012, 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

(in thousands of euro)	IRES	IRAP	31/12/2013	31/12/2012
A With balancing entry in the income statement				
Loan write-downs deductible in subsequent years	1,799	87	1,886	1,478
Allocations and write-downs deductible in subsequent years	4,182	825	5,007	462
Fair value measurement of financial assets and liabilities deductible in subsequent years	105	48	153	166
Personnel costs and allocations to employee severance indemnity deductible in subsequent years	2,006	-	2,006	1,261
Amortisation of goodwill and other intangible assets	455	92	547	700
Other	123	-	123	64
Total A	**8,670**	**1,052**	**9,722**	**4,131**
B With balancing entry in shareholders' equity				
Fair value measurement of AFS financial assets	-	-	-	51
Total B	**-**	**-**	**-**	**51**
Total (A+B)	**8,670**	**1,052**	**9,722**	**4,182**

13.2 Deferred tax liabilities: breakdown

(in thousands of euro)	IRES	IRAP	31/12/2013	31/12/2012
A. With balancing entry in the income statement				
Fair value measurement of financial instruments taxable in subsequent years	378	-	378	205
Impairment on goodwill and other intangible assets	3,853	588	4,441	3,960
Other	14	-	14	71
Total A	**4,245**	**588**	**4,833**	**4,236**
B. With balancing entry in shareholders' equity				
Fair value measurement of AFS financial assets	27	115	142	21
Total B	**27**	**115**	**142**	**21**
Total (A+B)	**4,272**	**703**	**4,975**	**4,257**

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

(in thousands of euro)	31/12/2013	31/12/2012
1. Opening balance	**4,131**	**5,183**
2. Increases	**7,709**	**1,880**
2.1 Prepaid taxes recognised during the year	7,709	1,880
a) relating to previous years	510	582
b) due to changes in accounting standards	-	-
c) reversals	-	-
d) other	7,199	1,298
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
(of which for business combinations)	-	-
3. Decreases	**(2,118)**	**(2,932)**
3.1 Prepaid taxes derecognised during the year	(2,118)	(2,932)
a) reversals	(2,118)	(2,932)
b) unrecoverable write-downs	-	-
c) 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	-	-
(of which for business combinations)	-	-
4. Closing balance	**9,722**	**4,131**

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 in the financial statements.

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

(in thousands of euro)	31/12/2013	31/12/2012
1. Opening balance	**2,178**	**2,437**
2. Increases	**513**	**-**
2.1 Prepaid taxes recognised during the year	513	-
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) reversals	-	-
d) other	513	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**(258)**	**(259)**
3.1 Reversals	(258)	(259)
3.2 Transformations to tax credits	-	-
a) resulting from year-end loss	-	-
b) resulting from tax loss	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,433**	**2,178**

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

(in thousands of euro)	31/12/2013	31/12/2012
1. Opening balance	**4,236**	**3,711**
2. Increases	**882**	**660**
2.1 Deferred taxes recognised during the year	882	660
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) other	882	660
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
(of which for business combinations)	-	-
3. Decreases	**(285)**	**(135)**
3.1 Deferred taxes derecognised during the year	(285)	(135)
a) reversals	(285)	(135)
b) due to changes in accounting standards	-	-
c) changes in accounting standards	-	-
d) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
(of which for business combinations)	-	-
4. Closing balance	**4,833**	**4,236**

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

(in thousands of euro)	31/12/2013	31/12/2012
1. Opening balance	**51**	**1**
2. Increases	**-**	**50**
2.1 Prepaid taxes recognised during the year	-	50
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) other	-	50
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**(51)**	**-**
3.1 Prepaid taxes derecognised during the year	(51)	-
a) reversals	(51)	-
b) unrecoverable write-downs	-	-
c) due to changes in accounting standards	-	-
d) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
4. Closing balance	**-**	**51**

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

(in thousands of euro)	31/12/2013	31/12/2012
1. Opening balance	**21**	**-**
2. Increases	**121**	**21**
2.1 Deferred taxes recognised during the year	121	21
a) relating to previous years	-	-
b) due to changes in accounting standards	-	-
c) other	121	21
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred taxes derecognised during the year	-	-
a) reversals	-	-
b) due to changes in accounting standards	-	-
c) changes in accounting standards	-	-
d) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
4. Closing balance	**142**	**21**

13.7 Other information

During 2013, the Bank undertook a long consultation with Inland Revenue, resulting in the Lombardy Regional Administration and the Central Tax Assessment Department formulating a proposed settlement to the pre-litigation dispute at the end of 2013, which included the Bank making a payment of 89 million euro in taxes, 16.5 million euro in penalties and 16 million euro in interest, for a total of 121.5 million. Refer to the discussion under "Significant events" in the Report on Operations.

Section 15 - Other Assets – Item 150

15.1 Other assets: breakdown

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

(in thousands of euro)	31/12/2013	31/12/2012
A. Loans	**85,512**	**62,915**
Tax credits	54,533	51,706
Amounts due from Group companies for tax consolidation	19,858	-
Other income receivable	11,121	11,209
B. Other items	**27,903**	**65,076**
In progress	9,540	22,839
Securities and coupons to be settled	16,914	40,989
Other items	1,449	1,248
Total	**113,415**	**127,991**

"Tax credits" consist primarily of:

- 46,773 thousand euro for tax credits on foreign dividends for which reimbursement has been requested in the respective countries, based on conventional agreements against double taxation, of which 45,695 thousand euro are attributable to credits with Swiss tax authorities for the 2008, 2009 and 2013 tax years;
- 2,917 thousand euro in amounts due from the Parent Company, 750 thousand euro of which is the result of 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 personnel and similar costs from 2007 to 2011 for which the Parent Company will present a reimbursement claim in 2013 within the time period provided by law;
- 2,360 thousand euro for credits originating from higher prepayments made during the year for stamp duties, settled electronically.

In reference to the request to Swiss authorities for reimbursement of tax credits, note that in the final months of 2013,

the Swiss tax authority concluded its review of the inherent issues for the 2006, 2007, 2010, 2011 and 2012 tax years and granted the related reimbursements. However, the reimbursement requests for 2008 and 2009 are still being reviewed, for which the tax authority communicated once again that it had certain reservations regarding the existence of the right to reimbursement, but has not, as yet, made a final decision.
Supported by specific legal and tax opinions formulated by renowned Italian and Swiss consultants, the Bank holds that the reimbursement requests submitted are completely valid and hence the credit positions recognised in the financial statements are well founded.

“Amounts due from Group companies for tax consolidation” refer to the IRES tax credit for Banco Popolare, the only entity with tax obligations following adoption of the Tax Consolidation option.

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 2013, 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 639 thousand euro of receivables for invoices issued, 409 thousand euro of accruals for commission advances and 116 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)*	31/12/2013	31/12/2012 (*)
1. Due to central banks	**-**	**-**
2. Due to banks	**5,267,172**	**4,560,402**
2.1 Current accounts and demand deposits	3,470,090	2,074,123
2.2 Term deposits	593,086	819,481
2.3 Loans	1,185,088	1,661,914
2.3.1 Reverse repurchase agreements	1,185,088	1,661,914
2.3.2 Other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other payables	18,908	4,884
Total	**5,267,172**	**4,560,402**
Fair value - Level 1	-	-
Fair value - Level 2	5,267,172	-
Fair value - Level 3	-	-
Total fair value	**5,267,172**	**-**

(*) As at 31 December 2012, the fair value of amounts due to banks totalled 4,560,402 thousand euro. For information on calculating fair value, refer to "Part A - Notes on the main items of the balance sheet, 17 - Other information".

Item 2.2 "Term deposits" consists solely of guarantee deposits for collateral on financial instrument contracts (819,481 thousand euro as at 31 December 2012).

Item 2.3 "Loans" consists entirely of securities lending transactions guaranteed by cash.

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)*	31/12/2013	31/12/2012 (*)
1. Current accounts and demand deposits	399,576	497,612
2. Term deposits	133,840	194,773
3. Loans	159,458	75,871
3.1 Reverse repurchase agreements	159,458	75,871
3.2 Other	-	-
4. Commitments to repurchase own financial instruments	-	-
5. Other payables	26,564	23,095
Total	**719,438**	**791,351**
Fair value - Level 1	-	-
Fair value - Level 2	719,438	-
Fair value - Level 3	-	-
Total fair value	**719,438**	**-**

(*) As at 31 December 2012, the fair value of amounts due to customers totalled 791,351 thousand euro. For information on calculating fair value, refer to "Part A - Notes on the main items of the balance sheet, 17 - Other information".

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 9,093 thousand euro (39,267 thousand euro as at 31 December 2012);
- Securities lending transactions guaranteed by cash for a countervalue of 150,365 thousand euro (36,604 thousand euro as at 31 December 2012).

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)*	31/12/2013				31/12/2012			
	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	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	-	-	-	-	1,943,229	-	1,963,673	-
2. other securities	30,845	-	30,845	-	2,732	-	2,732	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	30,845	-	30,845	-	2,732	-	2,732	-
Total	**30,845**	**-**	**30,845**	**-**	**1,945,961**	**-**	**1,966,405**	**-**

During the second half of 2013, the two issues with a par value of 1 billion euro each (ISIN codes IT0004773336 and IT0004777964), entirely subscribed by the Parent Company Banco Popolare, reached maturity and, as at the maturity date, it was determined that it was not necessary for the Bank to proceed with new issues.

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 2013, financial liabilities held for trading totalled 5,119,023 thousand euro. The breakdown of the financial liabilities is illustrated in the table below.

Transaction type/Values *(in thousands of euro)*	31/12/2013					31/12/2012				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	197	421	-	-	421	2,927	3,103	-	-	3,103
2. Due to customers	3,502	8,757	-	-	8,757	5,791	16,189	-	-	16,189
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	**3,699**	**9,178**	**-**	**-**	**9,178**	**8,718**	**19,292**	**-**	**-**	**19,292**
B. Derivatives										
1. Financial derivatives	-	156,137	4,943,850	131	-	-	147,217	6,226,753	209	-
1.1 Trading	X	156,137	4,943,850	131	X	X	147,217	6,226,753	209	X
1.2 Linked to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	9,727	-	-	-	-	3,207	-	-
2.1 Trading	X	-	9,727	-	X	X	-	3,207	-	X
2.2 Linked to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**156,137**	**4,953,577**	**131**	**X**	**X**	**147,217**	**6,229,960**	**209**	**X**
Total (A+B)	**X**	**165,315**	**4,953,577**	**131**	**X**	**X**	**166,509**	**6,229,960**	**209**	**X**

FV = Fir 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

Item A.1 “Due to banks” refers to uncovered short positions on listed shares issued by Banks.

Item A.2 “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

(in thousands of euro)	31/12/2013	31/12/2012
A. Payables	**28,619**	**37,107**
Due to Group companies for tax consolidation	-	6,902
Due to Tax Authorities for amounts payable on behalf of third parties	3,749	3,807
Due to personnel	1,311	807
Payables to Social Security Authorities	367	1,447
Trade payables	23,192	24,144
B. Other items	**34,844**	**81,401**
Securities and coupons to be settled	32,477	79,943
Bank transfers for clearance	237	248
Other items	2,130	1,210
Total	**63,463**	**118,508**

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

The item “Due to tax authorities for amounts payable on behalf of third parties” mainly refers to 831 thousand euro for capital gains payable to the tax authority, withholdings on interest paid to customers for 639 thousand euro, 281 thousand euro VAT payable and IRPEF withholding tax for 1,476 thousand euro.

Amounts “Due to personnel” mainly regard payables due for leave not taken and bonus salaries.

Amounts “Due to Social Security Authorities” consist 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 2013 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 2013 which were settled in the first few days of the new year.

“Other items” consists mainly of 1,782 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 2013 was determined in accordance with IAS 19 and totals 4,150 thousand euro. The table below provides details of changes during the year compared to those of the previous year.

(in thousands of euro)	31/12/2013	31/12/2012
A. Opening balances	**3,728**	**2,917**
B. Increases	**561**	**953**
B.1 Allocations for the year	373	379
B.2 Other changes	188	574
C. Decreases	**(139)**	**(142)**
C.1 Settlements	(130)	(125)
C.2 Other changes	(9)	(17)
D. Closing balances	**4,150**	**3,728**
Total	**4,150**	**3,728**

Changes during the year

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

- interest cost of 125 thousand euro;
- actuarial losses of 248 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 Group banks.

11.2 Other information

As described in Part A – Accounting policies, following the supplementary pension reform, 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, which applies to essentially all of the Group companies.
For said companies, the provision does not include benefits that, as a result of said reform, have been paid into a supplementary social security fund or 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 assumption that form the basis of the valuation as at 31 December 2013.

Key demographic and actuarial assumptions for the employee severance indemnity valuation as at 31 December 2013	
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 broken down by age and gender
Retirement probability	Upon reaching the first pension qualifying condition, based on the provisions of Compulsory General Insurance
Annual discount rate	2.50%, equal to the Iboxx Corporate AA 7-10 Y index, consistent with 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.

Note that the actuarial assumptions underlying the employee severance fund valuation as at 31 December 2013 are consistent with those used in the previous year, with the exception of the discount rate of 2.50%, compared to 3.20% used as at 31 December 2012. The change in this financial assumption resulted in the recognition of actuarial gains of 261 thousand euro for 2013. In addition, considering the consequent effects on past experience, or the differences between previous actuarial assumptions and what actually occurred, the actuarial losses for 2013 amount to 248 thousand euro. These effects were recognised as a balancing entry to the valuation reserves, net of tax effect, and included in the statement of comprehensive income for the year.

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 - HQCB), as at the annual reporting date, and alternatively, if there is no market for such securities, with reference to market yields on government securities.
For purposes of the financial statements as at 31 December 2013, it was decided to calculate the discount rate in reference to returns of companies with an “AA” rating, as the best expression of yields for high quality companies. Specifically, the Iboxx Corporate AA index was used, from the info provider Markit, with a reference time horizon (7-10 years) consistent with the average duration of defined benefit plans (the value as at 31 December 2013 was 2.5%).
The “AA” rating class was used, as opposed to the “A” class for the 2012 financial statements, as a result of certain clarifications provided by the IFRS Interpretations Committee during the second half of 2013, based on which “high quality” must be understood in an absolute sense and therefore not subject to changes from one year to the next in order to account for the numerous HQCB companies. The IFRS Interpretations Committee noted that the extent of the market of HQCB companies must be evaluated by including bonds issued by companies in other countries, provided that they are denominated in the same currency as that used to pay the benefits to dependents (or the Eurozone for Banco Popolare Group). Prior to these clarifications, the reference to the “A” rating for the 2012 financial statements was primarily justified in the “downgrading” of several issuers, which was believed to have resulted in “AA” rated companies being poorly represented, including in relation to the specific geographical area in which the Group operates, highly concentrated in Italy.
Having made said clarification, it should be emphasised that the 2013 actuarial losses, attributable to the decrease in the discount rate, derive, to a small degree, from the change in the rating class and are mainly explained by the change in time horizon of the rate (7-10 years) compared to the previous year, due to personnel actions taken by the Group that reduced the average duration of the plans, which as at 31 December 2013 was 9 years.
With the same rating used as at 31 December 2012, or “A”, the discount rate would have been 2.77% (against the 2.5% actually used). As further confirmation, with equivalent ratings and rate time horizon, or 10+ years, the discount rate would have been 3.39%, compared to the 3.17% for the “AA” rating with equivalent time horizon.

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%	-188,658	-4.55%
discount rate -0.5%	202,957	4.89%
inflation rate +0.5%	133,533	3.22%
inflation rate -0.5%	-128,035	-3.09%
turnover rate +1%	-16,510	-0.40%
Service Cost for the following year and Duration of the plan		
2013 Service Cost (in euro)		Duration of plan (in years)
0.00		10.1

Section 12 - Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts *(in thousands of euro)*	**31/12/2013**	**31/12/2012 (*)**
1. Company pension funds	**-**	**-**
2. Other provisions for risks and charges	**129,078**	**45,946**
2.1 Legal disputes	392	-
2.2 Personnel costs	7,213	4,584
2.3 Other	121,473	41,362
Total	**129,078**	**45,946**

(*) As thoroughly described in Part A - Accounting policies, section 4 "Other aspects", the comparison data for the previous year was recalculated for the reclassification of 40 million euro from liability item 80 "Tax liabilities - a) current" to liability item 120 "Provisions for risks and charges - b) other provisions".

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 5,057 thousand euro, loyalty bonuses amounting to 105 thousand euro, the supplementary company agreement for 100 thousand euro and solidarity funds for 1,918 thousand euro. The amount of the liability for the S.I.PRE. (Supplementary Benefits Plan), reserved for certain employees, amounts to 26 thousand euro.

Sub-item 2.3 "Other" includes 121,474 thousand euro for the total allocation against the liability resulting from the Bank's acceptance of the pre-litigation settlement proposal developed by Inland Revenue, which was thoroughly discussed in "Significant events" in the Report on operations.

12.2 Provisions for risks and charges: annual changes

(in thousands of euro)	Pension funds	Other funds	Total
A. Opening balances	**-**	**45,946**	**45,946**
B. Increases	**-**	**87,447**	**87,447**
B.1 Allocations for the year	-	87,237	87,237
B.2 Time-related changes	-	-	-
B.3 Changes due to discount rate variations	-	-	-
B.4 Other changes	-	210	210
C. Decreases	**-**	**(4,315)**	**(4,315)**
C.1 Utilisation during the year	-	(2,961)	(2,961)
C.2 Changes due to discount rate variations	-	(3)	(3)
C.3 Other changes	-	(1,351)	(1,351)
D. Closing balances	**-**	**129,078**	**129,078**

Sub-items B.1 and B.2 form the total impact on the income statement of changes in provisions for risks and charges in 2013. The amount mainly consists of 81,474 thousand euro for the allocation made in 2013 following the Bank's acceptance of the pre-litigation settlement proposal developed by Inland Revenue and 5,751 thousand euro for provisions for personnel costs recognised to item 150 a) "Personnel costs" of the income statement.

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 232 thousand euro and 2,729 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 397 thousand euro and 747 thousand euro for charges on transactions carried out with customers.

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 for employees that it hires and enrols in the funds, with annual payment of 3.25% of the gross remuneration paid.
The amount paid in 2013 totalled 778 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

For information on "Provisions for risks and charges - other provisions", refer to the comments in section 12.1 "Provisions for risks and charges: breakdown" above.

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)*	31/12/2013	31/12/2012
1. Share Capital	121,164	121,164
2. Share premium reserve	72,590	72,590
3. Reserves	512,326	398,967
4. (Own shares)	-	-
5. Valuation reserves	1,632	(704)
6. Equity instruments	-	-
7. Profit (Loss) for the year	47,102	113,359
Total	**754,814**	**705,376**

As at 31 December 2013, 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 2013 was as follows:

- Legal reserve: 24,233 thousand euro;
- Other reserves: 488,093 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	488,093	A, B, C	488,093	-	-
Other reserves:					
Valuation reserves	1,632	(3)	-	-	-
Comprehensive total	**707,712**		**560,683**	-	-
Non distributable share	-		-	-	-
Distributable residual share	**707,712**		**560,683**	-	-

(*) 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 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)
(3) reserve with non-distribution restrictions pursuant to art. 6, Italian Legislative Decree no. 38/05

Note that the amount of the equity reserves and the profits carried forward cannot be lower 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 2,631 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)*	31/12/2013	31/12/2012
1) Financial guarantees granted	**565**	**595**
a) Banks	565	595
b) Customers	-	-
2) Commercial guarantees granted	-	-
a) Banks	-	-
b) Customers	-	-
3) Irrevocable commitments to disburse funds	**277,129**	**276,911**
a) Banks	165,744	113,585
i) certain use	165,744	113,585
ii) uncertain use	-	-
b) Customers	111,385	163,326
i) certain use	111,385	163,326
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	**187,506**	**191,356**
Total	**465,200**	**468,862**

The guarantees granted comprise the amount committed to the Interbank Fund for Protection and Deposits for 565 thousand euro.

Irrevocable commitments to disburse funds for certain use refer to the acquisition of securities not yet settled.

The item “Other commitments” includes:
- the Bank’s commitment to the Underwriting Syndicate in which it participates for the share capital increase of MPS SpA to be carried out in 2014, amounting to 40 million euro;
- put options sold by the Bank on guaranteed-return capital for 25,147 thousand euro;
- put options sold on regulated markets involving the physical exchange of underlying assets for 122,359 thousand euro.

2. Assets pledged on own liabilities and commitments

Portfolios *(in thousands of euro)*	31/12/2013	31/12/2012
1. Financial assets held for trading	27,878	4,796
2. Fair value financial assets	-	-
3. Available-for-sale financial assets	-	-
4. Financial assets held to maturity	-	-
5. Due from banks	203,845	312,810
6. Due from customers	44,080	30,920
7. Property, plant and equipment	-	-
Total	**275,803**	**348,526**

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 2013, there were no securities sold to guarantee securities lent by the Bank.

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

4. Management and intermediation on behalf of third parties

	31/12/2013
1. Execution of customer orders	
a) acquisitions	12,093,466
1. regulated	11,973,495
2. unregulated	119,971
b) sales	10,984,810
1. regulated	10,801,948
2. unregulated	182,862
2. Portfolio management	
a) individual	13,010,043
b) collective	-
3. Securities custody and administration	
a) securities deposited by third parties: relating to custodian bank activities (excluding portfolio management)	-
1. securities issued by the bank preparing the financial statements	-
2. other securities	-
b) securities deposited by third parties (excluding portfolio management): other	49,271,014
1. securities issued by the bank preparing the financial statements	45,344
2. other securities	49,225,670
c) third-party securities deposited with third parties	49,118,982
d) own securities deposited with third parties	4,333,764
4. Other transactions	-

The balance for Asset Management includes 25,768 thousand euro in secured asset management.

5. Financial assets subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

Types *(in thousands of euro)*	Gross amount of financial assets	Amount of financial liabilities offset in financial statements	Net amount of financial assets presented in financial statements	Related amounts not subject to offsetting in financial statements		Net amount 31/12/2013	Net amount 31/12/2012
				Financial instruments	Cash deposits received as guarantees		
	(a)	(b)	(c=a-b)	(d)	(e)	(f=c-d-e)	
1. Derivatives	3,049,355	-	3,049,355	2,260,664	719,527	69,164	44,908
2. Repurchase agreements	4,316	-	4,316	4,316	-	-	-
3. Securities lending	1,644,403	-	1,644,403	1,553,760	-	90,643	112,064
4. Other	-	-	-	-	-	-	
Total 31/12/2013	**4,698,074**	**-**	**4,698,074**	**3,818,740**	**719,527**	**159,807**	**X**
Total 31/12/2012	**5,592,136**		**5,592,136**	**4,401,851**	**1,033,312**	**X**	**156,973**

6. Financial liabilities subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

Types *(in thousands of euro)*	Gross amount of financial liabilities	Amount of financial assets offset in financial statements	Net amount of financial liabilities presented in financial statements	Related amounts not subject to offsetting in financial statements		Net amount 31/12/2013	Net amount 31/12/2012
				Financial instruments	Cash deposits given as guarantees		
	(a)	(b)	(c=a-b)	(d)	(e)	(f=c-d-e)	
1. Derivatives	2,525,633	-	2,525,633	2,260,676	240,657	24,300	35,625
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	1,333,309	-	1,333,309	1,261,217	-	72,092	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2013	**3,858,942**	**-**	**3,858,942**	**3,521,893**	**240,657**	**96,392**	**X**
Total 31/12/2012	**1,253,312**	**-**	**1,253,312**	**881,383**	**336,305**	**X**	**35,624**

7. 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 2013.

Securities borrowed from *(in thousands of euro)*	Security type (par value as at 31/12/2013)		
	Government securities	Bank securities	Other securities
a) Banks	-	4,227	106,586
b) Financial intermediaries	1,284,841	42,476	236,832

Securities guaranteed by cash lent to *(in thousands of euro)*	Security type (par value as at 31/12/2013)		
	Government securities	Bank securities	Other securities
a) Banks	936,463	8,659	9,354
b) Financial intermediaries	-	32,665	93,874

Securities guaranteed by other securities lent to *(in thousands of euro)*	Security type (par value as at 31/12/2013)		
	Government securities	Bank securities	Other securities
a) Banks	175,380	2,000	790
b) Financial intermediaries	42,961	-	85,366

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	2013	2012
1. Financial assets held for trading	73,935	-	-	73,935	61,713
2. Available-for-sale financial assets	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-
4. Due from banks	101,664	37,020	-	138,684	104,096
5. Due from customers	-	18,137	-	18,137	7,111
6. Fair value financial assets	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	-	-	-
Total	**175,599**	**55,157**	**-**	**230,756**	**172,920**

There was no accrued interest on non performing assets during the year.

1.3.1 Interest income on financial assets in foreign currency

Interest income on financial assets in foreign currency totalled 1,386 thousand euro (673 thousand euro as at 31 December 2012) 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	2013	2012
1. Due to central banks	-	X	-	-	-
2. Due to banks	5,790	X	-	5,790	9,810
3. Due to customers	54,323	X	-	54,323	28,022
4. Securities in issue	X	57,153	-	57,153	66,792
5. Financial liabilities held for trading	7	-	-	7	6
6. Fair value financial liabilities	-	-	-	-	-
7. Other liabilities and provisions	X	X	1	1	-
8. Hedging derivatives	X	X	-	-	-
Total	**60,120**	**57,153**	**1**	**117,274**	**104,630**

1.6.1 Interest expense on liabilities in foreign currency

Interest expense on financial liabilities in foreign currency totalled 263 thousand euro (594 thousand euro as at 31 December 2012) 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)*	2013	2012
a) Guarantees granted	**-**	**-**
b) Credit derivatives	**-**	**-**
c) Management, intermediation and advisory services:	**89,151**	**171,369**
1. financial instrument trading	7,200	6,030
2. foreign currency trading	96	119
3. portfolio management	32,765	36,074
3.1 individual	32,765	36,074
3.2 collective	-	-
4. securities custody and administration	115	995
5. custodian bank	-	-
6. securities placement	43,686	120,887
7. order receipt and transmission	1,750	1,877
8. advisory services	1,444	1,288
8.1 on investments	1,444	1,288
8.2 on financial structuring	-	-
9. third party service distribution	2,095	4,099
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	1,707	2,904
9.3 other products	388	1,195
d) Collection and payment services	**39**	**65**
e) Securitisation servicing	**-**	**-**
f) Factoring services	**-**	**-**
g) Tax authority/agency collection services	**-**	**-**
h) Multilateral trading system operations	**-**	**-**
i) Current account record-keeping and management	**183**	**93**
j) Other services	**4,016**	**6,754**
Total	**93,389**	**178,281**

Item c) 6. “Securities placement” consists primarily of:

- commission income for debt security placement of 26,366 thousand euro;
- commission income for placement of funds and other financial products of 15,471 thousand euro;
- commission income for takeover bids/share capital increases of 634 thousand euro;
- commission income for certificates placement of 1,078 thousand euro.

Item j) “Other services” mainly includes commissions for “insurance product arrangements” for 2,773 thousand euro, support services for low-liquidity securities for 262 thousand euro and 759 thousand euro for securities lending transactions guaranteed by securities.

2.2 Commission income: product and service distribution channels

Channels/Values *(in thousands of euro)*	2013	2012
a) at own branches:	**78,546**	**161,060**
1. portfolio management	32,765	36,074
2. securities placement	43,686	120,887
3. third party products and services	2,095	4,099
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)*	2013	2012
a) Guarantees received	2	4
b) Credit derivatives	-	-
c) Management and intermediation services:	81,002	154,909
1. financial instrument trading	2,445	2,439
2. foreign currency trading	-	-
3. portfolio management	-	-
3.1 own assets	-	-
3.2 third party assets	-	-
4. securities custody and administration	2,450	3,318
5. financial instrument placement	66,119	138,760
6. off-premises sale of financial instruments, products and services	9,988	10,392
d) Collection and payment services	17	18
e) Other services	1,220	1,085
Total	82,241	156,016

"Commission expense" mainly refers to commissions paid to Banco Popolare Group banks for AUM as well as 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)*	2013		2012	
	Dividends	Income from UCI units	Dividends	Income from UCI units
A. Financial assets held for trading	24,271	173	18,360	56
B. Available-for-sale financial assets	120	-	-	-
C. Fair value financial assets	-	-	-	-
D. Equity investments	-	X	-	X
Total	24,391	173	18,360	56

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 (A)	Trading gains (B)	Capital losses (C)	Trading losses (D)	Net result (A+B)-(C+D)
1. Financial assets held for trading	**38,117**	**74,984**	**(15,970)**	**(19,576)**	**77,555**
1.1 Debt securities	20,227	47,755	(15,009)	(14,276)	38,697
1.2 Equity instruments	17,563	26,982	(931)	(5,235)	38,379
1.3 UCI units	327	247	(30)	(65)	479
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**136**	**1,364**	**(192)**	**(862)**	**446**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	136	1,364	(192)	(862)	446
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**(9,861)**
4. Derivatives	**3,134,973**	**4,489,275**	**(3,615,544)**	**(3,921,680)**	**84,986**
4.1 Financial derivatives:	3,132,414	4,481,896	(3,606,307)	(3,914,095)	91,870
- on debt securities and interest rates	2,754,106	3,929,903	(2,923,903)	(3,582,184)	177,922
- on equity instruments and share indices	378,151	551,808	(682,221)	(331,752)	(84,014)
- on currencies and gold	X	X	X	X	(2,038)
- other	157	185	(183)	(159)	-
4.2 Credit derivatives	2,559	7,379	(9,237)	(7,585)	(6,884)
Total	**3,173,226**	**4,565,623**	**(3,631,706)**	**(3,942,118)**	**153,126**

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

6.1 Gains (Losses) from disposals/repurchases: breakdown

Items/Income components *(in thousands of euro)*	2013			2012		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	1,883	-	1,883	-	-	-
3. Available-for-sale financial assets	898	(928)	(30)	33	(2)	31
3.1 Debt securities	-	-	-	-	-	-
3.2 Equity instruments	898	(928)	(30)	33	(2)	31
3.3 UCI units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity			-	-	-	-
Total assets	**2,781**	**(928)**	**1,853**	**33**	**(2)**	**31**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

The amount in item 2 “Due from customers” refers to the realised gains from the following sales to the British company IlliquidX LLP:

- receivable with Lehman Brothers SA, registered office in Zurich, for 1,660 thousand euro;
- receivable with Lehman Brothers Special Financing Inc., registered office in New York, for 222 thousand euro;

Item 3 “Equity instruments” shows the financial results from the sale of ordinary shares of Unipol Gruppo Finanziario S.p.A in January 2013, as described in Part B of the Notes to the Financial Statements, Section 4 – Available-for-sale assets related to the securities. Note that the cancellation of the negative valuation reserve on the aforementioned security for 924 thousand euro was recognised in this item as at 31 December 2012. This item also includes losses for 4 thousand euro recognised on the sale of the RCS security, as described in Part B of the Notes to the Financial Statements, Section 4 – Available-for-sale assets.

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	1,293	96	(92)	-	1,297
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	2	-	-	-	2
1.3 UCI units	1,291	96	(92)	-	1,295
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Assets and liabilities in foreign currencies: exchange differences	X	X	X	X	-
4. Credit and financial derivatives	-	-	-	-	-
Total	1,293	96	(92)	-	1,297

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				2013	2012
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Due from banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers	-	-	(4)	-	-	-	-	(4)	4
Non performing loans acquired	-	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other receivables	-	-	(4)	-	-	-	-	(4)	4
- Loans	-	-	(4)	-	-	-	-	(4)	4
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	-	-	(4)	-	-	-	-	(4)	4

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				2013	2012
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Guarantees granted	(28)	(55)	-	-	-	-	-	(83)	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	(1,937)	-	-	-	320	-	-	(1,617)	(22)
E. Total	(1,965)	(55)	-	-	320	-	-	(1,700)	(22)

A = due to interest
B = other reversals

The item “Specific write-downs on other transactions” chiefly includes the write-downs on the following positions with the Lehman Brothers Group, as described in Part B of the Notes to the Financial Statements, Section 7 - Due from customers:

- Lehman Brothers International (Europe), registered office in London, for 931 thousand euro;
- Lehman Brothers Special Financing Inc., registered office in New York, for 932 thousand euro.

The item “Guarantees granted”, equivalent to 83 thousand euro, represents the guarantee granted to a consortium in extraordinary administration by Banca Aletti and resolved by Interbank Deposit Guarantee Fund on 28 October 2013. The portion of the charge that is deemed certain was recognised in “Specific write-downs - Derecognitions” for 28 thousand euro, while the estimated portion, equivalent to 55 thousand euro, was included in “Specific write-downs - Other”.

Section 9 - Administrative expense – Item 150

9.1 Personnel costs: breakdown

Type of service/Values *(in thousands of euro)*	2013	2012
1) Employees	**46,120**	**42,667**
a) wages and salaries	32,553	31,593
b) social security costs	8,366	7,951
c) employee severance indemnity	1,458	1,420
d) welfare costs	-	-
e) provisions for employee severance indemnity	125	137
f) provisions for pension funds and similar commitments:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary benefit plans:	778	760
- defined contribution plans	778	760
- defined benefit plans	-	-
h) costs deriving from share-based payments	-	-
i) other employee benefits	2,840	806
2) Other personnel in service	**337**	**1,165**
3) Directors and Auditors	**773**	**779**
4) Staff laid off	**-**	**-**
5) Cost recoveries for employees seconded to other companies	**(2,152)**	**(2,985)**
6) Reimbursements for employees seconded to the company	**2,363**	**3,010**
Total	**47,441**	**44,636**

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.

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

	2013	2012
Employees	**443**	**438**
a) Executives	24	23
b) Management	300	296
- grades 3 and 4	198	196
c) Other employees	119	119
Other personnel	**6**	**18**
Total (average)	**448**	**456**

9.4 Other employee benefits

The amount shown in Table 9.1 for point i) "other employee benefits", equivalent to 2,840 thousand euro, refers principally to charges for solidarity funds, canteen contributions, costs for insurance policies stipulated for employees and costs for professional refresher courses.

9.5 Other administrative expense: breakdown

Type of service/Values *(in thousands of euro)*		2013	2012
a)	real estate expense	2,605	3,222
	- property rents and maintenance	1,862	2,447
	- cleaning costs	-	-
	- electricity, water and heating	743	775
b)	indirect taxes and duties	6,632	3,042
c)	postal, telephone, printing and other office costs	735	698
d)	furniture, machine and system maintenance and repayments	181	164
e)	professional and advisory services	1,392	2,376
f)	costs for searches and information	34	177
g)	surveillance and security transport	88	100
h)	third party provision of services	40,173	41,264
i)	advertising, entertainment and gift costs	1,799	1,777
l)	insurance premiums	208	242
m)	transport, vehicle rental and travel expenses	628	671
n)	other costs and expense	4,267	1,339
Total		**58,742**	**55,072**

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. a r.l. 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: optimisation of effectiveness, 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	2013	2012 (*)
1. Retirement fund provisions	-	X	-	-
2. Provisions for other risks and charges:	(81,486)	750	(80,736)	(39,909)
a) Legal disputes	(12)	25	13	(13)
b) Personnel costs	-	-	-	132
c) Other	(81,474)	725	(80,749)	(40,028)
Total	**(81,486)**	**750**	**(80,736)**	**(39,909)**

(*) As thoroughly described in Part A - Accounting policies, section 5 "Other aspects", the comparison data for the previous year was recalculated for the reclassification of 40 million euro from income statement item 260 "Income taxes on current operations" to income statement item 160 "Provisions for risks and charges - c) other provisions".

The item "Provisions for other risks and charges - c) Other" includes 81,474 thousand euro for the allocation made in 2013 for the liability resulting from the Bank's acceptance of the pre-litigation settlement proposal developed by Inland Revenue, which was thoroughly discussed in "Significant events" in the Report on operations.

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	(401)	-	-	(401)
- for operational use	(401)	-	-	(401)
- as investments	-	-	-	-
A.2 acquired through finance leases	-	-	-	-
- for operational use	-	-	-	-
- as investments	-	-	-	-
Total	**(401)**	**-**	**-**	**(401)**

Section 13 - Other operating income and expense – Item 190

13.1 Other operating expense: breakdown

Type/Values *(in thousands of euro)*	2013	2012
a) Depreciation of improvements to third party assets	176	216
b) Other operating expenses	627	63
Total	**803**	**279**

13.2 Other operating income: breakdown

Type/Values *(in thousands of euro)*	2013	2012
a) Tax recoveries	5,809	2,853
b) Cost recoveries	227	229
c) Services provided to Group companies	5,942	7,289
d) Other operating income	844	152
Total	**12,822**	**10,523**

Item c) “Services provided to Group companies” refers to income from providing 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)*	2013	2012
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 to the impairment recognised in the previous year on the equity investment in Aletti Fiduciaria S.p.A. In 2013, according to impairment tests conducted, it was not necessary to recognise further impairments on the Bank’s equity investments.

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 of assets in Part B – Balance sheet data, no write-down was necessary and therefore no entry was made as at 31 December 2013.

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

During 2013, Gains on investment disposals were recognised for a total of 1 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)*		2013	2012 (*)
1. Current taxes (-)		(85,989)	(73,819)
2. Change in current taxes for previous years (+/-)		(368)	1,586
3. Reduction in current taxes for this year (+)		-	-
3.bis Reduction in current taxes for tax credits as per Law no. 214/2011 (+)		-	-
4. Change in prepaid taxes (+/-)		5,591	(1,052)
5. Change in deferred taxes (+/-)		(597)	(525)
6. Income tax for the year (-)	(-1 +/- 2 + 3 + 3 bis/- 4 +/- 5)	(81,363)	(73,810)

(*) As thoroughly described in Part A - Accounting policies, section 4 “Other aspects”, the comparison data for the previous year was recalculated for the reclassification of 40 million euro from income statement item 260 “Income taxes on current operations” to income statement item 160 “Provisions for risks and charges - c) other provisions”.

Current income taxes include the new taxes resulting from the 2014 Stability Law (Law no. 147/2013) and Legislative Decree no. 133/2013.
In particular:

- the new accounting treatment for net write-downs on amounts due from customers (deduction in fifths), applicable beginning in 2013 including for IRAP purposes, which resulted in a positive impact in terms of lower IRAP taxes equivalent to 108 thousand euro. This change had no impact on the income statement for IRES taxes, only a different breakdown between current and deferred taxes;
- the additional 8.5% IRES tax on credit and financial institutions for 2013 only, to be calculated on the taxable IRES amount, adjusted to exclude the four-fifths increase for net write-downs on amounts due from customers, which had a negative impact of 17.1 million euro.

18.2 Reconciliation between theoretical and actual balance sheet tax charges

IRES *(in thousands of euro)*		2013	2012
Profit/(loss) on current operations before tax	(I)	128,465	187,170
Negative income statement items not fully significant (+):	(II)	73,358	46,419
› non-deductible interest expense		4,667	3,947
› capital losses from realisation/valuation of investments		-	821
› litigation allocations		66,658	40,000
› other (telephone costs, entertainment costs, transport costs, sundry costs, non-deductible contingency liabilities, etc.)		2,033	1,651
Positive income statement items not fully significant (-):	(III)	(114)	-
› non-relevant portion of dividends		(114)	-
Increases in taxable amounts not linked to income statement items (+):	(IV)	68	68
› other (primarily tax effect on Italian UCIs)		68	68
Decreases in taxable amounts not linked to income statement items (-):	(V)	(11,862)	(9,682)
› IRAP deductions		(3,738)	(4,959)
› portion of income facilitated by A.C.E. (Economic Growth Assistance)		(8,067)	(4,666)
› other		(57)	(57)
IRES calculation base in income statement	(I)+(II)+(III)+(IV)+(V)	189,915	223,975
IRES tax rate		27.50%	27.50%
Total IRES	**(A)**	**52,227**	**61,593**
Actual tax rate		**40.65%**	**32.91%**

IRAP *(in thousands of euro)*		2013	2012
Profit/(loss) on current operations before tax	(I)	128,465	187,170
Negative income statement items not fully significant (+):	(II)	110,054	81,234
› non-deductible interest expense		4,691	4,185
› non-deductible portion of depreciation of operating assets		40	53
› non-deductible portion of residual administrative costs		5,874	5,507
› personnel costs net of permitted deductions (wedge reductions, invalidity, introductory contracts, etc.)		33,390	30,630
› net provisions for risks and charges		65,920	40,000
› losses on investments		-	821
› other		139	38
Positive income statement items not fully significant (-):	(III)	(15,737)	(10,143)
› non-relevant portion of dividends		(12,195)	(9,180)
› other operating income		(3,305)	(872)
› other		(237)	(91)
Increases in taxable amounts not linked to income statement items (+):	(IV)	-	-
› other		-	-
Fully significant decreases in taxable amounts not linked to elements of the gross result (-):	(V)	(3,156)	-
› net write-downs on loans from previous years relevant as a result of sale of loans		(3,156)	-
IRAP calculation base in income statement	(I)+(II)+(III)+(IV)+(V)	219,626	258,261
IRAP tax rate		5.57%	5.57%
Total IRAP	**(B)**	**12,233**	**14,385**
Actual tax rate		**9.52%**	**7.69%**

Non-current IRES and IRAP and other taxes		2013	2012
IRES - Current, prepaid and deferred taxes from previous years		(75)	-
IRAP - Current, prepaid and deferred taxes from previous years		(67)	-
IRES - Additional 8.5% (Law no. 147/2013)		17,113	
Effect of IRES reimbursement petition for IRAP deductibility on the cost for employees (2007-2011)			(2,168)
Other		(68)	
Total	**(C)**	**16,903**	**(2,168)**
Total taxes on profit/(loss) from current operations before tax	**(A)+(B)+(C)**	**81,363**	**73,810**
Tax rate on profit/(loss) on current operations	**((A)+(B)+(C))/(I)**	**63.33%**	**39.43%**

Section 21 - Earnings per share

Earnings per Share	**2013**	**2012**
Profit for the year (in euro)	47,102,341	113,359,309
Weighted average of shares in issue	23,481,306	23,481,306
Basic EPS for the year	**2.01**	**4.83**

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 *(in thousands of euro)*	Before tax	Income tax	After tax
10. Profit (Loss) for the year	**X**	**X**	**47,102**
Other income items without reversal in the income statement	**(248)**	**89**	**(159)**
20. Property, plant and equipment	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	(248)	89	(159)
50. Discontinued operations	-	-	-
60. Portion of valuation reserves relating to investments measured at equity	-	-	-
Other income items with reversal in the income statement	**2,666**	**(172)**	**2,494**
70. Foreign investment hedges:	**-**	**-**	**-**
a) changes in fair value	-	-	-
b) reversal to the income statement	-	-	-
c) other changes	-	-	-
80. Exchange differences:	**-**	**-**	**-**
a) changes in value	-	-	-
b) reversal to the income statement	-	-	-
c) other changes	-	-	-
90. Cash flow hedges:	**-**	**-**	**-**
a) changes in fair value	-	-	-
b) reversal to the income statement	-	-	-
c) other changes	-	-	-
100. Available-for-sale financial assets	**2,666**	**(172)**	**2,494**
a) changes in fair value	1,742	(121)	1,621
b) reversal to the income statement	924	(51)	873
- write-downs for impairment	-	-	-
- realised gains/losses	924	(51)	873
c) other changes	-	-	-
110. Discontinued operations:	**-**	**-**	**-**
a) changes in fair value	-	-	-
b) reversal to the income statement	-	-	-
c) other changes	-	-	-
120. Portion of valuation reserves relating to investments measured at equity	**-**	**-**	**-**
a) changes in fair value	-	-	-
b) reversal to the income statement	-	-	-
- write-downs for impairment	-	-	-
- realised gains/losses	-	-	-
c) other changes	-	-	-
130. Total other income items	**2,418**	**(83)**	**2,335**
140. Comprehensive income (Items 10+130)			**49,437**

Item 40 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 valuation reserve.

The change in fair value before tax presented in item 100 a) is entirely attributable to the SIA-SSB S.p.A security following the appreciation recognised during 2013.

The reversal to the income statement shown on item 100 b) refers to the cancellation of the negative reserve for the Unipol GF S.p.A. security following the sale in the January 2014. For more information, refer to the discussion in Part B – Section 4 – “Available-for-sale financial assets”.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

This document contains information regarding Banco Popolare Group and relative to its capital adequacy, risk exposure and the general characteristics of the system designed to identify, measure, and manage these risks (so-called "Pillar III"), in accordance with the provisions of Bank of Italy Circular no. 263 of 27 December 2006 and subsequent amendments. The document 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.

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 but plausible 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.
As part of adequately pursuing these objectives, aimed generally at prudent management, the risk governance process is based on specific organisational supervision (regulatory, systems, processes, resources, etc.), the availability of an adequate capital coverage, a complex system of business values and incentives (e.g., risk-based incentive systems), as well as a pre-determined organisational model that contains risk exposure or minimises its impacts. Specifically, the Group has provided specific training courses and training paths dedicated to communicating and promoting a solid and robust risk culture within the Bank. It is worth noting, in particular, certain initiatives aimed at all Group personnel, carried out through specific training courses (both in the classroom and online) regarding, for example, operational risk (within the broader framework of AMA validation), compliance, security, the Bank's administrative liability, MiFID regulations, anti-money laundering, CAI regulations (interbank database on cheques and payment cards) and workplace health and safety.
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 (Variance at Risk) and represent the maximum level of potential losses that may be incurred consistent with the risk-return profile established by the Group. The responsibility for compliance with each limit is assigned to specific corporate departments/bodies, which manage the operating leverage and determine changes in the risks.
The system of limits is comprised as follows:

- an overall risk limit, measured in reference to all the relevant risks to which the Group is exposed;
- limits for each type of risk (credit, counterparty, market, operational, interest rate on the banking book and liquidity);
- maximum loss limits for market risk;
- prudential limits for risk assets with related parties.

The specific limits defined for each risk type are also broken down into sub-limits that refer, depending on the case, to individual legal entities, to portfolios (retail and corporate), to positions in debt securities (FV, AFS, HTM, L&R), to transactions groups (OTC financial and credit derivatives) and to operating areas (human resources, practices, systems and procedures, as well as external factors). This breakdown responds to the need to allow better monitoring and more efficient risk management by the responsible parties. As such, the limits are considered a management lever.
For liquidity risks, the exposure limits are defined using the "maturity ladder" tool, where future liquidity flows generated by maturities for financial intermediation transactions are placed within the corresponding time bands. The algebraic sum of the expected liquidity inflows and outflows is used to determine the forecast for net financial requirements. Liquidity risk limits are developed to verify the capacity of the available liquidity reserves to ensure coverage of net liquidity requirements. There are also maximum limits for funding concentration by counterparty and wholesale.

The limit system (overall and analytic) is also supported by detailed operating limits, specific to risk type, that envisage the use of statistical as well as traditional indicators (e.g., sensitivity limits and stop loss). These indicators are defined in reference to organisational units (e.g., the Investment Bank's desks that manage market risks) or specific operating areas (e.g. limits for financial risks of foreign banks), as well as well identified risk components (e.g., concentration risk of exposure to credit risk).
The process of defining the overall limit system envisages continual verification and modification/recalibration on an annual basis, corresponding to revisions of the strategic plan and/or development of the new budget, as well as for events that could substantially modify the risk exposure and/or the available capital.
Additionally, in reference to the provisions of Title V, Chapter V of Circular 263/2006 "New Regulations for Prudential Supervision of Banks", the Group initiated a system of risk propensity limits in December 2012 with regard to risk exposure to related parties (Bank officers, subsidiaries or companies subject to significant influence, and relevant associated 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.

In September 2013, an internal project was launched to implement the recent provisions introduced by Bank of Italy in its 15th update to Circular 263/2006 (July 2013) on Internal Control Systems.
This project was carried out by a cross-functional team that included the Risk Management Department, set up within the Parent Company and coordinated by the Operations Department and Organisations Department. Specifically, as part of the upcoming internal definition or restructuring, the Risk Management Department was requested to reflect on and evaluate the key changes introduced in the provisions of the Risk Appetite Framework (RAF) and the related measures (Risk Capacity, Risk Appetite, Risk Tolerance, Risk Profile, Risk Limits). It also participated in preparing the self-assessment report on the business's situation with respect to the new regulatory provisions (gap analysis), the analyses conducted on technology risks, on criteria to define significant transactions (OMR) and the process to evaluate loan performance monitoring.
The entire risk management and control process is coordinated by Banco Popolare in its twin capacity as Parent Company and entity into which the entire Group's joint and common interest departments are merged.
The 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 the 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 and other Group companies, 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.
The Risk Management Department is also responsible for ensuring the continuous development and improvement of risk measurement methodologies, models and metrics, including through projects to design and implement advanced models, aligning to the standards that are periodically confirmed at an international level, implementing supervisory regulations and directives and developing increasingly effective oversight.

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

Stress tests

For several years, the Group has used a comprehensive stress testing system, a collection of quantitative and qualitative techniques through which the Bank evaluates its vulnerability to exceptional but plausible events.
The stress tests are designed to assess the effects of specific events on the Bank's risks (sensitivity analyses) or in combined movements of a group of economic-financial variables in adverse scenarios (scenario analyses), with reference to the individual risks (specific stress tests) or in an integrated manner on several risks (combined stress tests).
These analyses identify the risk factors that are the most important elements in negative results and, as a result, allow the Bank to establish strategies for limiting losses should said scenarios occur.
The Group uses these instruments to support other risk management and measurement techniques, in order to:

- provide a forward-looking view of risks and the related economic and financial impacts;
- improve the limits derived from risk management models based on historical data (e.g., the HvaR model with indications of the last 250 observations);
- provide input data for the capital and liquidity planning processes, including for the definition of the capital reserve quota (difference between the regulatory capital and the overall measure of economic capital) suitable for covering negative impacts from the application of stress tests;
- provide indications on the risk tolerance levels of a bank;
- assess the development of risk mitigation and recovery plans associated with certain stress situations;

The stress test methodologies described above are applied as part of the Group's ICAAP process in order to obtain a more complete and careful evaluation of capital adequacy, both current and in the future.
The establishment of a capital reserve within the Group's equity, which ensures not only current and future risk coverage but also guarantees a capital reserve that is not aimed at the assumption of risks, is an essential component for carrying out the function of coverage of the risk model and of the impacts of the stress tests, to support management and the Group's operating strategies, as well as, in particular, to allow management continuity over the long term.

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, etc. Banco Popolare, which is particularly attentive to 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 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 responsible attorney.
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.
For loan portfolios that are not part of the scope of the first A-IRB validation, including those of Banca Aletti and the companies of the former Banca Italease Group, the standard regulatory approach applies, for prudential purposes.
During 2013, Banco Popolare made refinements required by the Supervisory Authority as part of the validation of internal models for credit and market risk (so-called Action Plan).
A plan to develop internal rating models for segments and companies not included in the validation scope was also envisaged and presented to the Supervisory Authority. Specifically, the exposures included in the gradual Roll Out Plan are:

- PD and LGD models: for Banca Aletti, the PD model (“initial acceptance” and monitoring) and the LGD model are expected to be released in 2014, while for companies of the former Italease Group, the PD model (“initial acceptance” and monitoring) and the LGD model are expected to be released by 2017;
- Exposure at Default (EAD) model: this model is expected to be released starting in 2016 and not later than 2017 for all Group banks (Banco Popolare, Credito Bergamasco, Banca Aletti, companies of the former Italease Group - Banca Italease and Release);
- credit exposures with supervised intermediaries: the PD, LGD and EAD models are expected to be released by 2017 for the corporate scope comprised of Banco Popolare, Credito Bergamasco, Banca Aletti and the former Italease Group.

As regards **market risk**, Banco Popolare Group obtained authorisation from the Supervisory Authority to use its internal model to calculate capital absorption for the trading portfolio 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.

Operational risks

For **operational risk**, in the second half of 2012 the “Operational Risk – AMA” project was launched in order to adopt, at the consolidated level, the AMA methodology to calculate the capital requirement for operational risk. During 2013 the Group continued with the internal planning to develop the AMA framework for risk management and measurement, taking the following actions:

- 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;
- defining and implementing an important training project, led by the Human Resources Department in collaboration with Group Risk Management and Organisation, to create awareness about operational risk governance and mitigation, comprised of training initiatives designed for all Group personnel and, in particular, the individuals (ORM contacts and coordinators, managers of Affairs Departments and central offices) most directly involved in the core risk governance processes;
- 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;
- introducing certain methodological innovations to the Risk Self Assessment (RSA) process, a process conducted by means of a system of questionnaires for business owners and aimed at evaluating the Group's prospective exposure to operational risk, innovations that were already implemented in the 2013 RSA campaign;
- activating a continuous assessment process, designed to more thoroughly understand and evaluate operational risk exposure, particularly in reference to changes in the internal and external operating context and vulnerable areas related to the most relevant operational risk events;
- revising the internal regulation of the Operational Risk Management and Measurement System and adapting the processes to the relative regulations, as part of the configuration of the overall risk governance framework;
- enhancing management and operational reporting, with the objective of providing detailed information on causal factors, drivers and the dynamics of operational losses, specifically to support the assessment and implementation of the appropriate management mitigation actions;
- strengthening the AMA calculation model by adopting solutions based on principles of application simplicity, transparency, robustness, and methodological conservatism, using well-known statistical tools, widely used in the relevant literature and not discretional;
- upgrading the IT architecture in order to implement in the operations all functionality of archiving and handling of operational loss data.

With these actions, the Group seeks to ensure full compliance with the qualitative and quantitative requirements envisaged in the regulations for calculating the operational risk capital requirement and to better support management's use of risk data, with the aim of completing the project in the initial months of 2014.

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). The Risk Department and the structures that comprise it are independent of the operational departments and activities.
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;
- 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).

The current organisational structure of the Risk Management Department includes four "in-line" functions (Credit Risks, Market Risks, Operational Risks, and Interest Rate and Liquidity Risks) and a staff office (Risk Integration) reporting to the manager.

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;
- oversee issues related to conflicts of interest, usury prevention, and anti-money laundering risk 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:
- 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 and, more generally, the proper functioning of the risk measurement and management systems, as well as carrying out benchmarking activities and stress tests;
- issuing periodic recommendations to the departments involved in risk measurement and management processes, regarding 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 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 Group are performed by the Banco Popolare ***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

Credit risk is the risk that a Group borrower (which also includes counterparties in OTC derivative transactions - in this case, more specifically, counterparty risk) may fail to meet an obligation, fully or in part, or that the borrower's credit rating deteriorates, resulting in a negative impact on the Group. Credit risk includes concentration risk, emerging from significant exposures to counterparties/groups of counterparties that are interrelated or from the same economic sector or that perform the same business activities or are from the same geographical area.
The Banco Popolare Group pursues credit policy objectives with a view to:

- supporting business development in its local operating areas, focusing on support and development of relations with SMEs and households;
- diversifying the portfolio, 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 periodically 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, reporting and training tools and verifies their adoption by Group companies;
- the Group's banks and operating companies assess and resolve independently, or within the limits established by the Parent Company, on credit disbursed, retaining ownership of the related accounts, income items and risks;
- the banks and operating companies also cooperate with the Parent Company in optimising credit regulations, methodologies and tools, contributing the range of skills and experience gained from direct supervision of local customers and credit;

In pursuing the objective of optimising credit quality and minimising the overall cost of credit risk for the Group and the individual companies, the organisational model assigns the role of credit business development and credit policy guidance for the Group's banks and companies to the Parent Company's Credit Department.
For the full and consolidated implementation of the Group credit model, the banks and subsidiaries take action to:

- adopt the criteria, credit rating analysis tools and procedures and the loan valuation methodology in accordance with instructions received from the Parent Company;
- ensure constant compliance with the global and individual limits assigned for accepting and managing "large risks" at both the 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 instructed 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 2013, certain additional improvement actions to the procedure for supervising problem loans were taken in order to increase efficiency and effectiveness.
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 individual countries 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 2013, the processes to implement and monitor credit policy guidelines were refined. These guidelines for development and redefinition of the credit portfolio aim to contain the 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 financial objectives.

2.3 Credit risk mitigation techniques

The Group has always been careful to acquire tools that protect credit or use applications and techniques that reduce credit risk. For this purpose, when considered necessary, typical banking 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 and allows, amongst other things, periodic revaluation of the assets.
The value of financial collateral is subject to constant, automatic monitoring that compares 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 Non performing financial assets

The management of non performing loans 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 relevant credit type and supported by appropriate dedicated procedures.
Non performing loan classifications follow specific prudent criteria based on objective risk parameters, in consideration of continued changes in reference regulations.
In general, the non performing 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 rapid recovery.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non performing 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)*	Bad loans	Substandard loans	Restructured loans	Non performing past due loans	Performing past due loans	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	6,226,491	6,226,491
2. Available-for-sale financial assets	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	-	-	3,591,170	3,591,170
5. Due from customers	661	-	-	-	1	1,823,299	1,823,961
6. Fair value financial assets	-	-	-	-	-	-	-
7. Discontinued financial assets	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 31/12/2013	**661**	**-**	**-**	**-**	**1**	**11,640,960**	**11,641,622**
Total 31/12/2012	**4,030**	**30**	**-**	**1**	**98**	**14,211,215**	**14,215,374**

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

Portfolio/Quality *(in thousands of euro)*	Non performing assets			Performing assets			Total
	Gross exposure	Specific write-downs	Net exposure	Gross exposure	Portfolio write-downs	Net exposure	
1. Financial assets held for trading	-	-	-	X	X	6,226,491	6,226,491
2. Available-for-sale financial assets	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	3,591,170	-	3,591,170	3,591,170
5. Due from customers	5,611	(4,950)	661	1,823,312	(12)	1,823,300	1,823,961
6. Fair value financial assets	-	-	-	X	X	-	-
7. Discontinued financial assets	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total 31/12/2013	**5,611**	**(4,950)**	**661**	**5,414,482**	**(12)**	**11,640,961**	**11,641,622**
Total 31/12/2012	**14,743**	**(10,682)**	**4,061**	**6,052,714**	**(8)**	**14,211,313**	**14,215,374**

Past due performing loans

Distribution of past due loans *(in thousands of euro)*	31/12/2013					
	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	Total
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	6,226,491	-	-	-	-	6,226,491
2. Available-for-sale financial assets	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-
4. Due from banks	3,591,170	-	-	-	-	3,591,170
5. Due from customers	1,823,299	-	-	1	-	1,823,300
6. Fair value financial assets	-	-	-	-	-	-
7. Discontinued financial assets	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total other performing loans	**11,640,960**	**-**	**-**	**1**	**-**	**11,640,961**

Note that as at 31 December 2013, there were no positions under renegotiation and the past due positions have been presented in the table above.

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

2013

Exposure types/values *(in thousands of euro)*	Gross exposure	Specific write-downs	Portfolio write-downs	Net exposure
A. Cash exposures				
a) Bad loans	-	-	X	-
b) Substandard loans	-	-	X	-
c) Restructured loans	-	-	X	-
d) Past due loans	-	-	X	-
e) Other assets	4,900,289	X	-	4,900,289
Total A	**4,900,289**	**-**	**-**	**4,900,289**
B. Off-balance sheet exposures				
a) Non performing loans	-	-	X	-
b) Other	1,669,811	X	-	1,669,811
Total B	**1,669,811**	**-**	**-**	**1,669,811**
Total A+B	**6,570,100**	**-**	**-**	**6,570,100**

2012

Exposure types/values *(in thousands of euro)*	Gross exposure	Specific write-downs	Portfolio write-downs	Net exposure
A. Cash exposures				
a) Bad loans	-	-	X	-
b) Substandard 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) Non performing 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**

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

2013

Exposure type/Value *(in thousands of euro)*	Gross exposure	Specific write-downs	Portfolio write-downs	Net exposure
A. Cash exposures				
a) Bad loans	5,611	(4,950)	X	661
b) Substandard loans	-	-	X	-
c) Restructured loans	-	-	X	-
d) Past due loans	-	-	X	-
g) Other assets	2,813,827	X	(12)	2,813,815
Total A	**2,819,438**	**(4,950)**	**(12)**	**2,814,476**
B. Off-balance sheet exposures				
a) Non performing loans	-	-	X	-
b) Other	428,932	X	-	428,932
Total B	**428,932**	**-**	**-**	**428,932**
Total A+B	**3,248,370**	**(4,950)**	**(12)**	**3,243,408**

2012

Exposure type/Value *(in thousands of euro)*	Gross exposure	Specific write-downs	Portfolio write-downs	Net exposure
A. Cash exposures				
a) Bad loans	14,675	(10,645)	X	4,030
b) Substandard 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) Non performing loans	-	-	X	-
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**

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

Descriptions/Categories *(in thousands of euro)*	Bad loans	Substandard loans	Restructured loans	Past due loans
A. Gross exposure – opening balance	**14,675**	**67**	**-**	**1**
- of which: exposures transferred but not derecognised	-	-	-	-
B. Increases	**34**	**-**	**-**	**-**
B.1 amounts collected on performing loans	-	-	-	-
B.2 transfers from other non performing loan categories	32	-	-	-
B.3 other increases	2	-	-	-
C. Decreases	**(9,098)**	**(67)**	**-**	**(1)**
C.1 amounts paid on performing loans	-	(35)	-	(1)
C.2 derecognitions	(4,202)	-	-	-
C.3 amounts collected	(537)	-	-	-
C.4 gains from disposals	(3,361)	-	-	-
C.4 bis disposal losses	-	-	-	-
C.5 transfers to other non performing loan categories	-	(32)	-	-
C.6 other decreases	(998)	-	-	-
D. Gross exposure – closing balance	**5,611**	**-**	**-**	**-**
- 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)*	Bad loans	Substandard loans	Restructured loans	Past due loans
A. Total write-downs – opening balance	**10,645**	**37**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-
B. Increases	**1,968**	**-**	**-**	**-**
B.1 write-downs	1,937	-	-	-
B.1 bis disposal losses	-	-	-	-
B.2 transfers from other non performing loan categories	31	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**(7,663)**	**(37)**	**-**	**-**
C.1 reversals due to valuation	-	-	-	-
C.2 reversals due to amounts collected	-	-	-	-
C.2.bis disposal gains	(1,882)	-	-	-
C.3 derecognitions	(4,202)	-	-	-
C.4 transfers to other non performing loan categories	-	(31)	-	-
C.5 other decreases	(1,579)	(6)	-	-
D. Total write-downs – closing balance	**4,950**	**-**	**-**	**-**
- 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

2013

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	123,499	448,605	258,581	3,871,297	146,212	-	2,884,312	7,732,506
B. Derivatives	110,131	471,465	149,581	883,604	3,412	-	184,700	1,802,893
B.1 Financial derivatives	110,131	471,465	149,581	883,604	3,412	-	184,700	1,802,893
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees granted	-	-	-	-	-	-	565	565
D. Commitments to disburse funds	46,194	46,884	6,366	33,801	1	-	121,880	255,126
E. Other	-	11,406	-	-	-	-	13,312	24,718
Total	279,824	978,360	414,528	4,788,702	149,625	-	3,204,769	9,815,808

The table above does not include exposures for counterparty risk on repurchase agreements in the amount of 15,442 thousand euro, but does include the UCI units for a total of 22,052 thousand euro.

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

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

2013

Exposures *(in thousands of euro)*	Internal rating classes							Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC		
A. Cash exposures	-	25,480	215,005	603,491	173,682	39,655	2,460	3,840,515	4,900,288
B. Derivatives	-	11	553,242	190,342	7,255	1,896	-	857,524	1,610,270
B.1 Financial derivatives	-	11	553,242	190,342	7,255	1,896	-	857,524	1,610,270
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-
C. Guarantees granted	-	-	-	-	-	-	-	565	565
D. Commitments to disburse funds	-	41	78	1,571	439	-	-	38,435	40,564
E. Other	-	-	12,094	-	-	-	-	-	12,094
Total	-	25,532	780,419	795,404	181,376	41,551	2,460	4,737,039	6,563,781

The table above does not include exposures for counterparty risk on repurchase agreements in the amount of 6,320 thousand euro.
Note that this table does not include exposures to customers because the Bank does not use internal ratings in managing the credit risk for these exposures (reported in table A.1.6 of this Section).

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**	**13,540**	**-**	**-**	**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**

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) 31/12/2013
						Credit derivatives					Unsecured loans				
							Other derivatives								
		Real estate mortgages	Real estate finance leases	Securities	Other collateral	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:	**124,273**	-	-	**119,989**	-	-	-	-	-	-	-	-	-	-	**119,989**
1.1. fully secured	124,273	-	-	119,989	-	-	-	-	-	-	-	-	-	-	119,989
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. part-secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**602,492**	-	-	-	**593,000**	-	-	-	-	-	-	-	-	-	**593,000**
2.1. fully secured	154,012	-	-	-	160,870	-	-	-	-	-	-	-	-	-	160,870
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. part-secured	448,480	-	-	-	432,130	-	-	-	-	-	-	-	-	-	432,130
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**726,765**	-	-	**119,989**	**593,000**	-	-	-	-	-	-	-	-	-	**712,989**

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 209,290 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) 31/12/2013
						Credit derivatives					Unsecured loans				
							Other derivatives								
		Real estate mortgages	Real estate finance leases	Securities	Other collateral	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:	**1,567,439**	-	-	**1,481,760**	**172**	-	-	-	-	-	-	-	-	-	**1,481,932**
1.1. fully secured	1,566,933	-	-	1,481,485	172	-	-	-	-	-	-	-	-	-	1,481,657
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. part-secured	506	-	-	275	-	-	-	-	-	-	-	-	-	-	275
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**133,459**	-	-	-	**133,730**	-	-	-	-	-	-	-	-	-	**133,730**
2.1. fully secured	75,954	-	-	-	76,300	-	-	-	-	-	-	-	-	-	76,300
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. part-secured	57,505	-	-	-	57,430	-	-	-	-	-	-	-	-	-	57,430
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,700,898**	-	-	**1,481,760**	**133,902**	-	-	-	-	-	-	-	-	-	**1,615,662**

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 148,470 thousand euro.

B. Breakdown and concentration of credit exposures

B.1 Breakdown of cash and off-balance sheet credit exposures to customers by segment (book values)

Exposures/Counterparties *(in thousands of euro)*	Governments			Other public authorities			Finance companies			Insurance companies			Non-financial companies			Other entities			Total 31/12/2013	Total 31/12/2012
	Net exposure	Specific write-downs	Portfolio write-downs	Net exposure	Specific write-downs	Portfolio write-downs	Net exposure	Specific write-downs	Portfolio write-downs	Net exposure	Specific write-downs	Portfolio write-downs	Net exposure	Specific write-downs	Portfolio write-downs	Net exposure	Specific write-downs	Portfolio write-downs		
A. Cash exposures																				
A.1 Bad loans	-	-	X	-	-	X	660	4,903	X	-	-	X	1	47	X	-	-	X	661	4,030
A.2 Substandard loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	30
A.3 Restructured loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-
A.4 Past due loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	1
A.5 Other exposures	650,176	X	-	55	X	-	1,962,110	X	-	825	X	-	78,132	X	-	122,517	X	12	2,813,815	2,976,330
Total A	**650,176**	**-**	**-**	**55**	**-**	**-**	**1,962,770**	**4,903**	**-**	**825**	**-**	**-**	**78,133**	**47**	**-**	**122,517**	**-**	**12**	**2,814,476**	**2,980,391**
B. Off-balance sheet exposures																				
B.1 Bad loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-
B.2 Substandard loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-
B.3 Other non performing assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-
B.4 Other exposures	213,376	X	-	40	X	-	178,478	X	-	89	X	-	437	X	-	14,766	X	-	407,186	471,241
Total B	**213,376**	**-**	**-**	**40**	**-**	**-**	**178,478**	**-**	**-**	**89**	**-**	**-**	**437**	**-**	**-**	**14,766**	**-**	**-**	**407,186**	**471,241**
Total 31/12/2013	**863,552**	**-**	**-**	**95**	**-**	**-**	**2,141,248**	**4,903**	**-**	**914**	**-**	**-**	**78,570**	**47**	**-**	**137,283**	**-**	**12**	**3,221,662**	**-**
Total 31/12/2012	**967,967**	**-**	**-**	**919**	**-**	**-**	**2,380,623**	**10,309**	**-**	**722**	**-**	**-**	**71,122**	**53**	**-**	**30,279**	**320**	**8**	**-**	**3,451,632**

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

Exposures/Geographic areas *(in thousands of euro)*	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	
A. Cash exposures											
A.1 Bad loans	1	47	660	4,903	-	-	-	-	-	-	661
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due loans	-	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	1,961,947	12	663,741	-	150,029	-	1,014	-	37,084	-	2,813,815
Total A	**1,961,948**	**59**	**664,401**	**4,903**	**150,029**	**-**	**1,014**	**-**	**37,084**	**-**	**2,814,476**
B. Off-balance sheet exposures											
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-	-
B.3 Other non performing assets	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	271,562	-	134,533	-	624	-	-	-	467	-	407,186
Total B	**271,562**	**-**	**134,533**	**-**	**624**	**-**	**-**	**-**	**467**	**-**	**407,186**
Total 31/12/2013	**2,233,510**	**59**	**798,934**	**4,903**	**150,653**	**-**	**1,014**	**-**	**37,551**	**-**	**3,221,662**
Total 31/12/2012	**2,195,271**	**380**	**1,068,520**	**7,401**	**159,731**	**2,909**	**1,006**	**-**	**27,104**	**-**	**3,451,632**

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

Exposures/Geographic areas *(in thousands of euro)*	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	
A. Cash exposures											
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-	-
A.4 Past due loans	-	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	4,499,452	-	325,339	-	74,817	-	-	-	681	-	4,900,289
Total A	**4,499,452**	**-**	**325,339**	**-**	**74,817**	**-**	**-**	**-**	**681**	**-**	**4,900,289**
B. Off-balance sheet exposures											
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-	-
B.3 Other non performing assets	-	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	976,124	-	550,343	-	124,136	-	-	-	794	-	1,651,397
Total B	**976,124**	**-**	**550,343**	**-**	**124,136**	**-**	**-**	**-**	**794**	**-**	**1,651,397**
Total 31/12/2013	**5,475,576**	**-**	**875,682**	**-**	**198,953**	**-**	**-**	**-**	**1,475**	**-**	**6,551,686**
Total 31/12/2012	**6,157,983**	**-**	**1,260,085**	**-**	**285,149**	**-**	**-**	**-**	**1,060**	**-**	**7,704,277**

B.4 Large risks

With the 6th update of Circular no. 263 “New provisions for prudential supervision of banks” of 27 December 2010, prudential oversight in relation to risk concentration was revised to align it with Directive 2009/111/EC. Specifically, based on the new regulation, “large risks” are determined in reference to the book value of the “exposures”, rather than the weighted value. Furthermore, the separate financial statements must now consider infragroup exposures in determining large risks (which were previously weighted at 0%).

(*in thousands of euro*)		31/12/2013
a)	Amount (book value)	10,419,492
b)	Amount (weighted value)	2,009,913
c)	Number	25

C. Securitisations and Asset Disposals

C.1 Securitisations

QUALITATIVE INFORMATION

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

C.2 Disposals

C.2.1. Financial assets sold but not derecognised

Types/Portfolio *(in thousands of euro)*	Financial assets held for trading			Fair value financial assets			Available-for-sale financial assets			Financial assets held to maturity			Due from banks			Due from customers			Total 31/12/2013	Total 31/12/2012
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
A. Cash assets																				
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	27,878	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	27,878	4,796
3. UCI units	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31/12/2013	**27,878**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**27,878**	**X**
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**X**
Total 31/12/2012	**4,796**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**X**	**4,796**
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**X**	-

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

As provided for in IFRS 7, note that the assets sold and not derecognised in the table above refer solely to equity instruments for lending.

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

Liability/Asset portfolio *(in thousands of euro)*	Financial assets held for trading	Fair value financial assets	Available-for-sale financial assets	Financial assets held to maturity	Due from banks	Due from customers	Total 31/12/2013	Total 31/12/2012
A. Due to customers	**23,320**	**-**	**-**	**-**	**-**	**-**	**23,320**	**3,130**
a) from fully recognised assets	23,320	-	-	-	-	-	23,320	3,130
b) from partially recognised assets	-	-	-	-	-	-	-	-
B. Due to banks	**5,871**	**-**	**-**	**-**	**-**	**-**	**5,871**	**1,883**
a) from fully recognised assets	5,871	-	-	-	-	-	5,871	1,883
b) from partially recognised assets	-	-	-	-	-	-	-	-
Total 31/12/2013	**29,191**	**-**	**-**	**-**	**-**	**-**	**29,191**	**-**
Total 31/12/2012	**5,013**	**-**	**-**	**-**	**-**	**-**	**-**	**5,013**

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 loan 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 loan 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 loan 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), which 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

Market risk is the risk that the Group may generate less revenues than expected, or suffer balance sheet or capital losses from open financial positions, due to sharp and adverse movements in market conditions, in particular interest rates, share prices, exchange rates and related volatility and correlations (macro risk), or due to events that may impair the issuer's reimbursement capacity (micro risk). Market risk can materialise both with regard to the trading book, which includes financial trading and related derivatives, and with regard to the banking book, which includes all other financial assets and liabilities.

The organisational model adopted by 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.
In particular:

- 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 910 million euro, of which 92% is in Italian government securities and financial securities and the remainder in corporate securities. The resulting overall risk exposure totals around -31,000 euro, assuming that any change 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 58 million euro. The risk exposure of the credit spread totals approximately -15,000 euro, considering a 1 b.p. shock, generated mainly by financial and manufacturing securities;
- transactions in structured instruments and listed and unlisted derivatives, also including secondary market trading of structured products issued or placed by Group banks. The destructuring of complex transactions

based on underlying assets allows centralised interest rate, exchange rate and share price risk management by sections of the Bank's specific Structured Products Department, which make use of sophisticated position-keeping systems. The sensitivity (delta) to overall interest rate risk at year end, net of long and short positions on the various currencies and rate curve nodes, is approximately 59,000 euro, assuming a parallel change in the rate curve of 1 b.p. This exposure also depends on the structured bond portfolio, for 1,168 million euro, including those deriving from Group Securities Market activities for 305 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.
In particular:

- 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 specialised 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 13 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 2013 the Group continued its efforts to improve market risk management, in terms of technology, methodology and organisational processes.
The Group uses a validated internal model for quantifying minimum capital requirements on market risks. The internal model was validated on 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 dividend 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 *(in thousands of euro)*	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	**9,746**	**1,090,867**	**438,242**	**378,618**	**357,160**	**2,071**	**3,851**	**-**
1.1 Debt securities	9,746	1,090,867	438,242	378,618	357,160	2,071	3,851	-
- with early redemption option	-	113,666	26,974	496	38,219	-	573	-
- other	9,746	977,201	411,268	378,122	318,941	2,071	3,278	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**3,956**	**-**	**-**	**2,516**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	3,956	-	-	2,516	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	170,487	87,889	118,173	57,135	-	-	-
+ Short positions	-	78,207	24,519	32,959	265,666	24,234	-	-
- Other derivatives								
+ Long positions	3,537	235,028	77,568	6,237	78,070	12,541	53,934	-
+ Short positions	208	262,417	71,981	4,906	57,962	12,640	56,065	-
3.2 Without underlying security								
- Options								
+ Long positions	552	13,199	13,467	42,929	319,731	27,192	7,548	-
+ Short positions	428	13,465	11,964	40,124	286,947	27,586	7,442	-
- Other derivatives								
+ Long positions	10,423,312	55,778,369	20,146,512	11,059,298	50,229,818	4,179,859	1,289,100	-
+ Short positions	11,516,795	54,914,094	23,121,867	9,818,672	47,417,103	5,002,647	1,376,067	-

Denomination currency: Positions in other currencies

Type/Residual life *(in thousands of euro)*	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	**-**	**1,419**	**843**	**626**	**2,305**	**323**	**42**	**-**
1.1 Debt securities	-	1,419	843	626	2,305	323	42	-
- with early redemption option	-	-	-	-	-	5	-	-
- other	-	1,419	843	626	2,305	318	42	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**2,700**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	2,700	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	66,806	12,957	14,058	5,810	-	-	-
+ Short positions	-	100,795	72,184	85,151	55,719	-	-	-
- Other derivatives								
+ Long positions	-	1,613	-	56	811	142	162	-
+ Short positions	-	1,208	-	63	1,060	273	160	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	3	-	-	-
+ Short positions	-	-	-	-	3	-	-	-
- Other derivatives								
+ Long positions	49,746	226,018	81,276	42,553	69,278	13,037	-	-
+ Short positions	53,016	126,746	41,556	110,939	74,881	15,952	-	-

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

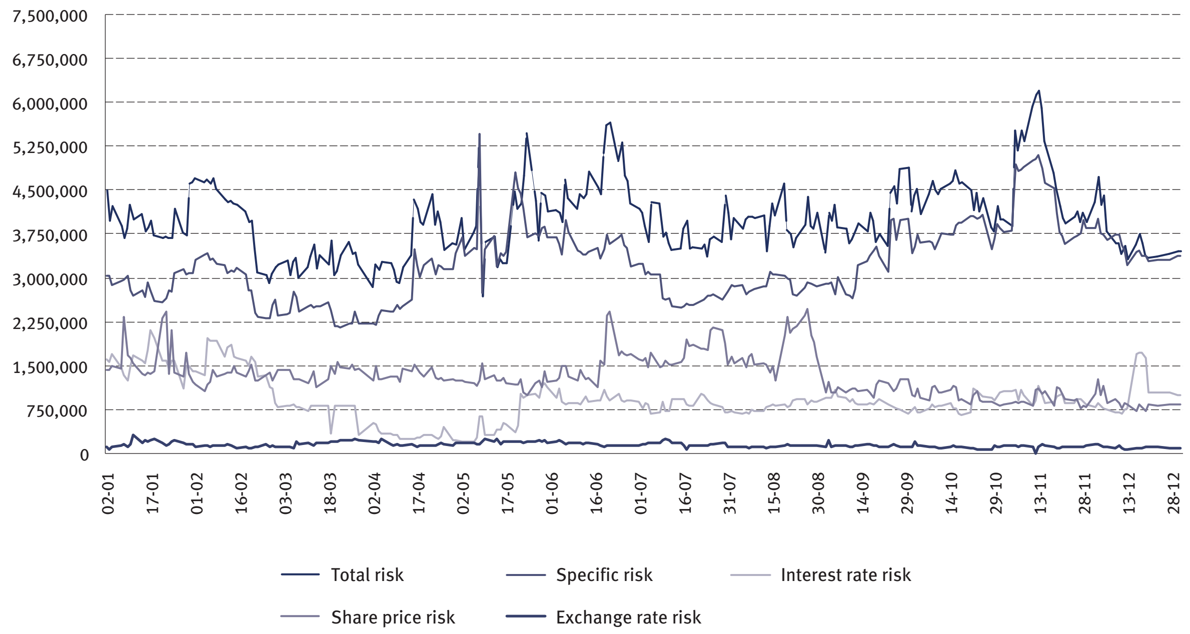
Transaction type/Share index *(in thousands of euro)*	Listed		Unlisted
	Italy	Other countries	
A. Equity instruments	**181,470**	**103,162**	**-**
- long positions	178,408	97,046	-
- short positions	3,062	6,116	-
B. Sales/purchases of equity instruments not yet settled	**32,530**	**6,738**	**-**
- long positions	15,474	6,570	-
- short positions	17,056	168	-
C. Other derivatives on equity instruments	**1,084,047**	**1,355,281**	**214,158**
- long positions	292,915	234,384	26,224
- short positions	791,132	1,120,897	187,934
D. Derivatives on share indices	**2,060,772**	**9,282,174**	**1,640,714**
- long positions	1,181,593	4,909,172	83,382
- short positions	879,179	4,373,002	1,557,332

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 dividend risk are also considered.

The graph below shows the 2013 VaR figures for the Banca Aletti regulatory trading book.

Daily VaR trend and trend by risk factor
BANCA ALETTI: TRADING portfolio



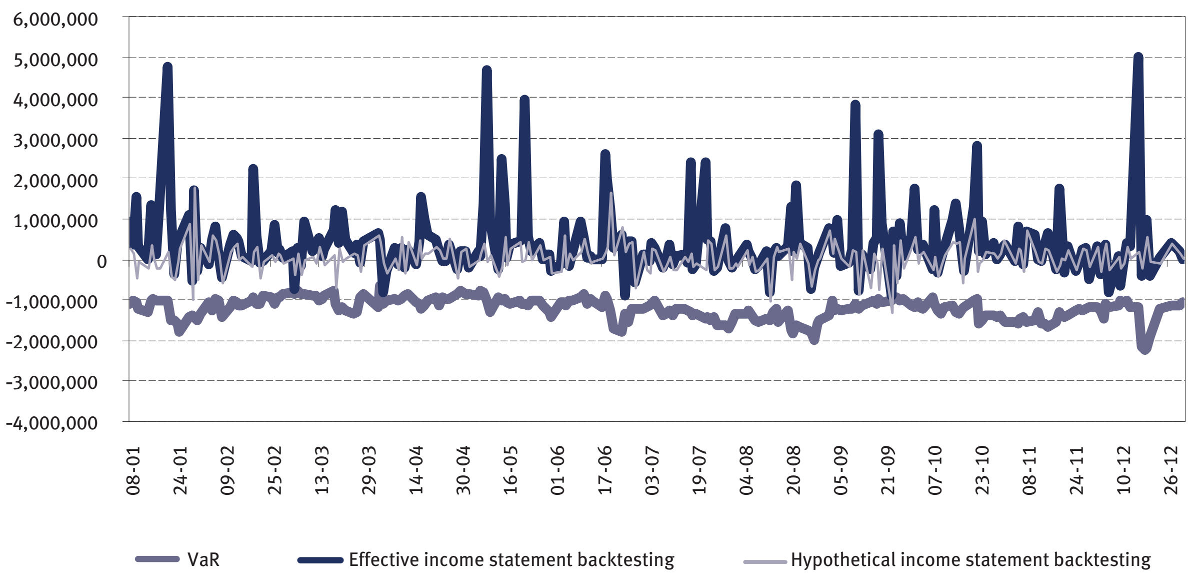
Regulatory trading book *(in millions of euro)*	31-December		2013		
	2012	2013	Average	Maximum	Minimum
Interest rate risk	1.403	1.006	0.932	2.114	0.218
Exchange rate risk	0.124	0.098	0.156	0.326	0.000
Share price risk	1.413	0.840	1.333	2.483	0.728
Dividends and Correlations	0.697	0.318	0.320	0.762	0.091
Total not correlated	3.638	2.261			
Effect of diversification	(2.091)	(0.551)			
Total Generic Risk	**1.547**	**1.710**	**1.922**	**3.267**	**1.186**
Risk Specific to Debt Securities	**3.120**	**3.388**	**3.252**	**5.457**	**2.162**
Combined risk	**3.681**	**3.469**	**4.018**	**6.204**	**2.689**

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, is 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



During 2013, the number of exceptions (losses greater than the VaR estimate) was in line with the confidence level used (99% implies that in 1% of the cases there will be an exception; thus in 250 working days, this result is expected in 2-3 working days).
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 17 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 to each hedge fund a combination of risk factors representing the management strategies (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 *(in thousands of euro)*	On demand	Up to 3 months	3 - 6 months	6 months – 1 year	1 – 5 years	5 – 10 years	Over 10 years	Infinite life
	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO
1. Cash assets	**3,150,935**	**1,881,340**	**186,872**	**2,713**	**5**	**-**	**-**	**-**
1.1 Debt securities	-	1,793,776	184,162	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	1,793,776	184,162	-	-	-	-	-
1.2 Loans to banks	1,438,145	40,695	2,710	1,053	-	-	-	-
1.3 Loans to customers	1,712,790	46,869	-	1,660	5	-	-	-
- current accounts	21,935	-	-	-	1	-	-	-
- other loans:	1,690,855	46,869	-	1,660	4	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,690,855	46,869	-	1,660	4	-	-	-
2. Cash liabilities	**5,856,714**	**17,579**	**7,772**	**12,749**	**935**	-	-	-
2.1 Due to customers	688,357	5,934	2,678	1,043	-	-	-	-
- current accounts	511,657	-	-	-	-	-	-	-
- other payables:	176,700	5,934	2,678	1,043	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	176,700	5,934	2,678	1,043	-	-	-	-
2.2 Due to banks	5,168,357	-	-	-	-	-	-	-
- current accounts	3,371,217	-	-	-	-	-	-	-
- other payables	1,797,140	-	-	-	-	-	-	-
2.3 Debt securities	305	11,645	5,094	11,706	935	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	305	11,645	5,094	11,706	935	-	-	-
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 *(in thousands of euro)*	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	**193,111**	**878**	**194**	**87**	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	129,469	878	194	87	-	-	-	-
1.3 Loans to customers	63,642	-	-	-	-	-	-	-
- current accounts	47	-	-	-	-	-	-	-
- other loans:	63,595	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	63,595	-	-	-	-	-	-	-
2. Cash liabilities	**120,243**	**878**	**193**	**87**	**-**	**-**	**-**	**-**
2.1 Due to customers	21,426	-	-	-	-	-	-	-
- current accounts	21,426	-	-	-	-	-	-	-
- other payables:	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	98,815	-	-	-	-	-	-	-
- current accounts	98,815	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	2	878	193	87	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	2	878	193	87	-	-	-	-
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.
For 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 centralised in Treasury for Group finance transactions and in the Equity Structured Products Department for Banca Aletti. Banco Popolare's Treasury exposures are less than 5 million euro, while those in exchange derivative transactions for Banca Aletti have a countervalue of around 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	Austrialian Dollar	Other currencies
A.	**Financial assets**	**99,242**	**43,736**	**48,144**	**4,269**	**1,937**	**9,855**
A.1	Debt securities	1,927	221	-	2,715	710	52
A.2	Equity instruments	17,343	-	2,439	872	-	4,534
A.3	Loans to banks	79,927	43,515	9	681	1,227	5,269
A.4	Loans to customers	45	-	45,696	1	-	-
A.5	Other financial assets	-	-	-	-	-	-
B.	**Other assets**	**-**	**-**	**5,495**	**-**	**-**	**-**
C.	**Financial liabilities**	**14,825**	**950**	**86,869**	**10,344**	**1,958**	**6,455**
C.1	Due to banks	-	-	86,134	7,943	-	4,738
C.2	Due to customers	14,599	950	735	2,401	1,597	1,144
C.3	Debt securities	226	-	-	-	361	573
C.4	Other financial liabilities	-	-	-	-	-	-
D.	**Other liabilities**	**-**	**-**	**-**	**-**	**-**	**-**
E.	**Financial derivatives**	**274,281**	**(166)**	**3,997**	**(5,342)**	**(403)**	**682**
	- Options	**216,418**	**(1,136)**	**3,997**	**(5,342)**	**(403)**	**682**
	+ long positions	53,949	3,733	-	39,819	2,131	-
	+ short positions	270,367	2,597	3,997	34,477	1,728	682
	- Other derivatives	**57,863**	**970**	**-**	**-**	**-**	**-**
	+ long positions	58,988	1,134	35	45	3	349
	+ short positions	1,125	164	35	45	3	349
Total assets		**212,179**	**48,603**	**53,674**	**44,133**	**4,071**	**10,204**
Total liabilities		**286,317**	**3,711**	**90,901**	**44,866**	**3,689**	**7,486**
Imbalance (+/-)		**(74,138)**	**44,892**	**(37,227)**	**(733)**	**382**	**2,718**

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 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 most 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 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 keeps 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		**303,858**	**(1,180,840)**	**3,926,857**	**(5,107,697)**
of which:	Listed derivatives	293,212	27,901	184,039	(156,138)
of which:	Certificates measured using proprietary Front Office system models	61	(463,280)	5,744	(469,024)
of which:	Certificates measured using internal models developed by Banca Aletti's financial engineering	56	(1,081,043)	9,022	(1,090,065)
of which:	OTC derivatives measured using proprietary Front Office system models	9,862	511,651	3,451,790	(2,940,139)
of which:	OTC derivatives measured using internal models developed by Banca Aletti's financial engineering	661	(176,069)	273,047	(449,116)
of which:	OTC derivatives measured by external contributors	6	-	3,215	(3,215)

A. Financial derivatives

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

Underlying assets/Derivative type *(in thousands of euro)*	Total 2013		Total 2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**203,310,253**	**7,762,455**	**233,745,338**	**4,624,318**
a) Options	57,521,958	24,844	58,654,713	29,701
b) Swaps	145,788,295	183,000	174,816,313	-
c) Forward contracts	-	-	274,312	231,683
d) Futures	-	7,554,611	-	4,362,934
e) Other	-	-	-	-
2. Equity instruments and share indices	**10,276,513**	**4,962,680**	**11,246,151**	**3,982,646**
a) Options	10,190,663	4,828,133	11,150,760	3,745,113
b) Swaps	85,850	-	90,750	-
c) Forward contracts	-	-	4,641	32,784
d) Futures	-	134,547	-	204,749
e) Other	-	-	-	-
3. Currencies and gold	**641,899**	**36,662**	**666,623**	**35,395**
a) Options	584,052	36,662	617,580	35,395
b) Swaps	-	-	-	-
c) Forward contracts	57,847	-	49,043	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**3,939**	**5,343**	**122,301**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**214,228,665**	**12,765,736**	**245,663,455**	**8,764,660**
Average values	**229,903,135**	**10,765,197**	**244,697,415**	**8,576,829**

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

Books/Derivative types *(in thousands of euro)*	Positive fair value			
	Total 2013		Total 2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**3,727,992**	**198,862**	**5,681,223**	**129,345**
a) Options	680,370	198,806	586,711	129,345
b) Interest rate swaps	3,047,060	56	5,093,888	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	562	-	408	-
e) Forward contracts	-	-	216	-
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	**3,727,992**	**198,862**	**5,681,223**	**129,345**

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

Books/Derivative types *(in thousands of euro)*	Negative fair value			
	Total 2013		Total 2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**3,384,084**	**1,716,034**	**5,090,015**	**1,284,164**
a) Options	1,051,954	1,715,227	998,843	1,284,164
b) Interest rate swaps	2,329,577	807	4,089,499	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	404	-	369	-
e) Forward contracts	2,149	-	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	**3,384,084**	**1,716,034**	**5,090,015**	**1,284,164**

A.5 OTC financial derivatives – regulatory trading book: notional values, gross positive and negative fair values by counterparty – contracts not covered by offsetting agreements

Contracts not covered by offsetting agreements *(in thousands of euro)*	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	-	-	41,807,755	-	612,850	-	3,126,955
- positive fair value	-	-	854,959	-	-	-	-
- negative fair value	-	-	784,346	-	25,443	-	16,309
- future exposure	-	-	187,966	-	1,551	-	-
2) Equity instruments and share indices							
- notional value	-	-	1,506,613	1,066	1,607,163	-	134,310
- positive fair value	-	-	2,079	-	-	-	-
- negative fair value	-	-	61,178	-	30,629	-	105,190
- future exposure	-	-	6,693	-	-	-	-
3) Currencies and gold							
- notional value	-	-	413,688	-	-	-	232
- positive fair value	-	-	6,509	-	-	-	-
- negative fair value	-	-	3,961	-	-	-	-
- future exposure	-	-	1,571	-	-	-	1
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 offsetting agreements

Contracts not covered by offsetting agreements *(in thousands of euro)*	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	-	-	132,798,807	24,963,886	-	-	-
- positive fair value	-	-	2,041,815	457,823	-	-	-
- negative fair value	-	-	1,790,731	289,001	-	-	-
2) Equity instruments and share indices							
- notional value	-	-	5,525,324	1,502,037	-	-	-
- positive fair value	-	-	351,464	10,415	-	-	-
- negative fair value	-	-	189,059	85,953	-	-	-
3) Currencies and gold							
- notional value	-	-	166,425	61,554	-	-	-
- positive fair value	-	-	2,927	1	-	-	-
- negative fair value	-	-	1,202	1,082	-	-	-
4) Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

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

Underlying assets/Residual life *(in thousands of euro)*		Up to 1 year	1 – 5 years	Over 5 years	Total
A.	**Regulatory trading book**	**50,662,428**	**144,345,829**	**19,220,408**	**214,228,665**
A.1	Financial derivatives on debt securities and interest rates	45,361,382	138,882,626	19,066,245	203,310,253
A.2	Financial derivatives on equity instruments and share indices	4,702,741	5,419,609	154,163	10,276,513
A.3	Financial derivatives on exchange rates and gold	598,305	43,594	-	641,899
A.4	Financial derivatives on other values	-	-	-	-
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 31/12/2013		**50,662,428**	**144,345,829**	**19,220,408**	**214,228,665**
Total 31/12/2012		**54,253,957**	**159,716,700**	**31,692,798**	**245,663,455**

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 *(in thousands of euro)*	Regulatory trading book		Banking book	
	single underlying	underlying basket	single underlying	underlying basket
1. Protection purchases				
a) Credit default products	367,076	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2013	**367,076**	**-**	**-**	**-**
Average values	**319,973**	**-**	**-**	**-**
Total 31/12/2012	**280,805**	**-**	**-**	**-**
2. Protection sales				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
Total 31/12/2013	**-**	**-**	**-**	**-**
Average values	**-**	**-**	**-**	**-**
Total 31/12/2012	**-**	**-**	**-**	**-**

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

Books/Derivative types *(in thousands of euro)*	Positive fair value	
	Total 2013	Total 2012
A. Regulatory trading book	**3**	**161**
a) Credit default products	3	161
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**	**161**

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

Books/Derivative types *(in thousands of euro)*	Negative fair value	
	Total 2013	Total 2012
A. Regulatory trading book	**9,727**	**3,207**
a) Credit default products	9,727	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	**9,727**	**3,207**

B.5 OTC credit derivatives: gross positive and negative fair values by counterparty – contracts covered by offsetting agreements

Contracts not covered by offsetting agreements *(in thousands of euro)*	Governments and central banks	Other public authorities	Banks	Finance companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading book							
1) Protection purchases	**-**	**-**	**236,477**	**140,329**	**-**	**-**	**-**
- notional value	-	-	230,076	137,000	-	-	-
- positive fair value	-	-	-	3	-	-	-
- negative fair value	-	-	6,401	3,326	-	-	-
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 *(in thousands of euro)*	Up to 1 year	1 – 5 years	Over 5 years	Total
A. Regulatory trading book	**200,000**	**167,076**	**-**	**367,076**
A.1 Credit derivatives on loans with reference obligation - qualified	-	-	-	-
A.2 Credit derivatives on loans with reference obligation - unqualified	200,000	167,076	-	367,076
B. Banking book	**-**	**-**	**-**	**-**
B.1 Credit derivatives on loans with reference obligation - qualified	-	-	-	-
B.4 Credit derivatives on loans with reference obligation - unqualified	-	-	-	-
Total 31/12/2013	**200,000**	**167,076**	**-**	**367,076**
Total 31/12/2012	**115,000**	**165,805**	**-**	**280,805**

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

(in thousands of euro)	Governments and central banks	Other public authorities	Banks	Finance companies	Insurance companies	Non-financial companies	Other entities
1) Bilateral financial derivative agreements							
- positive fair value	-	-	278,897	57,505	-	-	-
- negative fair value	-	-	162,939	43,487	-	-	-
- future exposure	-	-	99,157	30,489	-	-	-
- net counterparty risk	-	-	105,324	30,564	-	-	-
2) Bilateral credit derivative agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	1,092	-	-	-
- future exposure	-	-	-	2,080	-	-	-
- net counterparty risk	-	-	-	2,080	-	-	-
3) Cross-product agreements							
- positive fair value	-	-	328,183	75,954	-	-	-
- negative fair value	-	-	35,328	-	-	-	-
- future exposure	-	-	256,793	29,287	-	-	-
- net counterparty risk	-	-	264,705	28,941	-	-	-

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.
During 2013, Banco Popolare Group, in addition to conducting the typical periodic measurements of the liquidity profile, acquired the tools necessary to calculate the new indicators envisaged in Basel 3 regulations and required by Bank of Italy and the EBA, according to the regulations' stringent timeframes.
Specifically, 2014 is the first year of monthly reporting on the short-term LCR (Liquidity Coverage Ratio), whose minimum limit (60%) will become effective starting in 2015.
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.
The monitoring of operating liquidity risk 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 addition to calculating the LCR indicator, whose methodology includes the application of stress assumptions, the Group conducts specific and periodic stress tests, based on scenarios affecting the key balance sheet items. These include scenarios developed in line with the suggestions of the Basel Committee, the Financial Services Authority and a scenario based on the logic of reverse stress testing (applied to retail demand funding).
In 2013, the Group gave increasing attention to the liquidity profile, further improving the already comfortable situation from the previous year, and continued issuing covered bonds and self-securitisations, which 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

Items/Time bands *(in thousands of euro)*	On demand	1 - 7 days	7 - 15 days	15 days – 1 month	1 - 3 months	3 - 6 months	6 months – 1 year	1 – 5 years	Over 5 years	Infinite life
	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO	EURO
Cash assets	**3,170,638**	**248**	**391**	**182,713**	**204,400**	**344,219**	**369,754**	**2,734,684**	**7,702**	**17,898**
A.1 Government securities	-	-	155	246	508	99,916	25,356	68,322	2,239	-
A.2 Other debt securities	-	130	236	115,106	201,704	241,593	342,689	2,666,357	5,463	-
A.3 UCI units	19,704	-	-	-	-	-	-	-	-	-
A.4 Loans:	3,150,934	118	-	67,361	2,188	2,710	1,709	5	-	17,898
- Banks	1,438,145	118	-	20,492	2,188	2,710	1,053	-	-	17,898
- Customers	1,712,789	-	-	46,869	-	-	656	5	-	-
Cash liabilities	**5,857,119**	**590**	**1,360**	**5,272**	**10,358**	**7,772**	**12,749**	**3,643**	**-**	**-**
B.1 Deposits and current accounts	4,476,351	-	-	-	-	-	-	-	-	-
- Banks	3,964,361	-	-	-	-	-	-	-	-	-
- Customers	511,990	-	-	-	-	-	-	-	-	-
B.2 Debt securities	305	-	1,360	2,106	8,180	5,094	11,706	935	-	-
B.3 Other liabilities	1,380,463	590	-	3,166	2,178	2,678	1,043	2,708	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity swap										
- Long positions	3,537	238,025	4,899	33,694	65,560	85,747	105,465	287,358	23,895	-
- Short positions	-	2,651	12,155	82,609	107,226	90,792	50,848	101,239	67,372	150
C.2 Financial derivatives without equity swap										
- Long positions	3,856,423	-	-	-	-	-	-	-	-	-
- Short positions	4,967,179	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	9	1,628	14,435	64,908	7,735	97,493	65,448	150
- Short positions	208	276,802	119	-	-	-	-	-	-	-
C.5 Financial guarantees granted	565	-	-	-	-	-	-	-	-	-
C.6 Guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swap										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swap										
- Long positions	3	-	-	-	-	-	-	-	-	-
- Short positions	9,628	-	-	-	-	-	-	-	-	-

1.2 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in US Dollars

Items/Time bands *(in thousands of euro)*	On demand	1 - 7 days	7 - 15 days	15 days – 1 month	1 - 3 months	3 - 6 months	6 months – 1 year	1 – 5 years	Over 5 years	Infinite life
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Cash assets	**141,710**	**-**	**138**	**-**	**152**	**188**	**441**	**1,036**	**117**	**-**
A.1 Government securities	-	-	-	-	-	-	6	215	112	-
A.2 Other debt securities	-	-	-	-	152	188	348	821	5	-
A.3 UCI units	2,348	-	-	-	-	-	-	-	-	-
A.4 Loans:	139,362	-	*138*	-	-	-	*87*	-	-	-
- Banks	79,700	-	138	-	-	-	87	-	-	-
- Customers	59,662	-	-	-	-	-	-	-	-	-
Cash liabilities	**14,599**	**-**	**139**	**-**	**-**	**-**	**88**	**-**	**24**	**-**
B.1 Deposits and current accounts	14,599	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	14,599	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	139	-	-	-	88	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	24	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity swap										-
- Long positions	-	1,915	9,747	38,725	34,463	11,931	12,955	32,161	106	-
- Short positions	-	9,702	4,727	19,277	27,593	70,401	84,081	27,494	156	-
C.2 Financial derivatives without equity swap										
- Long positions	3,622	-	-	-	-	-	-	-	-	-
- Short positions	77,643	-	-	-	-	-	-	-	-	-
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	99	-	-	-	-	-	-	-	-	-

1.3 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in GB Pounds

Items/Time bands *(in thousands of euro)*	On demand	1 - 7 days	7 - 15 days	15 days – 1 month	1 - 3 months	3 - 6 months	6 months – 1 year	1 – 5 years	Over 5 years	Infinite life
	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP
Cash assets	**790**	**-**	**-**	**-**	**-**	**1,199**	**279**	**964**	**168**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	29	-
A.2 Other debt securities	-	-	-	-	-	1,199	279	964	139	-
A.3 UCI units	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	790	-	-	-	-	-	-	-	-	-
- Banks	681	-	-	-	-	-	-	-	-	-
- Customers	109	-	-	-	-	-	-	-	-	-
Cash liabilities	**10,344**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**2**	**-**
B.1 Deposits and current accounts	10,344	-	-	-	-	-	-	-	-	-
- Banks	7,943	-	-	-	-	-	-	-	-	-
- Customers	2,401	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	1	-	-	-	2	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity swap										
- Long positions	-	123	-	20,005	18,697	342	776	41	3	-
- Short positions	-	93	-	19,297	14,455	360	294	41	29	-
C.2 Financial derivatives without equity swap										
- Long positions	2,561	-	-	-	-	-	-	-	-	-
- Short positions	1,269	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

1.4 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in Swiss Francs

Items/Time bands *(in thousands of euro)*	On demand	1 - 7 days	7 - 15 days	15 days – 1 month	1 - 3 months	3 - 6 months	6 months – 1 year	1 – 5 years	Over 5 years	Infinite life
	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF
Cash assets	**9**	-	-	-	-	-	-	-	-	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCI units	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	9	-	-	-	-	-	-	-	-	-
- Banks	9	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
Cash liabilities	**86,869**	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	86,869	-	-	-	-	-	-	-	-	-
- Banks	86,134	-	-	-	-	-	-	-	-	-
- Customers	735	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity swap										
- Long positions	-	35	-	-	-	-	-	-	-	-
- Short positions	-	35	-	-	3,997	-	-	-	-	-
C.2 Financial derivatives without equity swap										
- Long positions	368	-	-	-	-	-	-	-	-	-
- Short positions	436	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

1.5 Breakdown of financial assets and liabilities by contractual residual life – Denomination currency: Positions in other currencies

Items/Time bands *(in thousands of euro)*	On demand	1 - 7 days	7 - 15 days	15 days – 1 month	1 - 3 months	3 - 6 months	6 months – 1 year	1 – 5 years	Over 5 years	Infinite life
	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES	OTHER CURRENCIES
Cash assets	**52,950**	**-**	**-**	**11**	**729**	**843**	**-**	**231**	**58**	**-**
A.1 Government securities	-	-	-	-	-	-	-	19	-	-
A.2 Other debt securities	-	-	-	-	-	649	-	212	58	-
A.3 UCI units	-	-	-	-	-	-	-	-	-	-
A.4 Loans:	52,950	-	-	11	729	194	-	-	-	-
- Banks	49,079	-	-	11	729	194	-	-	-	-
- Customers	3,871	-	-	-	-	-	-	-	-	-
Cash liabilities	**8,429**	**-**	**-**	**11**	**733**	**193**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	8,429	-	-	-	-	-	-	-	-	-
- Banks	4,738	-	-	-	-	-	-	-	-	-
- Customers	3,691	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	11	733	193	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity swap										
- Long positions	-	2,363	1,642	-	1,408	684	383	2,347	230	-
- Short positions	-	1,327	-	341	1,728	1,423	839	1,287	283	-
C.2 Financial derivatives without equity swap										
- Long positions	10,418	-	-	-	-	-	-	-	-	-
- Short positions	22,540	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

2. Disclosure on committed assets recognised in the financial statements

Types *(in thousands of euro)*	Committed		Uncommitted		Total 31/12/2013
	BV	FV	BV	FV	
1. Cash and cash equivalents	-	X	22	X	22
2. Debt securities	-	-	4,277,572	4,277,572	4,277,572
3. Equity instruments	27,878	27,878	271,885	271,885	299,763
4. Loans	326,721	X	3,110,472	X	3,437,193
5. Other financial assets	-	X	3,948,909	X	3,948,909
6. Non-financial assets	-	X	150,264	X	150,264
Total 31/12/2013	**354,599**	**27,878**	**11,759,124**	**4,549,457**	**12,113,723**

Key:
BV = Book value
FV = Fir value

3. Disclosure on owned committed assets not recognised in the financial statements

Types *(in thousands of euro)*	Committed	Uncommitted	Total 31/12/2013
1. Financial assets	**1,513,957**	**15,478**	**1,529,435**
- Securities	1,513,957	15,478	1,529,435
- Other	-	-	-
2. Non-financial assets	**-**	**-**	**-**
Total 31/12/2013	**1,513,957**	**15,478**	**1,529,435**

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

In accordance with reference regulatory provisions, Banco Popolare Group has adopted an operational risk management model that incorporates the management techniques and players involved in the identification, measurement, monitoring, mitigation and reporting processes. It includes specific reference to centralised oversight (governance and audit functions) as well as decentralised oversight (ORM coordinators and contacts, specifically involved in the key processes of gathering operational loss data, continually assessing the operational context and prospective evaluation of risk exposure).
The model is governed by a specific Group Regulation, approved by the Corporate Governance bodies.
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 based on internal loss data, gathered through the loss collection process and supplemented with external loss data for the Italian banking industry (DIPO consortium back flows, set up as part of the ABI - Italian Banking Association - by the major Italian banking groups) and data from the risk self-assessment process, a structured process involving the managers of various organisational structures. This component has the objective of enhancing 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 where certain business processes or activities are being revised, which many alter the level of risk exposures, generally providing a forward-looking perspective to the overall assessments. This process makes use of qualitative data from the continual monitoring and evaluation of the internal and external operating context.
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), which 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 that, 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.
All of the components of the operational risk management framework were subject to enhancements during the most recent year, in compliance with quantitative and qualitative requirements envisaged in prudential supervision regulations for the adoption of advanced AMA models. These enhancements include: the updating of the decentralised oversight system for operational risk to include the ORM coordinators and contacts, the dissemination of the risk culture through training courses for all personnel, methodological innovations to the AMA calculation model and the prospective self-assessment of RSA risk exposure, launch of a continuous assessment process of the external and internal operating context, strengthening of the IT support system, enhancement of management and operational reporting, and the updating of the internal process regulations and rules.

Legal disputes

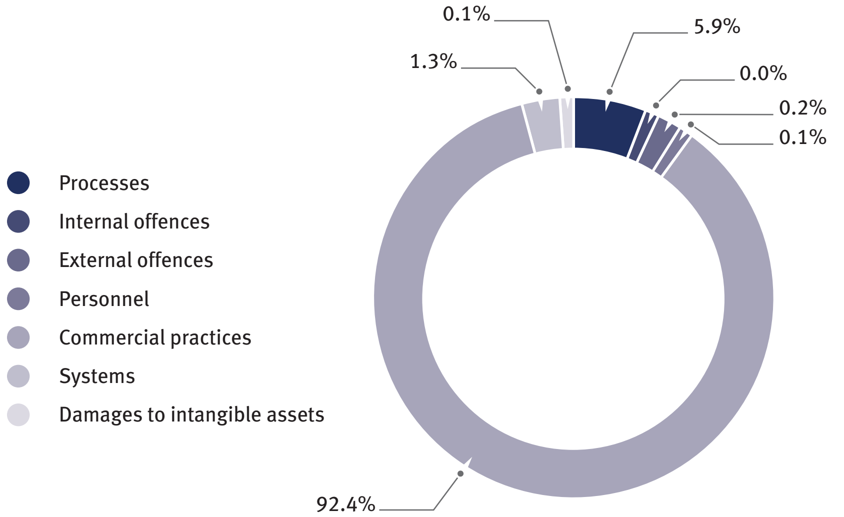
For a description of the primary legal disputes, tax disputes and the possible related losses, refer to “Part B - Assets – Section 13 Tax assets and tax liabilities” and “Part B - Liabilities Data - Section 12 Provisions for risks and charges”.

QUANTITATIVE INFORMATION

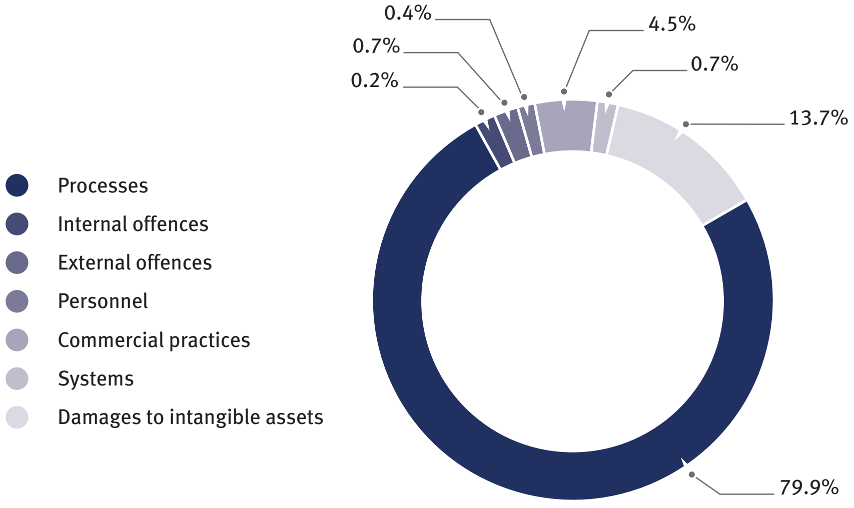
With regard to sources of operational risk, an analysis was conducted on Banca Aletti's pure operational risk events, with gross losses in the income statement equal to or greater than 200 euro (minimum relevance threshold) and with an event date after 1 January 2007 (historical archive).
This loss data, recorded in the Bank's loss collection database, were grouped by event type with breakdown by impact and number of occurrences in accordance with the event classification format envisaged in the new Supervisory Instructions.

Incidents of operational losses by event type (1 January 2007 - 31 December 2013)

Breakdown by financial impact



Breakdown by number of events



By analysing the graphs, it is evident that the most significant event category in terms of gross losses with impact on the income statement is *commercial practices* (losses caused by non-compliance with professional obligations to customers or by the nature and characteristics of the product or service provided), while in terms of number of events, *processes* become significant (losses due to gaps in transaction completion or in process management, as well as losses due to relationships with commercial counterparties, sellers or suppliers).

PART F – INFORMATION ON CAPITAL

Section 1 – Capital and reserves

A. QUALITATIVE INFORMATION

The Bank's capital and reserves consists of the sum of the balances of the following equity items:

- Share capital
- Share premium reserve
- Reserves
- Valuation reserves
- Profit for the year

Banca Aletti's shareholders' equity, including the valuation reserve and the profit for the year, amounts to 754,814 thousand euro as at 31 December 2013, an increase of 49,438 thousand euro, essentially due to the positive effect from the year's profit as well as the improvement in the valuation reserve for available-for-sale assets.

Disclosure on the methodology with which Banca Aletti pursues its objectives of managing shareholders' equity is provided in Section 2.2 below.

B. QUANTITATIVE INFORMATION

B.1 Capital and reserves: breakdown

(in thousands of euro)	2013	2012
1. Share capital	**121,164**	**121,164**
2. Share premium reserve	**72,590**	**72,590**
3. Reserves	**512,326**	**398,967**
- profit	512,326	398,967
a) legal	24,233	24,233
b) statutory	-	-
c) own shares	-	-
d) other	488,093	374,734
- other	-	-
4. Equity instruments	-	-
5. (Own shares)	-	-
6. Valuation reserves:	**1,632**	**(704)**
- Available-for-sale financial assets	1,923	(571)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Discontinued operations	-	-
- Actuarial gains (losses) on defined benefit plans	(291)	(133)
- Portion of valuation reserves relating to investments measured at equity	-	-
- Special revaluation laws	-	-
7. Profit (Loss) for the year	**47,102**	**113,359**
Total	**754,814**	**705,376**

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

(in thousands of euro)	Total 2013		Total 2012	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	-	-	-
2. Equity instruments	1,923	-	302	(873)
3. UCI units	-	-	-	-
4. Loans	-	-	-	-
Total	**1,923**	**-**	**302**	**(873)**

The net positive reserve is solely related to the SIA-SSB position.

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

(in thousands of euro)	Debt securities	Equity instruments	UCI units	Loans
1. Opening balances	**-**	**(571)**	**-**	**-**
2. Positive changes	**-**	**2,666**	**-**	**-**
2.1 Increases in fair value	-	1,742	-	-
2.2 Reversal of negative reserves to the income statement	-	924	-	-
due to impairment	-	-	-	-
due to realisation	-	924	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	**-**	**(172)**	**-**	**-**
3.1 Decreases in fair value	-	-	-	-
3.2 Write-downs for impairment	-	-	-	-
3.3 Reversal of positive reserves to the income statement: due to realisation	-	-	-	-
3.4 Other changes	-	(172)	-	-
4. Closing balances	**-**	**1,923**	**-**	**-**

Item 2.1 "Increases in fair value" refers exclusively to the positive valuation recognised on the SIA-SSB security.
Item 2.3 "Other changes" shows the cancellation of the negative reserve balance as at 31 December 2012 for the Unipol GF S.p.A. security following the sale in 2013, as described in Part B of the Notes to the Financial Statements in Section 4 "Available-for-sale assets".
Item 3.4 "Other changes" presents the tax effect on the changes shown above.

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 2013, European Community institutions approved Directive 2013/36/EU, known as "CRD IV", and EU Regulation no. 575, known as "CRR", which adopt the standards defined by the Basel Committee for banking supervision (the "Basel 3" Framework) within the European Union. The new regulations are effective as of 1 January 2014 according to the instructions defined by Bank of Italy in Circulars no. 285 ("New prudential supervisory instructions for banks") and no. 286 ("Instructions for prudential regulatory reporting for banks and brokerage companies") published at the end of 2013.

On 18 May 2012, Banco Popolare Group received authorisation from Bank of Italy to use certain methodologies based on 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.

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.

Communication regarding prudential filters of the "Available-for-sale assets" portfolio

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 2013, 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 envisage in subsections 3 and 4 of Document I, chapter 2, section II.

The Tier 1 capital does not include innovative or non-innovative equity instruments.

2. Tier 2 capital

Tier 2 capital mainly comprises valuation reserves, subordinated liabilities issued (for the portion calculated pursuant to the previously indicated regulation) as well as any preference shares not included in Tier 1 Capital.

3. Deductions from regulatory capital

This includes:

a) a 20% share in a securities brokerage company, entirely deducted;

b) various equity interests in banks and financial companies, each less than 10% of the entity's share capital;

c) subordinated instruments issued by banks, if not equity investments, held in the proprietary portfolio.

The elements in points b) and c) were deducted 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

(in thousands of euro)		Total 2013	Total 2012
A.	**Tier 1 capital prior to application of prudential filters**	**736,686**	**689,103**
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)**	**736,686**	**688,532**
D.	**Items to be deducted from Tier 1 capital**	**625**	**1,250**
E.	**Total Tier 1 capital (C-D)**	**736,061**	**687,282**
F.	**Tier 2 capital prior to application of prudential filters**	**1,923**	**-**
G.	**Tier 2 prudential filters**		
	G.1 Positive IAS/IFRS prudential filters	-	-
	G.2 Negative IAS/IFRS prudential filters	961	-
H.	**Tier 2 capital gross of items to be deducted (F+G)**	**961**	**-**
I.	**Items to be deducted from Tier 2 capital**	625	625
L.	**Total Tier 2 capital (H-I)**	**336**	**-**
M.	**Items to be deducted from Tier 1 and Tier 2 capital**	-	-
N.	**Regulatory capital (E+L-M)**	**736,397**	**687,282**
O.	**Tier 3 capital**	-	-
P.	**Regulatory capital including Tier 3 (N+O)**	**736,397**	**687,282**

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, updated as at 31 December 2013.

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 *(in thousands of euro)*		Unweighted amounts		Weighted amounts/requirements	
		2013	2012	2013	2012
A.	**RISK ASSETS**				
A.1	**Credit risk and counterparty risk**				
	1. Standardised approach	6,688,595	8,453,207	594,705	620,350
	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**			**47,576**	**49,628**
B.2	**Market risk (2)**				
	1. Standardised approach			25,819	26,860
	2. Internal models			45,229	47,150
	3. Concentration risk			-	473
B.3	**Operational risk**				
	1. Basic approach			-	-
	2. Standardised approach			51,612	51,288
	3. Advanced measurement approach			-	-
B.4	**Other prudential requirements**			-	-
B.5	**Other calculation components**			**(42,559)**	**(43,850)**
B.6	**Total prudential requirements (3)**			**127,678**	**131,550**
C.	**RISK ASSETS AND REGULATORY RATIOS**				
C.1	Risk-weighted assets			1,595,970	1,644,379
C.2	Tier 1 capital ratio			46.12%	41.80%
C.3	Total capital ratio			46.14%	41.80%

(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 auditors (Board of Directors and Board of Statutory Auditors) as well as strategic executives of Banca Aletti in 2013.

(in thousands of euro)	2013 AMOUNTS		2012 AMOUNTS	
	Directors and Auditors	Executives	Directors and Auditors	Executives
Gross annual remuneration	933	378	1,067	471
Short-term benefits	3	1	5	-
Post-employment benefits	4	1	4	2
Severance indemnity	-	-	-	-
Share payments	-	-	-	-
Total	**940**	**380**	**918**	**473**

2. Information on related party transactions

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

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

Transactions with Group companies and other related parties

(in thousands of euro)	Parent Company	Other Group companies	Subsidiaries	Associates	Strategic executives	Other related parties	TOTAL	% impact on financial statements
Financial assets held for trading	1,301,519	60,369	-	-	-	-	1,361,888	20.9%
Due from banks	3,213,410	2,928	-	-	-	-	3,216,338	89.6%
Due from customers	-	482	1	600	-	1	1,084	0.1%
Other asset items	28,494	2,647	155	-	-	-	31,296	16.3%
Due to banks	4,538,628	6,413	-	-	-	-	4,545,041	86.3%
Due to customers	-	-	5,364	57,700	972	907	64,943	9.0%
Securities in issue	-	-	-	-	553	-	553	n/a
Financial liabilities held for trading	327,619	4,415	-	55,970	-	-	388,004	7.6%
Fair value financial liabilities	-	-	-	-	-	-	-	n/a
Other liability items	11,994	4,843	200	-	-	8	17,045	1.7%
Guarantees granted and commitments	1,036	273	-	-	-	1	1,310	0.3%
Direct deposits	-	-	-	-	1,287	787	2,074	0.5%
Indirect deposits	-	-	-	-	16,906	31,643	48,549	0.3%

(in thousands of euro)	Parent Company	Other Group companies	Subsidiaries	Associates	Strategic executives	Other related parties	TOTAL	% impact on financial statements
Interest income and similar revenues	154,064	564	-	-	-	-	154,628	67.0%
Interest expense and similar charges	(61,202)	(29)	(131)	-	(2)	(2)	(61,366)	52.3%
Interest margin	**92,862**	**535**	**(131)**	**-**	**(2)**	**(2)**	**93,262**	**82.2%**
Commission income	11,063	3,701	1	13,039	-	-	27,804	29.8%
Commission expense	(63,895)	(9,209)	-	(541)	-	-	(73,645)	89.5%
Net commissions	**(52,832)**	**(5,508)**	**1**	**12,498**	**-**	**-**	**(45,841)**	**119.3%**
Administrative expense	(12,543)	(25,458)	(82)	(233)	-	-	(38,316)	36.1%
- Personnel costs	(1,499)	1,100	118	-	-	-	(281)	0.6%
- Other administrative expense	(11,044)	(26,558)	(200)	(233)	-	-	(38,035)	64.7%
Other operating income / expense	6,034	176	35	-	-	-	6,245	52.0%

PART L – OPERATING SEGMENTS

Banca Aletti has decided to adopt the “activity segment” as the segment representing its core business.

Breakdown by business segment - Income statement data

(in thousands of euro)	Investment Banking	Wealth Management & Sales	Total 31/12/2013	Total 31/12/2012
1) Earnings margin	115,175	(2,282)	112,893	67,481
2) Other operating income	110,876	81,883	192,758	250,514
3) Operating income (1+2)	226,052	79,600	305,652	317,995
4) Operating costs	(36,441)	(58,307)	(94,747)	(90,078)
5 Operating profit (3+4)	189,611	21,294	210,905	227,917
6) Write-downs, provisions and Gains/(losses) from measurement/disposal of investments	(83,173)	734	(82,440)	(40,747)
7 Profit/(loss) on current operations before tax	106,438	22,028	128,465	187,170

Breakdown by business segment - Balance sheet data

(in thousands of euro)	Investment Banking	Wealth Management & Sales	Total 31/12/2013	Total 31/12/2012
Due from customers	1,820,062	3,900	1,823,961	1,932,875
Total assets	12,088,118	25,606	12,113,723	14,578,583
Due to customers	284,549	434,889	719,438	791,351
Total liabilities	11,647,989	465,734	12,113,723	14,578,583

The segmenting model adopted envisages the setup of two lines of business, and the potential inclusion of a residual segment (Other). In particular:

- 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.

ANNEXES

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

(in millions of euro)	31/12/2012	31/12/2011	Changes
Income Statement Data			
Earnings margin	1,336.0	1,543.2	(13.4%)
Net commissions	1,053.9	1,000.7	5.3%
Operating income	2,066.1	2,898.1	(28.7%)
Operating costs	1,715.0	1,862.9(*)	(7.9%)
Operating profit	351.1	1,035.2(*)	(66.1%)
Profit/(loss) on current operations before tax	(631.2)	475.7(*)	
Net result	(1,163.8)	(2,188.2) (*)	(46.8%)

(*) The 2011 figures were recalculated with respect to those originally published as a result of the application of the new version of IAS 19

(in millions of euro)	31/12/2012	31/12/2011	Changes
Balance Sheet Data			
Total assets	119,475.4	121,582.3	(1.7%)
Due from customers (gross)	76,782.6	76,011.2	1.0%
Financial assets and hedging derivatives	17,448.4	15,416.4	13.2%
Shareholders' equity	7,016.7	7,756.0	(9.5%)
Customer financial assets			
Direct deposits	88,743.9	90,785.2	(2.2%)
Indirect deposits	45,157.5	46,639.7	(3.2%)
- Asset management	17,569.1	17,342.1	1.3%
- Mutual funds and Sicavs	6,890.4	4,889.6	40.9%
- Securities and fund management	2,119.3	2,087.6	1.5%
- Insurance policies	8,559.5	10,364.9	(17.4%)
- Administered assets	27,588.3	29,297.6	(5.8%)
Organisation			
Average workforce and other personnel (*)	13,677	14,027	
Number of branches	1,649	1,683	

(*) 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	230
Other services (tax return signoff)	Reconta Ernst & Young Spa	6
Other services (Qualified Intermediaries Audit)	Reconta Ernst & Young Spa	70
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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