HALF-YEARLY REPORT
of the Bipiemme Group as at 30 June 2015

BANCA POPOLARE DI MILANO 150°

GRUPPO BPM

Half-yearly report of the Bipiemme Group as at 30 June 2015(*)

BANCA POPOLARE DI MILANO

Co-operative Bank founded in 1865
Parent Company of the BPM – Banca Popolare di Milano – Banking Group
Share capital at 30.06.2015: Euro 3,365,439,319.02
Milan Companies Register No. 00715120150
Enrolled on the National Register of Co-operative Companies No. A109641
Registered Office and General Management:
Piazza F. Meda 4, Milan (Italy)

www.gruppobpm.it

Member of the Interbank Guarantee Fund

Registered Bank and Parent Company
of the BPM – Banca Popolare di Milano –
Registered Banking Group

(*) Approved by the Management Board
of Banca Popolare di Milano at the meeting held on 6 August 2015

Content

Directors and Officers, General Management and Independent Auditors

Supervisory Board

Chairman
Dino Piero Giarda

Deputy Chairmen
Mauro Paoloni
Marcello Priori

Directors
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Andrea Boitani
Angelo Busani
Emilio Luigi Cherubini
Maria Luisa Di Battista
Carlo Frascarolo
Roberto Fusilli
Donata Gottardi
Piero Lonardi
Alberto Montanari
Maria Luisa Mosconi
Giampietro Giuseppe Omati
Luca Raffaello Perfetti
Cesare Piovene Porto Godi
Lucia Vitali

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Chairman
Mario Anolli

Managing Director and General Manager
Giuseppe Castagna

Directors
Davide Croff
Paola De Martini
Giorgio Girelli

Arbitration Committee

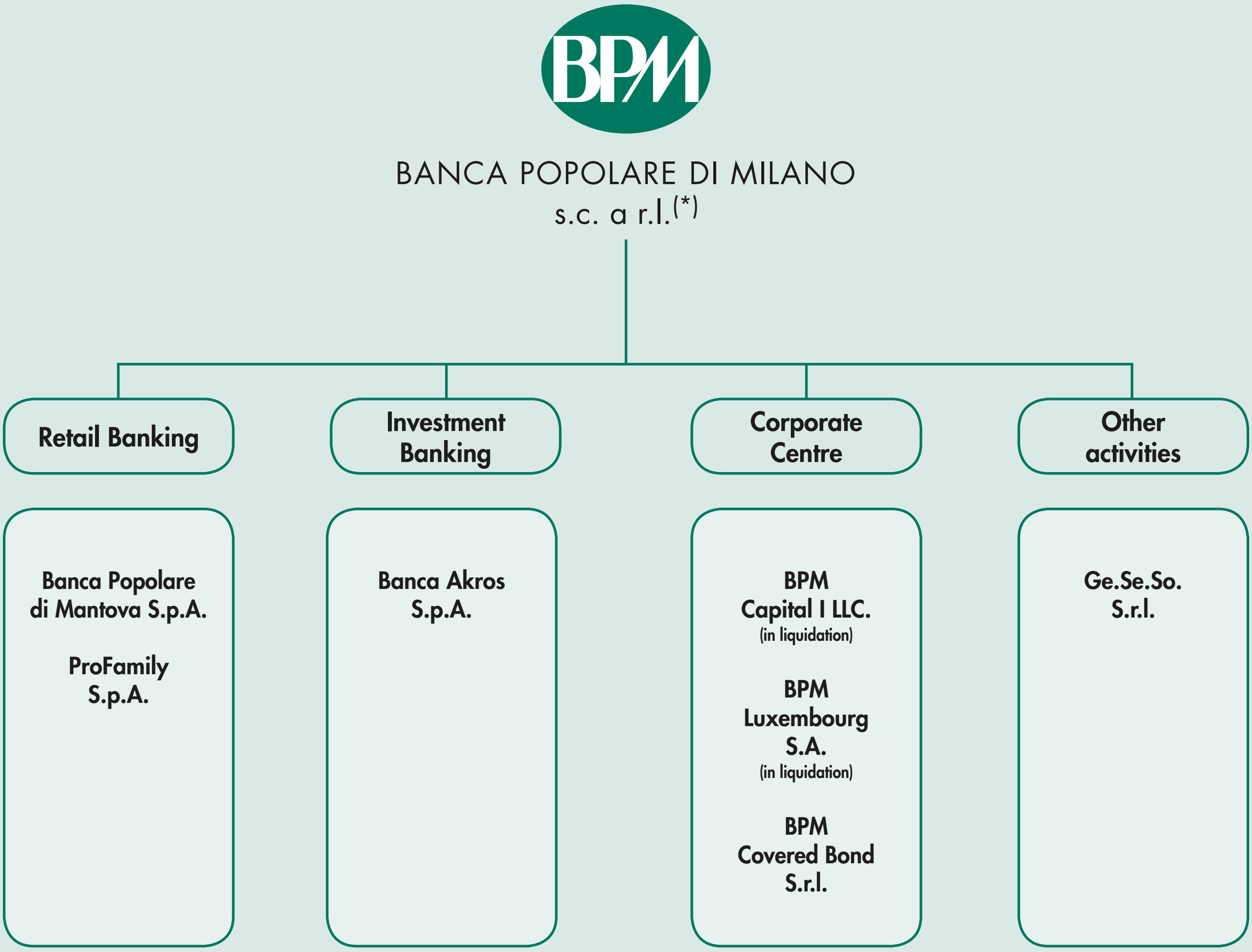
Italo Ciancia
Cinzia Finazzi
Guido Mina

Independent Auditors

Reconta Ernst & Young S.p.A.

Key figures and ratios of the Bipiemme Group

Structure of the Bipiemme Group at 30 June 2015



(*) Banca Popolare di Milano is split into various sectors of activity: Retail Banking, Investment Banking, Corporate Centre and Corporate Banking; the other companies are shown in the table according to their main line of business.

Consolidated reclassified financial statements: general aspects

To give readers a more immediate understanding of the results for the period, a summary reclassified balance sheet and income statement have been prepared, in which line items have been aggregated and reclassified in keeping with market practice in such a way as to provide a clearer picture of performance. To allow the items in the reclassified statements to be easily reconciled with those in the official statements based on the Bank of Italy's Circular 262/05, schedules are included in the attachments that provide details of the various reclassifications and aggregations.

The following aggregations have been made in the reclassified balance sheet:

1. "Financial assets carried at fair value and hedging derivatives" include: 20 "Financial assets held for trading", 30 "Financial assets designated at fair value through profit and loss", 40 "Financial assets available for sale", 50 "Investments held to maturity", 80 "Hedging derivatives" and 90 "Fair value change of financial assets in hedged portfolios";
2. "Fixed assets" comprise: 100 "Investments in associates and companies subject to joint control", 120 "Property and equipment" and 130 "Intangible assets";
3. "Other assets" include: 140 "Tax assets" and 160 "Other assets";
4. "Financial liabilities and hedging derivatives" include: 40 "Financial liabilities held for trading", 50 "Financial liabilities designated at fair value through profit and loss", 60 "Hedging derivatives" and 70 "Fair value change of financial liabilities in hedged portfolios";
5. "Other liabilities" comprise: 80 "Tax liabilities" and 100 "Other liabilities";
6. "Provisions for specific use" comprise: 110 "Employee termination indemnities" and 120 "Allowances for risks and charges";
7. "Capital and reserves" include: 140 "Valuation reserves", 150 "Redeemable shares", 160 "Equity instruments", 170 "Reserves", 180 "Share premium reserve", 190 "Share capital" and 200 "Treasury shares".

The income statement line items have been reclassified and represented as follows:

- the profits (losses) on investments carried at equity, recorded in line item 240 "Profits (losses) on investments in associates and companies subject to joint control" have been reported on a separate line forming part of "Operating income" in the reclassified income statement, but only with respect to the component relating to the results of the investees;
- "Net income from banking activities" includes: the line items 70 "Dividend and similar income", 80 "Profits (losses) on trading", 90 "Fair value adjustments in hedge accounting", 100 "Profits (losses) on disposal or repurchase", 110 "Profits (losses) on financial assets and liabilities designated at fair value" and 130 b) "Net losses/recoveries on impairment of financial assets available for sale". Line item 100 a) "Profits (losses) on disposal/repurchase of loans" has been split out of this aggregate;
- "Other operating expenses/income" (line item 220) booked to "Operating expenses" on the accounting schedule have been reduced by the recovered portion of "indirect taxes and duties" and increased by the "depreciation of leasehold improvements". This item, reclassified in this way, have been included in "Operating income" in the reclassified income statement;
- "Other administrative expenses" (line item 180 b) in the reclassified income statement have been reduced by the recovered portion of "indirect taxes and duties" discussed in point 3 above;
- "Net adjustments to property and equipment and intangible assets" (line items 200 and 210) in the reclassified income statement have been increased by the "depreciation of leasehold improvements" discussed in point 3 above;
- "Net adjustments for impairment of loans and other activities" reported after "Operating profit" in the reclassified format, include line item 130, net of the sub-item 130 b) "Net losses/recoveries on impairment of financial assets available for sale" and line item 100 a) "Profits (losses) on disposal/repurchase of loans" (removed from "Net income from banking activities");
- "Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets" in the reclassified format include the line item 260 "Goodwill impairment", a portion of line item 240 "Profits (losses) on investments in associates and companies subject to joint control" relating to the portion other than net income for the year. It also includes the line item 270 "Profits (losses) on disposal of investments".

Bipiemme Group – Consolidated reclassified balance sheet

(Euro/000)

Assets	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Change A – B		Change A – C	
	A	B	C	D	amount	%	amount	%
Cash and cash equivalents	224,184	209,129	322,840	248,942	15,055	7.2	–98,656	–30.6
Financial assets carried at fair value and hedging derivatives:	11,715,087	12,780,251	11,887,806	11,434,356	–1,065,164	–8.3	–172,719	–1.5
– Financial assets held for trading	*1,824,944*	*2,284,325*	*1,921,518*	*1,712,025*	*–459,381*	*–20.1*	*–96,574*	*–5.0*
– Financial assets designated at fair value through profit and loss	*81,410*	*105,443*	*97,449*	*172,235*	*–24,033*	*–22.8*	*–16,039*	*–16.5*
– Financial assets available for sale	*9,632,210*	*10,208,114*	*9,670,272*	*9,336,110*	*–575,904*	*–5.6*	*–38,062*	*–0.4*
– Hedging derivatives	*161,979*	*160,497*	*178,460*	*198,790*	*1,482*	*0.9*	*–16,481*	*–9.2*
– Fair value change of financial assets in hedged portfolios (+/–)	*14,544*	*21,872*	*20,107*	*15,196*	*–7,328*	*–33.5*	*–5,563*	*–27.7*
Due from banks	1,162,731	1,050,829	984,777	1,849,987	111,902	10.6	177,954	18.1
Loans to customers	33,483,029	32,600,377	32,078,843	32,520,786	882,652	2.7	1,404,186	4.4
Fixed assets	1,156,028	1,127,543	1,117,879	1,099,688	28,485	2.5	38,149	3.4
Non-current assets held for sale and discontinued operations	6,118	0	0	0	6,118	n.a	6,118	n.a
Other assets	1,561,095	1,541,504	1,879,666	1,627,113	19,591	1.3	–318,571	–16.9
Total assets	**49,308,272**	**49,309,633**	**48,271,811**	**48,780,872**	**–1,361**	**–0.0**	**1,036,461**	**2.1**

Liabilities and shareholders' equity	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Change A – B		Change A – C	
	A	B	C	D	amount	%	amount	%
Due to banks	4,494,906	4,171,724	3,318,564	4,313,017	323,182	7.7	1,176,342	35.4
Due to customers	28,777,043	27,589,895	27,702,942	26,812,018	1,187,148	4.3	1,074,101	3.9
Securities issued	7,867,754	8,677,218	8,981,834	9,316,712	–809,464	–9.3	–1,114,080	–12.4
Financial liabilities and hedging derivatives:	1,543,437	1,981,271	1,690,396	1,544,651	–437,834	–22.1	–146,959	–8.7
– Financial liabilities held for trading	*1,326,834*	*1,746,892*	*1,463,445*	*1,321,381*	*–420,058*	*–24.0*	*–136,611*	*–9.3*
– Financial liabilities designated at fair value through profit and loss	*157,702*	*161,759*	*152,116*	*157,846*	*–4,057*	*–2.5*	*5,586*	*3.7*
– Hedging derivatives	*44,092*	*58,053*	*58,751*	*45,742*	*–13,961*	*–24.0*	*–14,659*	*–25.0*
– Fair value change of financial liabilities in hedged portfolios (+/–)	*14,809*	*14,567*	*16,084*	*19,682*	*242*	*1.7*	*–1,275*	*–7.9*
Other liabilities	1,650,859	1,686,438	1,501,993	1,777,531	–35,579	–2.1	148,866	9.9
Provisions for specific use	467,674	502,403	519,975	539,284	–34,729	–6.9	–52,301	–10.1
Capital and reserves	4,333,508	4,613,588	4,304,390	4,266,963	–280,080	–6.1	29,118	0.7
Minority interests (+/–)	19,038	19,493	19,424	19,228	–455	–2.3	–386	–2.0
Net income (loss) for the period (+/–)	154,053	67,603	232,293	191,468	86,450	n.s.	–78,240	n.s.
Total liabilities and shareholders' equity	**49,308,272**	**49,309,633**	**48,271,811**	**48,780,872**	**–1,361**	**–0.0**	**1,036,461**	**2.1**

Bipiemme Group – Consolidated reclassified balance sheet – quarter by quarter (Euro/000)

Assets	Year 2015		Year 2014			
	30.6	31.3	31.12	30.9	30.6	31.3
Cash and cash equivalents	224,184	209,129	322,840	232,295	248,942	242,900
Financial assets carried at fair value and hedging derivatives:	11,715,087	12,780,251	11,887,806	11,959,086	11,434,356	10,941,852
– Financial assets held for trading	*1,824,944*	*2,284,325*	*1,921,518*	*1,954,084*	*1,712,025*	*1,587,646*
– Financial assets designated at fair value through profit and loss	*81,410*	*105,443*	*97,449*	*101,861*	*172,235*	*202,542*
– Financial assets available for sale	*9,632,210*	*10,208,114*	*9,670,272*	*9,662,753*	*9,336,110*	*8,969,488*
– Hedging derivatives	*161,979*	*160,497*	*178,460*	*223,056*	*198,790*	*170,081*
– Fair value change of financial assets in hedged portfolios (+/–)	*14,544*	*21,872*	*20,107*	*17,332*	*15,196*	*12,095*
Due from banks	1,162,731	1,050,829	984,777	1,562,185	1,849,987	2,254,757
Loans to customers	33,483,029	32,600,377	32,078,843	32,095,916	32,520,786	32,821,420
Fixed assets	1,156,028	1,127,543	1,117,879	1,099,811	1,099,688	1,085,101
Non-current assets held for sale and discontinued operations	6,118	0	0	0	0	134,596
Other assets	1,561,095	1,541,504	1,879,666	1,519,517	1,627,113	1,544,831
Total assets	**49,308,272**	**49,309,633**	**48,271,811**	**48,468,810**	**48,780,872**	**49,025,457**

Liabilities and shareholders' equity	Year 2015		Year 2014			
	30.6	31.3	31.12	30.9	30.6	31.3
Due to banks	4,494,906	4,171,724	3,318,564	3,792,622	4,313,017	6,015,928
Due to customers	28,777,043	27,589,895	27,702,942	26,979,219	26,812,018	26,025,446
Securities issued	7,867,754	8,677,218	8,981,834	9,271,996	9,316,712	9,503,147
Financial liabilities and hedging derivatives:	1,543,437	1,981,271	1,690,396	1,716,900	1,544,651	1,477,065
– Financial liabilities held for trading	*1,326,834*	*1,746,892*	*1,463,445*	*1,491,342*	*1,321,381*	*1,240,546*
– Financial liabilities designated at fair value through profit and loss	*157,702*	*161,759*	*152,116*	*150,573*	*157,846*	*184,224*
– Hedging derivatives	*44,092*	*58,053*	*58,751*	*57,102*	*45,742*	*30,833*
– Fair value change of financial liabilities in hedged portfolios (+/–)	*14,809*	*14,567*	*16,084*	*17,883*	*19,682*	*21,462*
Other liabilities	1,650,859	1,686,438	1,501,993	1,622,393	1,777,531	1,645,410
Provisions for specific use	467,674	502,403	519,975	518,136	539,284	542,693
Capital and reserves	4,333,508	4,613,588	4,304,390	4,328,863	4,266,963	3,732,552
Minority interests (+/–)	19,038	19,493	19,424	19,418	19,228	18,895
Net income (loss) for the period (+/–)	154,053	67,603	232,293	219,263	191,468	64,321
Total liabilities and shareholders' equity	**49,308,272**	**49,309,633**	**48,271,811**	**48,468,810**	**48,780,872**	**49,025,457**

Bipiemme Group – Consolidated reclassified income statement

(Euro/000)

Line items	First half 2015	First half 2014	Changes	
			Amount	%
Interest margin	**402,880**	**407,246**	**(4,366)**	**–1.1**
Non-interest margin:	**420,653**	**457,061**	**(36,408)**	**–8.0**
– Net fee and commission income	306,753	276,361	30,392	11.0
– Other income:	113,900	180,700	(66,800)	–37.0
- Profits (losses) on investments carried at equity	*19,083*	*11,945*	*7,138*	*59.8*
- Net income from banking activities	*70,827*	*144,691*	*(73,864)*	*–51.0*
- Other operating charges/income	*23,990*	*24,064*	*(74)*	*–0.3*
Operating income	**823,533**	**864,307**	**(40,774)**	**–4.7**
Administrative expenses:	(448,249)	(455,289)	7,040	1.5
a) personnel expenses	*(303,365)*	*(320,480)*	*17,115*	*5.3*
b) other administrative expenses	*(144,884)*	*(134,809)*	*(10,075)*	*–7.5*
Net adjustments to property and equipment and intangible assets	(33,124)	(37,544)	4,420	11.8
Operating expenses	**(481,373)**	**(492,833)**	**11,460**	**2.3**
Operating profit	**342,160**	**371,474**	**(29,314)**	**–7.9**
Net adjustments for impairment of loans and other activities	(168,339)	(198,990)	30,651	15.4
Net provisions for risks and charges	1,092	4,745	(3,653)	–77.0
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	37,453	104,474	(67,021)	–64.2
Income (loss) before tax from continuing operations	**212,366**	**281,703**	**(69,337)**	**–24.6**
Taxes on income from continuing operations	(58,144)	(89,926)	31,782	35.3
Net income (loss) for the period	**154,222**	**191,777**	**(37,555)**	**-19.6**
Net income (loss) for the period pertaining to minority interests	(169)	(309)	140	45.3
Parent Company's net income (loss) for the period	**154,053**	**191,468**	**(37,415)**	**-19.5**
Basic EPS from continuing operations – Euro	**0.035**	**0.055**		
Diluted EPS from continuing operations – Euro	**0.035**	**0.055**		
Basic EPS – Euro	**0.035**	**0.055**		
Diluted EPS – Euro	**0.035**	**0.055**		

Bipiemme Group – Consolidated reclassified income statement – quarter by quarter (Euro/000)

Line items	Year 2015		Year 2014			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Interest margin	**206,759**	**196,121**	**197,922**	**195,003**	**201,157**	**206,089**
Non-interest margin:	**191,007**	**229,646**	**213,382**	**150,952**	**221,011**	**236,050**
– Net fee and commission income	158,461	148,292	149,349	130,856	135,990	140,371
- Other income:	32,546	81,354	64,033	20,096	85,021	95,679
- Profits (losses) on investments carried at equity	*7,574*	*11,509*	*6,300*	*4,612*	*6,910*	*5,035*
- Net income from banking activities	*12,434*	*58,393*	*38,082*	*5,799*	*65,253*	*79,438*
- Other operating charges/income	*12,538*	*11,452*	*19,651*	*9,685*	*12,858*	*11,206*
Operating income	**397,766**	**425,767**	**411,304**	**345,955**	**422,168**	**442,139**
Administrative expenses:	(220,251)	(227,998)	(236,376)	(207,166)	(236,573)	(218,716)
a) personnel expenses	*(148,632)*	*(154,733)*	*(147,232)*	*(144,708)*	*(168,601)*	*(151,879)*
b) other administrative expenses	(71,619)	(73,265)	(89,144)	(62,458)	(67,972)	(66,837)
Net adjustments to property and equipment and intangible assets	(16,629)	(16,495)	(18,612)	(18,728)	(19,478)	(18,066)
Operating expenses	**(236,880)**	**(244,493)**	**(254,988)**	**(225,894)**	**(256,051)**	**(236,782)**
Operating profit	**160,886**	**181,274**	**156,316**	**120,061**	**166,117**	**205,357**
Net adjustments for impairment of loans and other activities	(94,029)	(74,310)	(136,633)	(88,216)	(113,653)	(85,337)
Net provisions for risks and charges	2,364	(1,272)	(8,004)	(286)	7,566	(2,821)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	37,453	0	0	0	104,474	0
Income (loss) before tax from continuing operations	**106,674**	**105,692**	**11,679**	**31,559**	**164,504**	**117,199**
Taxes on income from continuing operations	(20,339)	(37,805)	1,450	(3,532)	(36,960)	(52,966)
Net income (loss) for the period	**86,335**	**67,887**	**13,129**	**28,027**	**127,544**	**64,233**
Net income (loss) for the period pertaining to minority interests	115	(284)	(99)	(232)	(397)	88
Parent Company's net income (loss) for the period	**86,450**	**67,603**	**13,030**	**27,795**	**127,147**	**64,321**

Bipiemme Group – Key figures

(Euro/000)

Key balance sheet figures	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Change A – B		Change A – C		Change A – D	
	A	B	C	D	amount	%	amount	%	amount	%
Loans to customers	33,483,029	32,600,377	32,078,843	32,520,786	882,652	2.7	1,404,186	4.4	962,243	3.0
of which: net bad loans	*1,456,048*	*1,361,056*	*1,344,404*	*1,229,753*	*94,992*	*7.0*	*111,644*	*8.3*	*226,295*	*18.4*
Fixed assets	1,156,028	1,127,543	1,117,879	1,099,688	28,485	2.5	38,149	3.4	56,340	5.1
Direct deposits (*)	36,802,499	36,428,872	36,836,892	36,286,576	373,627	1.0	–34,393	–0.1	515,923	1.4
Indirect customer deposits	34,206,627	34,884,729	32,610,223	32,170,550	–678,102	–1.9	1,596,404	4.9	2,036,077	6.3
of which: assets under administration	*13,979,579*	*15,251,969*	*14,737,869*	*15,537,996*	*–1,272,390*	*–8.3*	*–758,290*	*–5.1*	*–1,558,417*	*–10.0*
of which: assets under management	*20,227,048*	*19,632,760*	*17,872,354*	*16,632,554*	*594,288*	*3.0*	*2,354,694*	*13.2*	*3,594,494*	*21.6*
Total assets	49,308,272	49,309,633	48,271,811	48,780,872	–1,361	–0.0	1,036,461	2.1	527,400	1.1
Shareholders' equity (excluding net income (loss) for the period)	4,333,508	4,613,588	4,304,390	4,266,963	–280,080	–6.1	29,118	0.7	66,545	1.6
Own funds (**)	5,026,453	5,036,768	5,169,508	5,420,572	–10,315	–0.2	–143,055	–2.8	–394,119	–7.3
of which: Common Equity Tier 1 (**)	*3,972,314*	*3,920,090*	*3,899,672*	*3,883,568*	*52,224*	*1.3*	*72,642*	*1.9*	*88,746*	*2.3*

(euro/000)

Key income statement figures	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Change A – D	
	A	B	C	D	amount	%
Interest margin	402,880	196,121	800,171	407,246	–4,366	–1.1
Operating income	823,533	425,767	1,621,566	864,307	–40,774	–4.7
Operating expenses	(481,373)	(244,493)	(973,715)	(492,833)	11,460	2.3
of which: personnel expenses	*(303,365)*	*(154,733)*	*(612,420)*	*(320,480)*	*17,115*	*5.3*
Operating profit	342,160	181,274	647,851	371,474	–29,314	–7.9
Net adjustments for impairment of loans and other activities	(168,339)	(74,310)	(423,839)	(198,990)	30,651	15.4
Income (loss) before tax from continuing operations	212,366	105,692	324,941	281,703	–69,337	–24.6
Parent Company's net income (loss) for the period	154,053	67,603	232,293	191,468	–37,415	–19.5

Operating structure	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Change A – B		Change A – C		Change A – D	
	A	B	C	D	amount	%	amount	%	amount	%
Headcount (employees and other personnel)	7,770	7,761	7,759	7,815	9	0.1	11	0.1	–45	–0.6
Number of branches	654	654	654	668	0	0.0	0	0.0	–14	–2.1

(*) This line item includes: amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss.
(**) Own Funds comprise the share of the net result for the period calculated in accordance with current regulations.

Bipiemme Group – Key ratios

	30.06.2015	31.03.2015	31.12.2014	30.06.2014
Structure ratios (%)				
Loans to customers/Total assets	67.9	66.1	66.5	66.7
Fixed assets/Total assets	2.3	2.3	2.3	2.3
Direct deposits/Total assets	74.6	73.9	76.3	74.4
Funds under management/Indirect deposits	59.1	56.3	54.8	51.7
Loans to customers/Direct deposits	91.0	89.5	87.1	89.6
Profitability ratios (%) (annualised)				
Net income (loss)/Shareholders' equity (excluding net income (loss) for the period) (ROE) (a)	7.1	5.9	5.4	9.0
Net income (loss)/Total assets (ROA)	0.6	0.5	0.5	0.8
Cost/income ratio	58.5	57.4	60.0	57.0
Risk ratios (%)				
Net bad loans/Loans to customers	4.35	4.17	4.19	3.78
Coverage of gross bad loans to customers	54.9	55.8	55.9	56.0
Index of coverage of gross performing loans to customers	0.67	0.69	0.73	0.68
Productivity ratios (Euro/000) (b)				
Direct deposits per employee	4,736	4,694	4,748	4,643
Loans to customers per employee	4,309	4,201	4,134	4,161
Assets under management per employee	2,603	2,530	2,303	2,128
Assets under administration per employee	1,799	1,965	1,899	1,988
Capital adequacy ratios (%) (c)				
Common equity tier 1 ratio	11.35	11.57	11.58	11.23
Tier 1 ratio	11.89	12.12	12.21	11.84
Total capital ratio	14.37	14.86	15.35	15.67
Information on the BPM stock				
Number of shares:	4,391,784,467	4,391,784,467	4,391,784,467	4,391,784,467
in circulation	4,390,388,893	4,390,388,893	4,390,388,893	4,390,388,893
treasury shares	1,395,574	1,395,574	1,395,574	1,395,574
Official stock price at the end of the period – ordinary share (Euro)	0.941	0.945	0.543	0.660

a) Shareholders' equity at end of period
b) Number of employees at end of year including personnel with other types of contract
c) The ratios have been calculated including the share of the net result for the period calculated in accordance with current regulations.

Bipiemme Group – Consolidated reclassified income statement, net of non-recurring transactions

As required by CONSOB communication DEM/6064293 of 28 July 2006, the table below shows the impact of the following non-recurring transactions on the consolidated result.

(Euro/000)

Line items	First half 2015			First half 2014			Change A – D		Change C – F	
	A = B + C	B	C	D = E + F	E	F	amount	%	amount	%
	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net income (loss)	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions				
Interest margin	**402,880**	**0**	**402,880**	**407,246**	**0**	**407,246**	**(4,366)**	**-1.1**	**(4,366)**	**-1.1**
Non-interest margin:	**420,653**	**(11,504)**	**432,157**	**457,061**	**0**	**457,061**	**(36,408)**	**-8.0**	**(24,904)**	**-5.4**
– Net fee and commission income	306,753	0	306,753	276,361	0	276,361	30,392	11.0	30,392	11.0
– Other income:	113,900	(11,504)	125,404	180,700	0	180,700	(66,800)	-37.0	(55,296)	-30.6
- Profits (losses) on investments carried at equity	*19,083*	*0*	*19,083*	*11,945*	*0*	*11,945*	*7,138*	*59.8*	*7,138*	*59.8*
- Net income from banking activities	*70,827*	*(11,504)*	*82,331*	*144,691*	*0*	*144,691*	*(73,864)*	*-51.0*	*(62,360)*	*-43.1*
- Other operating charges/income	*23,990*	*0*	*23,990*	*24,064*	*0*	*24,064*	*(74)*	*-0.3*	*(74)*	*-0.3*
Operating income	**823,533**	**(11,504)**	**835,037**	**864,307**	**0**	**864,307**	**(40,774)**	**-4.7**	**(29,270)**	**-3.4**
Administrative expenses:	(448,249)	(2,180)	(446,069)	(455,289)	(8,491)	(446,798)	7,040	1.5	729	0.2
a) personnel expenses	*(303,365)*	*(2,180)*	*(301,185)*	*(320,480)*	*(8,491)*	*(311,989)*	*17,115*	*5.3*	*10,804*	*3.5*
b) other administrative expenses	*(144,884)*	*0*	*(144,884)*	*(134,809)*	*0*	*(134,809)*	*(10,075)*	*-7.5*	*(10,075)*	*-7.5*
Net adjustments to property and equipment and intangible assets	(33,124)	0	(33,124)	(37,544)	0	(37,544)	4,420	11.8	4,420	11.8
Operating expenses	**(481,373)**	**(2,180)**	**(479,193)**	**(492,833)**	**(8,491)**	**(484,342)**	**11,460**	**2.3**	**5,149**	**1.1**
Operating profit	**342,160**	**(13,684)**	**355,844**	**371,474**	**(8,491)**	**379,965**	**(29,314)**	**-7.9**	**(24,121)**	**-6.3**
Net adjustments for impairment of loans and other activities	(168,339)	0	(168,339)	(198,990)	0	(198,990)	30,651	15.4	30,651	15.4
Net provisions for risks and charges	1,092	0	1,092	4,745	0	4,745	3,653	77.0	3,653	77.0
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	37,453	(1,398)	38,851	104,474	104,474	0	(67,021)	-64.2	38,851	n.s.
Income (loss) before tax from continuing operations	**212,366**	**(15,082)**	**227,448**	**281,703**	**95,983**	**185,720**	**(69,337)**	**-24.6**	**41,728**	**22.5**
Taxes on income from continuing operations	(58,144)	4,404	(62,548)	(89,926)	(1,982)	(87,944)	31,782	35.3	25,396	28.9
Net income (loss) for the period	**154,222**	**(10,678)**	**164,900**	**191,777**	**94,001**	**97,776**	**(37,555)**	**-19.6**	**67,124**	**68.7**
Net income (loss) for the period pertaining to minority interests	(169)	8	(177)	(309)	4	(313)	140	45.3	136	43.5
Parent Company's net income (loss) for the period	**154,053**	**(10,670)**	**164,723**	**191,468**	**94,005**	**97,463**	**(37,415)**	**-19.5**	**67,260**	**69.0**

	B	E
Non-recurring transactions:	**(10,670)**	**94,005**
Other income:	**(11,504)**	**-**
Net income from banking activities:		
Repurchase loans bonds	*(11,504)*	*–*
Taxes on income (a)	***3,804***	***-***
Operating income, net of taxes	***(7,700)***	***-***
Administrative expenses: a) personnel expenses	**(2,180)**	**(8,491)**
Solidarity Fund	*(2,180)*	*(8,491)*
Taxes on income (b)	*600*	*2,335*
Personnel expenses, net of taxes	***(1,580)***	***(6,156)***
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	**(1,398)**	**104,474**
Gain on the sale of Anima Holding	*–*	*104,474*
Divestment agreement effect Pitagora 1936	*(1,398)*	*–*
Taxes on income (e)	*–*	*(1,261)*
Profits from equity and other investments, net of taxes on income	***(1,398)***	***103,213***
Taxes on income from continuing operations:	**4,404**	**(1,982)**
Increase in taxes from 12% to 26% on the gain on shares in the Bank of Italy	*0*	*(3,056)*
Taxes on income (a + b)	*4,404*	*1,074*
Net income (loss) for the period pertaining to minority interests	**8**	**4**
Overall impact of the above operations on minority interests	*8*	*4*

Half-yearly report on operations of the Bipiemme Group

The macroeconomic scenario and the banking system

The international economy

World economic growth continues to be feature differing trends from area to area; in some important emerging markets (above all, Russia, China and Brazil) the effect of the slowdown has been more eloquent, in the US there are discordant signs, while in most of Europe and in Japan there has been a good recovery in the pace of expansion. World trade began 2015 with a decline that was particularly concentrated in emerging markets, with an unexpected fall in Chinese trade flows that has exacerbated the uncertainty about the country's prospects. Financial markets were characterised by tensions caused by the repeated failure of negotiations between Athens and its international creditors and the deep plunge taken by China's indices, which triggered fears about the sustainability of financial asset prices. **Oil prices**, after the lows in March, have risen to close the first half around area $60 a barrel.

In the **United States**, first-quarter GDP posted a quarterly annualised change of -0.8%, sharply down from +2.2% the previous quarter. What interrupted the positive trend that characterised the previous quarters was the fall in exports, due to the strengthening of the dollar against the euro and other major currencies, and the weakening of consumption and capital investment. The OECD's leading indicator has fallen below 100, indicating that the outlook for the economy could remain weak over the coming months. Consumer prices in June registered a change of 0.3% compared with the previous month. The Federal Reserve kept policy rates unchanged in a range between 0 and 0.25%, assuming a less rapid rise in interest rate than was forecast three months ago as a result of the lower growth prospects of the economy.

In **Japan**, GDP grew in the first quarter of 2015 by 3.9% on an annual basis, compared with a preliminary estimate of 2.4%. The upward revision is mainly due to capital expenditure that rose by 2.7%, compared with the +0.4% initially announced. Private consumption and residential investment also turned in a good performance. However, the forecasts remain oriented towards caution with an expectation of decelerating growth in the second quarter. The economic data for April do in fact indicate that household spending fell by 4.6% y/y, this being the fastest year-on-year decline since March 2011, when the tsunami forced the country to its knees. In addition, the PMI (purchasing managers index) for the of Japanese manufacturing sector again contracted slightly in June.

China's GDP in the first quarter of the year, as reported by the Statistics Office, showed a growth of 7% in annualised quarterly terms, down compared with the previous quarter (+7.3%). The OECD's leading indicator has fallen below 100, signalling a period of weak growth in the coming months. Price inflation remains low, with the June measurement at +1.4% on an annual basis. The industrial sector continues to contract, with June's PMI coming in at 49.6, up from 49.2 in May, reaching a three month high, but marking the fourth consecutive reading below the threshold of 50 points, which is the divide between growth and contraction.

Eurozone GDP in the first quarter of the year increased by **0.4%** from the previous quarter and by **1%** compared with the same period of 2014. This growth reflects an increase in household end-consumption (+0.5%), gross fixed investment (+0.8%), exports (+0.6%) and imports (+1.2%). Among the major states, the highest increases were registered in **Spain** (+2.7%) and **Holland** (+2.4%), while **Germany** and **France** had the lowest growth (+1% and +0.7% respectively). Industrial production in May rose by 1.6% on the same month last year. Retail sales in May showed a variance of +0.2% on a cyclical basis and +2.4% on a trend basis. The index of business confidence in May rose from -3.2 to -3, while that of consumer confidence went from -4.6 to -5.5. In May, the unemployment rate stood at 11.1%, unchanged from the previous month and down on May 2014 (11.6%). In the trend comparison, the countries that recorded the biggest decreases in the index are Spain (from 24.7% to 22.5%), Lithuania (from 11% to 8.2%) and Ireland (from 11.7% to 9.8%), while the largest increases affected Belgium (from 8.4% to 8.6%) and France (from 10.1% to 10.3%). Inflation in June fell to 0.2% from 0.3% in May (0.5% in June 2014).
On 9 March, the ECB launched a programme of Quantitative Easing by which it plans to purchase government securities of member states at a rate of Euro 60 billion a month up to a total of Euro 1,140 billion. In the first half, the ECB also allocated around Euro 170 billion to Eurozone banks the (of which 50 billion to Italian banks) by means of auctions known as TLTRO (Targeted Long Term Refinancing Operations) in March and June.

Greece, after months of uncertainty and failed negotiations, on 30 June turned insolvent to the IMF because of non-payment of the tranche of 1.6 billion euro that expired on that date. The situation has brought with it very serious consequences: Athens was forced to close the banks and Stock Exchange temporarily, while financial markets across Europe have been hit by speculation that has exacerbated volatility.

The Italian economy

In **Italy**, during the first half of the year, the economic indicators, both quantitative and qualitative, showed the first signs of a turnaround than in the past. GDP in the first quarter increased by **0.3%** from the previous quarter and by **0.1%** compared with the same period of 2014, the **indicators of consumer confidence** rose in June to 109.5 from 102.9 a year earlier, while those for businesses jumped to 104.3 from 95.4 in June 2014, with more than positive indications in all economic sectors (source: Istat). However, the growth trend in quarterly GDP is not evenly distributed in all its components: on a cyclical basis, in fact, after six positive quarters, end-consumption came to a standstill at a national level, resulting in a decrease of –0.1%, while exports posted a zero trend, reflecting the slowdown in trade to emerging countries (Russia and Brazil, above all). Conversely, positive short-term changes affected the imports (+1.4%) and gross fixed capital formation (+1.5%), with particular regard to those in transportation (+28.7%) and construction (+0.5%). In June, **foreign trade to countries outside the EU** showed a growth rate of +5.6% (net of a difference in working days) and imports by +9.4%, which doubles (+18.8%) excluding the energy component (–11.2%). The **trade surplus** amounted to 2.3 billion euro. In the first half of the year the balance with non-EU countries reached +13.9 billion euro, compared with +9.3 billion in the same period of the previous year.

The **unemployment rate** in May came to 12.4%, unchanged from the previous month, confirming a still uncertain trend in the labour market. In the age bracket between 15 and 24 years, unemployment stands at 41.5%, one of the worst in Europe, compared with an average of 22.1% for the Eurozone. Positive signs are increased use of open-ended contracts, as a result of the measures contained in the **Jobs Act** approved in February by the government, which provides, among other things, tax relief on direct and indirect costs for this type of contract. The decree also introduces new types of social safety nets, as well as a reorganisation of the various types of contract.

Inflation in June, for the second consecutive month, increased by 0.1% year-on-year (+0.1% short term). On an annual basis, prices of alcoholic beverages and tobacco recorded the largest increase (+3%) while the highest decrease was in communication prices (–2.1%).

Industrial production in May 2015 increased on a trend basis by +3%. On average for the first five months of the year, production increased by 0.5% over the same period last year. As for business, the sectors that registered the highest growth are those for the manufacture of coke and refined petroleum products (+16.2%), the manufacture of transport equipment (+15.4%), and the production of basic pharmaceutical products and pharmaceutical preparations (+10.5%). The largest decreases were in mining (–12.1%), textiles, clothing, leather and accessories (–1.4%) and food, beverages and tobacco (–0.5%).

Financial and foreign exchange markets

With reference to the yield on the ten-year Italian government bond, after the sharp fall that characterised its performance in the first quarter, a direct result of the start-up of the ECB's quantitative easing programme, from the second quarter, as a result of tensions related to the Greek debt negotiations, the differential against the German Bund began to rise again, reaching 155 points by the end of June (+21 basis points versus the end of 2014). With respect to equity markets, in the first half-year the best performance was that recorded by the Italian Stock Exchange, with the FTSE MIB index having increased by just over 18%. The German DAX 30 index rose by 12% as did the French CAC 40 index. On the contrary, the British index (FTSE 100) fell by 0.7% whereas the US S&P's 500 index closed with +0.2%.

The European banking sector index **(Euro Stoxx Banks)** rose in the first half-year by 11.5% and the **FTSE Italia All Share Banks** index rose by 27%.

During the last meeting, the Governing Council of the ECB decided not to change interest rates on main refinancing operations, on marginal refinancing operations and on deposits with the central bank that thus stood at 0.05%, 0.30% and –0.20%, respectively.

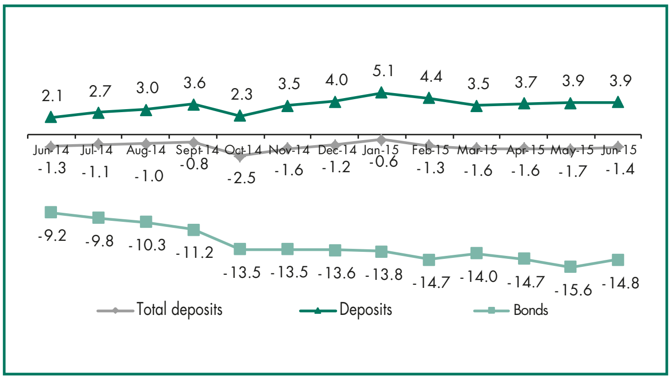
The **single currency** ended the first half-year at 1.11 against the **dollar**, down 8% compared with the end of 2014 and by approximately 18% with respect a year earlier. The fall in the exchange rate against the dollar was driven by the quantitative easing programme launched by the ECB and by tensions connected with the risk of Greece leaving the Eurozone.
As regards the Japanese **yen**, at the end of June, the exchange rate stood at 137, a fall of 5% below what it was at the end of the year and almost unchanged on a year earlier.

The banking industry

As of June 2015, according to the figures issued by ABI, funding from resident customers, represented by **deposits** (current accounts, time deposits, deposits repayable with notice and repurchase agreements, net of transactions with central counterparties and transactions involving the sale of receivables) and **bonds** (in the hands of resident and non-resident customers and recorded at nominal value, including subordinated liabilities and excluding those repurchased by banks), amounted to approximately Euro 1,686 billion. This represents a decrease year-on-year of 1.4%, equal to a reduction in the stock of deposits by about Euro 23 billion, and a decline on December 2014 of 1.2%. The trend reflects an increase in deposits (+3.9%) and a contraction in bonds (–14.8%).

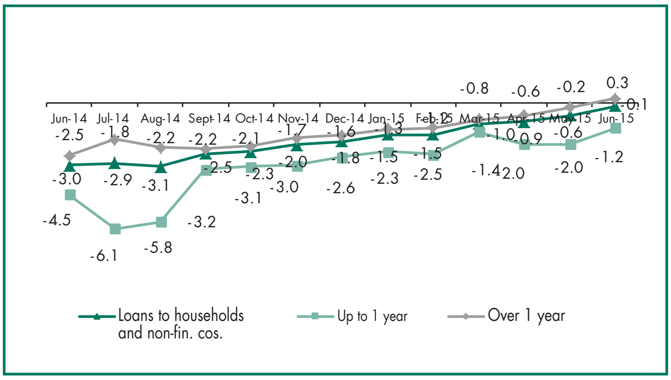
Bank loans to companies and families improve in June 2015. In particular, total outstanding loans to households and businesses, for a total of 1,415 billion euro, was almost exactly the same as at the end of June 2014 (the best result since April 2012). Considering the breakdown by maturity, the long-term component (over 1 year) posted a change of +0.3%, whereas the short-term component (up to 1 year) decreased by 1.2%.

Italian banks: changes in funding



Source: Abi Monthly Outlook – June 2015

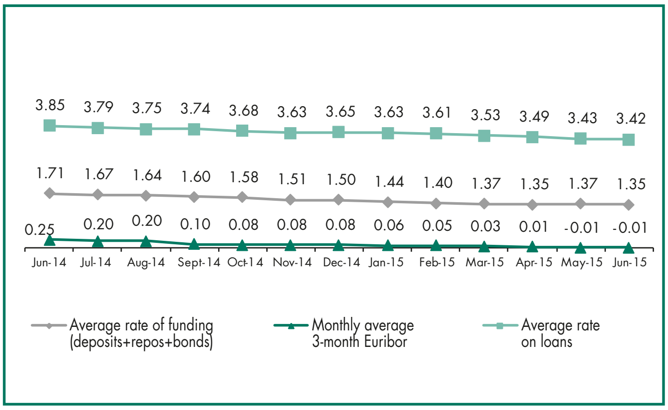
Italian banks: changes in lending



Source: Abi Monthly Outlook – June 2015

In May 2015 – the last figure available – gross non-performing loans came to 194 billion euro, a new record in absolute terms, but getting better, with a trend in deceleration (+14.9% compared with +24.2% in May 2014). Non-performing loans net of writedowns totalled 83 billion Euro, an increase of Euro 7.1 billion Euro compared with the same period of the previous year (+9.3% and +11.5% of the previous year). The ratio of net non-performing loans to total loans is 4.6%, compared with 4.2% of a year earlier and substantially unchanged on December.

Interest rates compared with 3-month Euribor - monthly averages



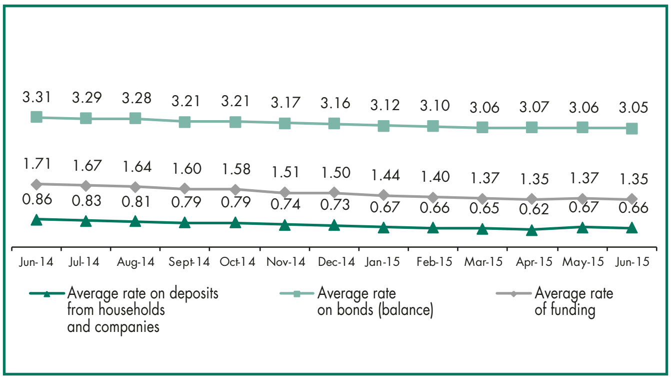
Source: Abi Monthly Outlook – June 2015

As regards interest rates, the average 3-month Euribor rate for June 2015 stood at **–0.01%**, compared with 0.08% for December and 0.25% for June 2014. In April 2015 it fell for the first time **(–0.01%)** as a direct result of the ECB's quantitative easing programme.

The average rate on 10-year **interest rate swaps** stood at 1.17% in June 2015 (0.90% in May).

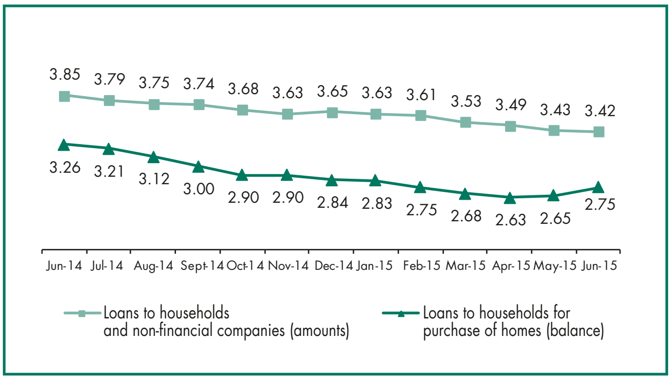
The **average interest rate on deposits** in Euros applied to households and non-financial companies (on deposits, repos and bonds) in June came to 1.35% (1.5% in December and 1.71% in June 2014) and the **weighted average rate on loans** to households and non-financial companies came to 3.42% (compared with 3.65% in December and 3.85% in June 2014).
The **spread** between the average rate on loans and the average rate on borrowings from households and non-financial companies came to 207 basis points in June 2015 (212 basis points in December 2014 and 214 basis points in June 2014).

Italian banks: interest rate on funding



Source: Abi Monthly Outlook – June 2015

Italian banks: interest rates on loans



Source: Abi Monthly Outlook – June 2015

As regards the **securities portfolio**, ABI reports that in June 2015 the aggregate came to 781 billion Euro, compared with the June 2014 figure of 861 billion Euro (–9.3%) and the figure reported in December 2014 of 827 billion (–5.6%).

Assets under management

The total funds handled by the asset management industry at the end of June came to 1,714 billion Euro, with net inflows that in the first six months of the year exceeded 95 billion Euro, of which 69 billion Euro in collective management schemes and the rest in individual portfolio management schemes (source: Assogestioni). In particular, Italian and foreign open-ended funds had total assets under management of 780 billion euro, representing an increase of 26% since the same period in 2014 and 15% since December 2014.
Italian open-ended funds had total assets under management amounting to 229 billion euro and reported an increase of 22% compared with June 2014 and of 11% compared with December 2014. Net inflows since the beginning of the period total 18.2 billion euro. Foreign funds (551 billion Euro of assets under management) increased by 28% since June 2014 and by 16% since December 2014.
A breakdown of open-ended mutual funds by type of investment shows a predominance of bond funds (43.2%), followed by flexible funds (23.7%) and by equity funds (21.3%), while balanced funds represent 7.2% and monetary funds 3.7%. Lastly, hedge funds represent 0.7% while 0.1% of the total are unclassified.
With reference to retail portfolio management, assets under management amounted to 128 billion euro in June 2015, an increase of 24 billion euro since June 2014 (+24%) and 17 billion euro since December 2014 (+15%).

Significant events for Banca Popolare di Milano and the Bipiemme Group

The main events that took place in the first half of 2015 are reported below.

Governance

On **20 January 2015**, the Supervisory Board of the Bank performed its annual verification of its members' independence requirements in accordance with art. 148, paragraph 3, of Legislative Decree 58/98 ("CFA") and art. 3 of the Code of Conduct for Listed Companies (hereinafter the "Code"). Based on these checks, all of the members of the Supervisory Board were found to meet the independence requirements of the CFA; the following Board members met the independence requirements of the Code: Dino Piero Giarda (Chairman), Mauro Paoloni (Deputy Chairman), Marcello Priori (Deputy Chairman), Alberto Balestreri, Andrea Boitani, Angelo Busani, Emilio Luigi Cherubini, Maria Luisa Di Battista, Donata Gottardi, Piero Lonardi, Flavia Daunia Minutillo, Alberto Montanari, Giampietro Giuseppe Omati, Luca Raffaello Perfetti, Cesare Piovene Porto Godi and Lucia Vitali.

On the same date, the Supervisory Board approved the composition of the following sub-committees:

- **Internal Control Committee:** Alberto Balestreri (Chairman), Carlo Frascarolo, Dino Piero Giarda, Piero Lonardi and Cesare Piovene Porto Godi (subsequently reformed on 17 June 2015, see below).
- **Nominations Committee:** Dino Piero Giarda (Chairman), Angelo Busani, Carlo Frascarolo, Alberto Montanari and Luca Raffaello Perfetti.
- **Remuneration Committee:** Dino Piero Giarda (Chairman), Andrea Boitani, Carlo Frascarolo, Roberto Fusilli and Lucia Vitali.

On **24 February 2015**, the Management Board of the Bank performed its annual verification of whether or not its members qualified as independent or executive directors in compliance with art. 148, paragraph 3, of Legislative Decree 58/98 (CFA) and with the supervisory provisions of the Bank of Italy concerning corporate governance and based on the principles of the Code. The results are reported in the following table:

First name	Office	Independent ex CFA	Independent ex Code of Conduct	Executive
Mario Anolli	Chairman	YES	NO	NO
Giuseppe Castagna	Managing Director and General Manager	NO	NO	YES
Davide Croff	Board member	NO	NO	YES
Paola De Martini	Board member	YES	YES	NO
Giorgio Angelo Girelli	Board member	YES	NO	NO

On **11 April 2015** the Ordinary General Meeting of the Members of Banca Popolare di Milano took place in Milan, chaired by Dino Piero Giarda.
Having taken note of the consolidated financial statements of the Bipiemme Group at 31.12.2014, which closed with net income of around Euro 232 million, and the financial statements of the Parent Company at 31.12.2014 approved on schedule by the Supervisory Board on 17 March, the General Meeting of Members resolved to distribute the net income of Banca Popolare di Milano by **paying a dividend of Euro 0.022 per share**, that is payable from 20 May 2015, on presentation of coupon no. 45. BPM's shares will go ex-coupon on 18 May 2015.
The General Meeting of Members of 11 April - after having approved the remuneration policies and having authorised the Management Board to purchase and sell treasury shares - appointed the Arbitration Committee for the years 2015-2017, consisting of Italo Ciancia, Cinzia Finazzi and Guido Paolo Mina (Acting Arbitrators) and Piergiovanni Rizzo and Giancarlo Tarantola (Alternate Arbitrators). The General Meeting of Members also appointed PricewaterhouseCoopers SpA to audit the separate financial statements of the Bank and the consolidated financial statements and half-yearly financial report of the Bipiemme Group for the period 2016-2024, approving their fees.

On **21 April 2015**, Flavia Daunia Minutillo, Supervisory Board Member, resigned in order to comply with Consob's regulations concerning limits to the accumulation of offices that members of the supervisory bodies of listed companies can hold simultaneously, as well as of the so-called ban on interlocking directorates. In accordance with art. 48, paragraph 1, of the Articles of Association, the Supervisory Board has been integrated with the inclusion of Maria Luisa Mosconi, the first candidate not elected from the same list as the outgoing board member. On **12 May 2015** the Supervisory Board verified positively that the Board member Maria Luisa Mosconi met the requirements of integrity, professionalism and independence for holding office laid down by the legislation, by the Articles of Association and by the Code of Conduct for listed companies.

On **17 June 2015**, the Supervisory Board proceeded to restructure the composition of the Internal Control Committee with the inclusion of Maria Luisa Di Battista to replace Dino Piero Giarda. The Committee is now composed by: Alberto Balestreri (Chairman), Maria Luisa Di Battista, Carlo Frascarolo, Piero Lonardi and Cesare Piovene Porto Godi.

Assignment of shares of Istituto Centrale Banche Popolari Italiane (ICBPI)

On **19 June 2015**, Banca Popolare di Milano – along with other shareholder banks of Istituto Centrale delle Banche Popolari Italiane SpA (**"ICBPI"**) – signed a preliminary contract to sell 85.79% of the capital held in ICBPI to Mercury Italy Srl (a vehicle indirectly participated by the investment funds Bain Capital, Advent International and Clessidra Sgr). In particular, BPM undertook to sell 4%, maintaining a 1% stake in ICBPI. Depending on the final price of the sale, this transaction will generate a net gain of between Euro 64 million and Euro 70 million, with a positive impact on Common Equity Tier 1 of 19-21 basis points, respectively.

Ownership Structure of Anima Holding

On **25 June 2015**, Banca Popolare di Milano announced that final agreement had been reached for the acquisition by Poste Italiane (**"Poste"**) of 10.3% of the investment held by Monte dei Paschi di Siena (**"MPS"**) in Anima Holding SpA (**"Anima"**), given that all the conditions precedent stipulated in the preliminary contract between MPS and Poste had taken place. At the date of execution of the sale, Poste took over all of the rights and obligations of MPS under the shareholder agreement relating to the Anima shares originally signed on 5 March 2014 by MPS and BPM.
As part of this transaction, BPM has undertaken *(i)* to sell to third parties that are not related parties of BPM and/or Poste the shareholding in excess of the thresholds listed in art. 106 of Legislative Decree 58 of 24 February 1998, no later than twelve months from the date of completion of the sale of the Anima shares held by MPS to Poste and *(ii)* not to exercise its voting rights for the shares in excess of this threshold until completion of the sale mentioned in point (i). This commitment will automatically become ineffective if Consob, to which a specific question has been posed, is of the opinion that the signatories of the shareholder agreement are not obliged to make a takeover bid for 100% of the Anima shares.

Redemption and repurchase of bonds

On **16 March 2015**, Banca Popolare di Milano launched a voluntary public offer for the partial repurchase of some of the senior bonds that it had issued and placed with retail customers up to a maximum nominal value of Euro 165 million (**"Offer"**). During the Offer acceptance period, the Bank increased the maximum nominal value of the securities involved in the Offer by up to a further Euro 200 million, bringing the maximum nominal value of the repurchase to Euro 365,000,000.
On **22 April 2015**, Banca Popolare di Milano announced that the aggregate nominal value of the bonds validly submitted in acceptance of the Offer and repurchased by BPM amounted to Euro 358,450,000. On the same date, the Bank has also announced that the Offer was effective, given that none of the negative events to which it was subject had taken place. Payment of the consideration to those who had accepted the Offer therefore took place in accordance with the set terms and conditions. This transaction had a cost for the Bank, being the difference between the repurchase price and the book value of the securities issued, namely Euro 11.5 million.

Having verified that the transaction was compatible with the economic and capital situation and with market conditions and having obtained authorisation from the European Central Bank, on 2 April Banca Popolare di Milano went ahead with early redemption of the innovative capital instruments called **"BPM Capital Trust I 8.393% Noncumulative Perpetual Trust Preferred Securities"**, with a residual outstanding value of Euro 70,717,000, according to the terms laid down in the loan regulation. The redemption did not have any impact on the capital ratios and generated savings in terms of the maintenance cost of the instrument.

On **23 April 2015**, having obtained the necessary authorisations, Banca Popolare di Milano repaid ahead of schedule all of its bonds backed by a government guarantee issued on 23 March 2012 with a maturity date of 23 March 2017 and a total nominal value of Euro 500 million, subscribed for upon issue by the Bank without any market placement. Early repayment was decided after the ECB's decision not to accept these instruments as collateral for liquidity requests any more. Repayment of this liability – which does not have any effect on the financial statements nor on regulatory capital – enables the Bank to save on the cost of the guarantee.

Share buy-back plan

On **23 June 2015**, having received the required authorisation from the European Central Bank, BPM's Management Board approved a plan to purchase treasury shares to be allocated to employees (**"Plan"**), in accordance with the resolution of the Bank's General Meeting of Members of 11 April 2015, with the aim of:

- implementing the provisions of art. 60 of the Articles of Association, in accordance with accepted market practice, which provide for the distribution in shares, to all current employees, with the exception of those who hold senior positions, for an amount equal to 5% of gross profit for the year 2014;
- establishing a stock of shares, in accordance with accepted market practice, to implement the Bank's remuneration policies and, in particular, to carry out the plan to allocate BPM ordinary shares to so-called "key personnel", as approved by the Ordinary General Meeting of Members held on 11 April 2015 pursuant to art. 114-*bis* of Legislative Decree 58/98 and art. 84-*bis* of the Issuers' Regulation.

The duration of the Plan was set by the Management Board, namely 24 June 2015 - 27 July 2015 (both included), and the total maximum value of BPM shares purchased in execution of the Plan was set at Euro 17.1 million.

On **27 July 2015**, BPM terminated the plan for the purchase of treasury shares plan decided by the Management Board on 23 June 2015 (**"Plan"**), by purchasing, between 24 June 2015 and 27 July 2015 (both included), a total of 16,821,746 treasury shares (0.383% of the ordinary shares issued), at an average price of Euro 0.956481 each, for a total of Euro 16,089,677.84. On the same date, the Bank assigned 16,688,831 BPM shares to all current employees, except for top management positions, in compliance with art. 60 of the Articles of Association. As of **28 July 2015**, taking into account the other treasury shares already in portfolio at the beginning of the Plan (1,395,574), the share purchases made in execution of the Plan (16,821,746) and the shares assigned to current employees as per art. 60 of the Articles of Association (16,688,831), BPM now holds 1,528,489 treasury shares, equal to 0.035% of its share capital.

The Bank's 150th anniversary celebration

On **17 March 2015**, Dino Piero Giarda, Chairman of the Supervisory Board, Mario Anolli, Chairman of the Management Board, and Giuseppe Castagna, Managing Director, held a special press conference to launch the celebrations for the 150th anniversary of BPM. The event provided an opportunity to illustrate the main initiatives being held and/or organised for the coming months, such as:

- **Casa BPM:** a space made available to the city, local partners and customers for the organisation of conferences, painting and photography exhibitions, meetings addressing historical and economic issues, musical and sporting events and other initiatives;
- **BPM Tour:** a journey through the main areas where the Bank is present, to allow local stakeholders to bear witness to this important anniversary;
- the issue of a **commemorative postage stamp** depicting the Bank that the Ministry of Economic Development has agreed to include in Poste Italiane's philatelic programme for 2015;
- **the Album of Milan:** 150 picture cards drawn by cartoonist Emilio Giannelli and distributed free of charge as a supplement to Sette magazine, showing the characters who have left their mark on Milan's history over the years from 1865 to 2015;
- ***Food for Thought, Food for the Soul:*** an initiative – under the patronage of the Presidency of the Council, of various Ministries and of UNESCO – which allows us to exhibit at the head office of the Bank, on a special stand, a book that is also being exhibited at the Expo to reflect on images and texts that remind us of the culture, art and knowledge that have nourished us;
- **a varied programme of celebratory events** for the public, which, beginning with the General Meeting held on 11 April, will continue until the end of 2015.

The reform of Italian cooperative banks

Article 1 of Legislative Decree 3 of 24 January 2015, ratified by Law 33 of 24 March 2015, has amended a number of provisions of Legislative Decree 385/1993 ("CBA") with regard to cooperative banks:

- has made it possible for banks to follow the cooperative banking model only if their assets do not exceed Euro 8 billion; banks that exceed this threshold must – within 12 months of exceeding it – adopt the necessary measures to ensure compliance with the law, such as reducing their assets below the permitted limit, transforming the bank into a joint-stock company or going into voluntary liquidation (art. 29, paragraphs 2-bis and 2-ter, CBA);
- introduces amendments to certain aspects of the rules governing those cooperative banks that are able to retain this status. In particular, it is envisaged that the reimbursement of shares to shareholders in the event of withdrawal, including the exercise of withdrawal rights in the case of transformation, may be limited, even as an exception to the rules of law, in cases where such limitations are necessary to include such shares in the bank's Common Equity Tier 1 (art. 28, paragraph 2-ter, CBA). The reform also makes it possible for cooperative banks – as is the case for cooperative companies under the Italian Civil Code – to issue the financial instruments envisaged in art. 2526 of the Italian Civil Code, the characteristics of which allow their inclusion in the bank's Common Equity Tier 1 (CET1); the same limitations on the reimbursement of shares to members also apply to these instruments.

On **9 June 2015**, BPM's Board of Management, assisted by the Internal Control Committee and the Chairman of the Supervisory Board, identified Citigroup and Lazard as the Bank's financial advisors for *(i)* the project to transform the Bank into a joint-stock company, following the conversion into law of Decree 3 of 24 January 2015, and *(ii)* the analysis and assessments in relation to any possible strategic options in view of the potential consolidation of the banking sector.

On **27 June 2015**, the Bank of Italy's introduced its supervisory instructions on "Cooperative Banks" (Bank of Italy Circular 285, Part Three, Chapter 4) containing the measures implementing the reform of cooperative banks (under Decree Law 3 of 24 January 2015, converted into Law 33 of 24 March 2015), the purpose being: *(i)* to establish the criteria for calculating the threshold of Euro 8 billion, at individual level for banks that do not form part of a banking group and at consolidated level for those that form part of a group; *(ii)* to define the cases in which reimbursement of shares to members in the case of withdrawal would be limited and the related methods. Note that the law requires cooperative banks that existed at the time Decree Law 3/2015 came into force to comply with art. 29, paragraphs 2-*bis* and 2-*ter*, within 18 months of the Bank of Italy's implementation instructions taking effect, i.e. from 27 June 2015.
On **7 July 2015**, the Management Board of Banca Popolare di Milano verified that it exceeded the threshold of Euro 8 billion of assets and therefore formally acknowledged that the Group was one of the banks involved in the reform and the various obligations that resulted from it.

Other significant events

As requested by Consob, on **26 February 2015**, Banca Popolare di Milano announced it had been notified of the European Central Bank's decision regarding the Bipiemme Group's minimum capital requirements. The minimum capital ratios communicated by the European Central Bank for Bipiemme Group are 9% for the Common Equity Tier 1 ratio and 11% for the Total Capital ratio. In this context, it was announced to the market that the Bipiemme Group fully complied with these minimum capital ratios, indeed its current and future ability to meet these prudential requirements was also highlighted. It should be noted that the consolidated capital ratios at 30 June 2015 are well above the minimum required (please refer to the section on "Own funds and Capital adequacy ratios" included in this Half-yearly Report).

On **3 April 2015**, accepting an appeal brought by the Consumer Movement Association against Banca Popolare di Milano, the Milan Court Civil Section VI issued an order which – in compliance with the provisions of the Stability Law 2014 which amended art. 120, paragraph 2 of the Banking Law – is prohibited from applying any further form of compounded interest with reference to the current account contracts already in existence or to be concluded with consumers in the future.

Events subsequent to 30 June 2015

On **13 July 2015**, BPM and Fondazione Cassa di Risparmio di Alessandria agreed that the shareholder agreements of September 2011 (subsequently amended to expire on 31 December 2015) would be extended for another three years from 13 July 2015 (excluding any automatic renewal after that deadline), taking into account that these agreements will terminate when BPM's transformation into a joint-stock company takes effect or when a corporate concentration involving BPM becomes effective.

On **6 August 2015**, after the favourable opinion expressed by the Supervisory Board, the Management Board approved the amendments to the Articles of Association needed to bring them into line with the new rules on cooperative banks, pursuant to art. 2365, paragraph 2 of the Italian Civil Code and art. 39, paragraph 2, letter u) of the Articles of Association, in particular: *(i)* raising the maximum number of proxies that can be given to each Member of the Bank to represent others at General Meetings to 10; *(ii)* attribution to the Management Board, after consulting the Supervisory Board, of the right to limit or delay, in whole or in part, the right to reimbursement of the shares subject to withdrawal.
The effectiveness of these amendments to the Articles of Association is subject to the approval of the Bank of Italy pursuant to art. 56 of Legislative Decree 385/1993.

The activities of the Bipiemme Group in the first half of 2015

1. Status of the Business Plan at 30 June 2015

Based on the guidelines laid down in the Bipiemme Group's Business Plan for the period 2014-2016 with projection to 2018, the projects of the 2015 Masterplan are currently under construction, divided into the following three areas, in line with the three guidelines of the Business Plan, and with the addition of Regulatory Adjustments to be implemented:

- solidity and resilience;
- commercial effectiveness;
- efficiency in supporting growth.

The 2015 Masterplan consists of **24 projects**; the project is monitored on a monthly basis. These activities led to some important results by 30 June 2015, as summarised below:

- the various processes of monitoring and granting credit to Corporate customers and Businesses were completed;
- the dispute management process was made more efficient, strengthening the "recovery machine" and activating the new mechanism for the recovery of NPL through outsourcers;
- the infrastructure for the door-to-door placement of products has been upgraded;
- the Group's inbound and outbound contact centre was developed further, achieving the target size foreseen in the Plan;
- the renovation of 52 branches was completed.

The main initiatives underway in 2015 – most of which have already been mentioned in the previous paragraphs – are as follows:

"Solidity and resilience"

- upgrading of the internal rating system for the validation of advanced AIRB methods for calculating the capital requirements for credit risk;
- processes and tools for monitoring and granting credit revised and optimised;
- processes for the management of problem loans strengthened.

"Commercial effectiveness"

- network of financial advisors developed;
- evolution of sales systems and processes through the Bank's various channels (direct and physical) in order to simplify operations and reinforce commercial efficiency, based on an integrated multi-channel strategy;
- evolution of the service models addressing the more profitable customer segments, with the introduction of new operational models and stronger commercial monitoring of corporate, private banking and retail customers;
- introduction of a benchmark for the monitoring of service levels and standardisation of the process for measuring customer satisfaction.

"Efficiency to support growth"

- completion and consolidation of the new IT system to support the management and development of the Group's human resources;
- definition and implementation of a new data warehouse architecture, drawing on the original with a view to simplification, flexibility, optimisation and user-friendliness;
- rationalisation of the management of the Group's properties and available space, with the optimisation of costs.

The following are the main activities related to the commercial, financial, risk management, audit and compliance, organisation and information technology areas.

2. Sales and marketing

During the first half of 2015, we continued the actions foreseen in the Business Plan to acquire new customers, ensure their centrality and improve the Group's ability to interact with them.

The following principal initiatives relate to the various customer segments.

Individuals

Customer dynamics – acquisition and caring

In line with the commercial priorities, a contest was introduced for the Retail network referred to as **"Bpm Team Cup"**, to encourage the opening of new accounts by non-bank customers (corporate or individuals). This event, which involved the entire BPM network, helped us between February and May 2015 to acquire more than 21,000 new account holders, raising daily performances by up to 50% compared with the same period last year. The balance between customers acquired and customers lost has also improved compared with the same period last year.

During the period, we promoted and enhanced the partnership with **AC MILAN** (BPM is the company's top sponsor) through the creation of a prize called **"Scendi in campo con noi"**, in conjunction with the new 2015/2016 season ticket campaign, which publicised the possibility for new customers who open an account and buy an AC Milan season ticket, benefiting from a bonus coupon or discount on the season ticket.

Lastly, as part of the **"Offerta Privati"** project, we released the "After sales", "Pin Change" and "Banking" features relating to the Debit Mastercard.

e-money

After the test phase launched in December 2014, the new **Cartimpronta Debit MasterCard** was released to the entire sales network starting in February. This is an innovative debit card, which allows customers to make purchases through physical and online merchants guaranteed by high security standards through the introduction of the "pin change" and "secure code" features. The new card was also promoted during the "Stramilano 2015" (Milan marathon), which BPM has always sponsored.

As regards prepaid cards, during the first half of 2015 we continued the channelling of regional payments from the **Fondi Regionali Cresco** (for the proper nutrition of mothers and their children) and **Sostengo** (for parents who are separated), as was the case for the **Fondo Nasko** (with more than 20 million euro disbursed in three years from 2010).
BPM is now the Lombardy Region's sole partner for the distribution of these funds, increasing our active presence in the territory.

Mortgage loans to individuals and personal loans

The first half was characterized by a campaign to promote floating-rate mortgages with spreads differentiated according to the duration of the loan. In particular, from March 2015, the Mortgage Promo, that was being offered with a spread starting at 1.50%, has been enriched and expanded with the following interventions:
- reduction of the minimum limit to access the subrogation offer;
- extension of the offer (subrogation and new loans) to 30.06.2015 with disbursements by 30.09.2015;
- extension of the offer at the same conditions also on the Mutuionline channel, one of BPM's commercial partners.

These have enabled us to considerably increase applications compared with the same period of the previous year, with peaks close to 500% in the months of April and May.

In order to increase the penetration of personal loans, from the end of June there is a new campaign that offers an advantageous rate of 5.50% for all customer profiles (except for liquidity purposes). This campaign involves not only the presence on the BPM window circuit and on the website www.bpm.it, but also customer contact through SMS and Direct E-Mail Marketing (DEM).

Asset management

Assets under management within the retail network continued to grow strongly during the half-year, thanks to attentive product offerings linked to Anima SGR funds and Class I and III and Multiple Class BPM Vita policies, which met with the approval of customers and generated significant net inflows.
All of this was possible thanks to the issue of maturity funds, the various editions of which have been revised from time to time based on the relevant financial markets. This approach made it possible to offer customers new solutions able to diversify the composition of the portfolio, also by means of investment solutions with the possibility of distributing coupon flows, as well as the placement of a protected Multiple Class policy.

Small Businesses

During the first half of 2015 we continued our commitment to provide financial support for the development of businesses. To enhance the Bank's role of this segment, the operational model for the small business network was revised in order to make it more effective and responsive to market needs. The aim is to follow companies with more and more professionalism and speed in order to recognise their opportunities and help them grow.
The main adjustments were:
- **further specialisation on the part of the network of managers devoted to this segment.** We have identified the companies that are defined **Premium Businesses** (with a turnover of between 5 and 15 million euro), to which we have dedicated the new Premium Business Managers, who have been specially appointed and trained to handle the needs of this sub-segment;
- **appointment of Cluster Business Specialists,** with powers of both pricing and credit, to support the Business Managers;
- **allocation of greater and more effective powers** of pricing and credit to the Territorial Districts;
- **opening of a "Development Office",** located locally, but reporting to head office. The purpose of this office, which has pricing powers, is to research for SME prospects, acting on the basis of research and analysis of potential customers.

The measures taken have made it possible, among other things, to turn round the trend in customers from the previous year's negative to positive. New customer acquisition was driven largely by **"Welcome Businesses"**, a product launched in a new version during the month of October 2014. It is no longer subject to annual review and has six variants: three "promo" and three "standard". By 30 June 2015, this new type of account had led to the acquisition of more than 7,500 new customers.
Lastly, we would like to mention the main initiatives undertaken during the first half of 2015:
- The **commercial covenant loan** was launched as part of the "business in recovery" campaign. This type of loan provides for a pact (or "covenant") between the Bank and the Company by which the borrower undertakes to allocate "preferential" workloads to BPM in exchange for the Bank granting particularly favourable conditions. This new loan underlines the importance of creating a partnership between the company and the bank, which is based on greater mutual understanding, closer cooperation and a continuous and transparent dialogue;
- **New Sabatini credit line for capital assets:** BPM signed up for the new agreement between the Italian Banking Association (ABI)/Ministry of Economic Development (MED) and Cassa Depositi e Prestiti (CDP). This provides for the granting of loans from CDP funds with a 275 bps interest subsidy from the MED. Micro, small and medium-sized enterprises in almost all productive sectors can benefit from this agreement, providing they can satisfy the following requisites at the date of applying for the loan:
  - the company has to have its operational headquarters in Italy, be properly incorporated and registered in the Companies Register;
  - they have to be in full and free exercise of their rights, not be in voluntary liquidation or subject to bankruptcy proceedings for insolvency;
  - they must not be one of the companies that received aid that was deemed illegal or incompatible by the European Commission (and then either not refunded or deposited in an escrow account) .

In order to ensure that this initiative is able to foster business development, the funding must be used entirely for the purchase or acquisition (in the case of financial leases) of brand-new plant and machinery, capital goods and equipment for use in production, as well as hardware, software and digital technologies. Lastly, eligible investments must be used: to create a new production unit; to expand an existing production unit; to diversify the production of a particular factory; to change the production process of an existing production unit or to acquire the assets directly linked to a production unit (in the case of a production unit that has been closed down).

- **EIF microcredit:** having achieved positive results, the initiative commenced last year together with the European Investment Fund was expanded by increasing the credit line available for micro-credit operations by 6 million Euro. The loans granted from this credit line are intended for micro-enterprises and self-employed people working in various sectors of the economy, except for those excluded from EU subsidies. Eligible activities have to have at least one of the following characteristics:
  - the business was set up as a result of a career change following a job loss;
  - the business has to have good growth potential, but be struggling to get credit for lack of guarantees;
  - for-profit or not-for-profit businesses that employ disabled people or people potentially excluded from the labour market;
  - businesses that increase the number of their employees and/or perform activities of social value.

  The objective is to provide loans of up to Euro 24,500 to support local initiatives, also by means of agreements at local level, such as the Under 35 Microcredit project to help business ventures in the Milan area.
- **Agreement with Finlombarda – Finpiemonte – Puglia Sviluppo:** the local economy is also supported by entering into agreements with public sector entities in the area that offer start-ups or existing businesses various types of subsidies, which result in specific lines of action:
  - mixed funds, i.e. co-financing by both the entity and the bank so as to share the risk and reduce the cost to the beneficiary;
  - sureties issued by the entity in order to help businesses that have good prospects, but which the loan applications show are lacking in collateral;
  - an interest subsidy to reduce the cost of the investment.
- **EIB funding:** funding by third-party entities, particularly those provided by the European Investment Fund (EIB), for the benefit of companies that need to finance their working capital or are planning to make investments. Use of these funds is revolving, which makes it possible to continue the offer over time. In situations of large and well-defined investments, EIB makes direct loans, asking the Bank to share the risk by issuing specific guarantees.
- **SEPA project:** having completed the migration to the new tools for SEPA Credit Transfers (SCT) and Direct Debits (SDD), we have continued to provide support to customers who are still in the process of familiarising themselves with these new situations. The SEDA pan-European product was completed and released as an optional service for the electronic exchange of SDD information between companies and banks.
- **MyBank and CBill services:** MyBank is a new payment tool in the world of e-commerce and is part of a pan-European project promoted by EBA Clearing which the Bank has joined together with ICBPI. The service is configured as an Internet payment system, to be used as an alternative to credit cards and PayPal. CBill, on the other hand, is a new e-billing service introduced as part of the CBI circuit, which allows Home Banking or Corporate Banking users to consult and pay bills issued by billers that are customers of CBI. The number of billers who have signed up is expanding and it is now possible to pay your TV licence to RAI or your taxes to Equitalia through CBill.
- **Electronic invoicing:** we have continued to promote the electronic invoicing service in collaboration with ICBPI, which was joined by the "light" version for customers that have a limited number of bills.
- **Agreements with trade associations:** new agreements have been entered into with the following trade associations:
  - **Confindustria Pavia:** through which the Bank has made available to SMEs operating in the area a Euro 15 million credit line to finance investment in plant and machinery, expansion of production, development of human capital, research and innovation;
  - **ANPAS National Association** (under renovation), which includes a number of welfare institutions, to finance the purchase of emergency vehicles on very favourable terms.

Lastly, the sponsorship, as the only banking partner, of the **"Outside Expo Confartigianato" Italian Makers Village**, which is a review of excellent examples of Italian craftsmanship that is being held concurrently with EXPO 2015.

Private banking

During the first half of 2015, the private banking business concentrated above all on customer relations with a focus on advisory services from a protective point of view, in an environment characterised by a generally positive market trend, but with increased volatility.

BPM's **Private Banking** structure has increased its distribution network which now consists of 12 private banking branches and 13 offices with the opening of branches in Bari and Naples, located in areas where the Group has a long-standing presence and others that are considered strategic for the growth of this sector, with a total of 74 account managers, an increase on last year in line with the objectives of the Business Plan.
Product diversification continued throughout the period, thus making new investment solutions available to private banking customers; in particular, Anima has broadened its range of fixed-term bond funds, as well as the Open range. In addition, a multi-brand range has also been developed following the signing of new distribution agreements with leading international asset management companies, that can provide investment solutions able to provide returns not correlated to traditional forms of investment ("alternatives" and "multi-strategy" products), while asset administration products have been diversified via the offer of certificates that guarantee and protect the initial capital.

As regards Banca Akros's private banking business – focused on a select clientèle in the high net-worth segment – the bank has continued its development of specialist services in the field of asset management by leveraging recognised customisation features of the service, in a context of "open architecture", and in the administration, collection and execution of orders on domestic and international markets.

Multichannel Banking

Following the merger of Webank with Banca Popolare di Milano in November 2014, the Multi Channel Banking function was launched to supervise projects designed to develop the multi-channel model for the benefit of all customers through **Webank brand** – which retains its distinctive position in customer acquisition through digital channels throughout Italy – and the **network of financial advisors**.

In this context, work continued on activating the financial advisory service for Webank customers, initially taking advantage of the skills of the physical network and then developing an advisory model that is also available through remote channels. The acquisition strategy in past years has allowed Webank to create a solid base of affluent customers with considerable potential to increase their assets under management, as evidenced by a substantial net inflow of funds during in the first half.

In February 2015, we launched the new Webank mobile banking application, an innovative and revolutionary app that has changed and simplified the way that customers interact with the Bank. While maintaining high security standards, the new app makes it possible for customers to have functions available very rapidly with just a touch and to see their balance without any need to enter the access codes, thanks to icons preset by the customer or by shaking their smartphone. Cardless withdrawals can also be made with the app: the interface of the app displays a one-time code to authorise the transaction on the keyboard of any ATM of the Group, without having to insert a card.

The new Webank app has immediately won awards, ranking in the classification of the Osservatorio Finanziario on the top step of the podium as the best finance app of 2015, competing against a whole range of Italian banking apps. Another appreciation came from Business International which awarded the "MT4 Award 2015" in the category "Digital Transformation at Banks" to BPM for the Cardless withdrawal function.

The following new project activities were launched during the period, confirming the importance of the "Multi-channel – direct channels" segment:
- "Mobile Webank and BPM": with the objective of developing Webank and BPM apps, introducing innovative features to ensure constant improvement in customer service;
- "Advisorship": with the aim of extending the financial advisory service to Webank customers at the branches;
- "Remote Digital Signature": with the aim of releasing the Remote Digital Signature to all Webank and BPM private banking customers.

At the same time, innovation on the T3 advanced trading platform continued. A version for Android has been presented as a product designed to support Webank's position as one of the leaders in online trading. The constant commitment of the Bipiemme Group to continue on the path of innovation has been confirmed with the launch of the Webank app for the Apple watch on 10 June 2015, the first by a financial institution in Italy.
Particular attention has been paid to the growth of home mortgage business under the Webank brand through the direct channel and through specialised portals. Underlying this well-established model, based on five years' experience, there is a range of distinctive products at an all inclusive rate, attention to the levels of customer service and timely reformulation of the offer based on how the competitive scenario has evolved.

All these innovations have allowed us to increase the number of active mobile customers by 11% in just the first month, and to double the number of accesses per user. This growth was supported by a TV campaign from February to April, focused on the simplicity of interaction between the customer and the bank through this innovative mobile app, achieved not only thanks to new technologies, but also by listening to the suggestions made by customers. Co-marketing activities have continued with further development of the network of leading e-commerce partners (such as Unieuro). Local events, training webinars and our traditional participation at the Investment & Trading Forum in Rimini have all contributed to the acquisition and retention of customers as traders and investors.

During the period, a number of commercial actions were undertaken to increase product penetration with the customer base of Webank account holders and to stimulate their use. In particular, three competitions took place in March and June. The communication tools used to advertise sales promotions include - in line with the ever-changing digital world - the banners on the Webank site, text messages, the proactive chat line, inbound and outbound calls, to which has now been added to the push notification and responsive landing page through the new Webank app.

The **“Advisors Network Development”** project was started in 2015 in order to activate a network of financial advisors to support and develop Webank and BPM's affluent customers with a high-tech approach (involving sales visits, digital/paperless processes, etc.), all on a multi-channel distribution platform that provides integration between virtual and physical channels. This initiative, which is one of the development projects of the 2014-2016/2018 Business Plan, aims to achieve a network of 300 advisors by 2017, with rapid acquisition of new customers, the development of existing customers and of Webank customers, an increase in the volume of assets under management, wider coverage in areas where there was little or no presence on the part of the previous network and assistance for the branches of the Group that are not performing up to par.

The network makes it possible to create a new model of **“sales visits”**, providing new customers with banking services on a remote basis through a portable device (app available for a tablet) which makes it possible to perform all data collection, identification and subscription operations required to open an account with the bank. Other benefits include greater customer proximity with the "BPM Personal Banking" brand and a complete structure between head office and the network with dedicated commercial offers. The project also envisaged the creation of a portal exclusively for the advisors and a public site accessible to competitors' financial advisors and customers.
A new commissioning platform was set up to calculate the commissions for financial advisors. The advisors can make use of a single advisors branch to strengthen relationships and the operational channelling of processes. It is called upon to verify customer eligibility and to check and confirm the information; after which they open relationships through the transmission of a welcome kit with the credentials for the Multichannel Bank.

Lastly, we developed a commercial offer dedicated to “BPM Personal Banking” including a new set of products for the following categories: advisory services; asset management; indirect deposits (e.g. bond loans); insurance products (life/non-life); opening of overdraft facilities, mortgages, loans, personal loans and other cash lending products; direct deposits and banking products (credit card, direct debit of utility bills).

Companies

The corporate sector has been strongly influenced by market dynamics, by widespread availability of liquidity accentuated by the TLTRO programme and by strong competition on pricing, exasperated by banking operators' focus on the best companies in the system.

In this market environment, the corporate segment continued to pursue a customer approach based on:

- guidance from head office through a combination of targeted marketing initiatives focused on credit policies;
- targeted concession of special pricing in support of lending policies;
- preferential approval procedures for companies with an average-to-good credit standing and uncomplicated requirements
- internationalisation assistance for companies with the potential to grow abroad.

Leveraging the expertise of the central units, the corporate segment has also assisted customers with sophisticated financial needs (e.g. following structured finance transactions, hedging interest and currency risk and operations abroad), with a view to rapid identification of the most appropriate solution for the customer's needs.

The corporate segment has also intensified its focus on preventive management of company crises and on the selective development of loans, also lending to counterparties with non-optimal ratings with the help of a dedicated team of professionals.

In the first half of 2015, the corporate segment continued its strategy of strengthening its commercial effectiveness and upgrading its regional coverage through the implementation of a series of coordinated actions:

- activation of the Triveneto corporate commercial area based in Padua and secondary offices in Verona and Treviso (the area handles the Veneto, Friuli Venezia Giulia and Trentino Alto Adige regions with high potential and plenty of room for the bank to develop);
- strengthening of the sales force with professionals who have different skills and contacts, positioned in geographical areas with high strategic value;
- the makeover of some of the local corporate offices with the aim of improving the quality of work for employees in the network and to strengthen transmission of the corporate identity.

The first half of 2015 saw the implementation of numerous design interventions that will be brought to completion before the end of the year:

- integration of the credit product range, focusing on subsidised finance, on medium/long term technical forms and on advances against receivables due from the tax authorities and the public administration;
- completion of the product range offered by the International sector;
- strengthening the budgeting approach with the identification of high-potential customers to foster synergies with product specialists and maximise service quality on the one hand and profitability for the Bank on the other;
- a rethinking of the tools made available to the commercial network with the introduction of a single application that is able to facilitate business planning, maximise the utility of commercial initiatives (also through the alert mechanism) and offer summary overviews of performance by portfolio and by individual customer.

In this context, it is worth noting the start-up of the project entitled **"Evolution of the corporate service and supply model"** with the aim of providing a summary reporting tool for corporate trends and commercial results, and for the development of new products to be sold by the International sector.

3. Financial activities

Treasury & Investment banking

The Group's liquidity position remained strong throughout the first half of 2015, with a relative contraction in the indicators only in the last few weeks of June caused by the huge tax payments made by customers to meet the mid-year deadlines; during the same period, there was also the repayment of a subordinated issue on maturity, having been placed at the time with institutional investors for a total of Euro 600 million.
In absolute terms, the LCR indicator at period-end was close to 100%, in full respect of the objectives of the Group's risk appetite.
The portfolio of government securities has remained stable, ensuring a constant contribution to net interest income with an insignificant increase in the average duration, being composed mainly of Italian government bonds. The difficult situation on bond and equity markets in Europe had a negative impact on the positive reserves of AFS government bonds, which recorded a decline due to the sharp rise in interest rates and credit spreads of countries like Italy.
Work continued in the field of asset and liability management (ALM) to monitor the interest rate risk of the banking book and to monitor liquidity risk. In particular, the Bank carried out a liability management action (i.e. a takeover bid) for the securities issued by the Parent Company (around Euro 360 million) and placed with its own customers. This action, which had a negative impact on the Bank's financial activities, already accounted for in the first quarter, will save a considerable amount of interest over time.
The liquidity situation of the Bank and the Group mentioned above, accompanied by gradual use of the TLTROs (for a total of Euro 2.75 billion) made available by the ECB to ensure that loans can be made on competitive terms to companies with a view to speeding up capital investment and the economic cycle in general.
In the first half of 2015, **Banca Akros** achieved positive results and confirmed adequate capital and liquidity ratios.
In **market making** and **trading**, implementing the policies formulated in the budget for 2015, the bank made greater use of market risk measurements in compliance with the operational limits; the proprietary bond book, which still consists mainly of Italian government bonds and senior bonds issued by leading domestic banks, increased by 40% during the period.

Over-the-counter market making in government securities and corporate bonds continues to be an important activity, with around 17 billion euro of securities traded, and in equity derivatives. Work continued on the development of hedging instruments and financial risk management services to institutional and corporate customers, also as part of the coverage activities carried out jointly with the Parent Company in Corporate & Investment Banking, with particular attention to the specific target represented by the Mid Corporate segment present in the area where the Group operates; significant notional volumes traded on hedges against interest risk (Euro 10 billion) and exchange rate risk (Euro 55 billion); those on commodities are rising gradually.
According to Assosim, in the field of **dealing on behalf of third parties**, Banca Akros has consolidated its presence in the bond markets, ranking 1st in the DomesticMOT segment and 2nd in Borsa Italiana's EuroMOT segment (with market shares of 18.1% and 20.5% respectively), 3rd in the EuroTLX market (with an 18.9% share) and 1st in the Hi-MTF and Extra/MOT markets (with a 40% and 32% share respectively). These results were facilitated by SABE, the proprietary system that automatically seeks dynamic best execution. It confirmed its 4th position on Borsa Italiana's Mercato Telematico Azionario (with a market share of 9.1%) and comes 5th in options on the FTSEMIB index (with a market share of 4.6%).
Customers are offered brokerage services on stock markets through **ESN – European Securities Network**, the European partnership in equities research and trading set up by Banca Akros with eight other European investment banks which are independent and active on their respective national stock markets; note that in the Thomson Reuters Starmine Analyst Awards in 2015, ESN was ranked first in the “Machinery” sector thanks to the coverage provided by an analyst working at Banca Akros.
In the **Equity Capital Market**, Banca Akros acted as sponsor and joint-lead manager in the listing of Banzai, as the entity responsible for the placement of the public offer and as joint-book runner in the listing of Banca Sistema, as Financial Advisor and Placing Agent in the increases in capital of Aedes and I Grandi Viaggi, and as Guarantor and Placing Agent in the recapitalisation of Banca Monte dei Paschi di Siena and Banca Carige. The Bank also participated, as Guarantor and Placing Agent, in the public offerings for the listing of Oviesse, Massimo Zanetti Beverage Group and INWIT.

In the **Debt Capital Market**, the Bank participated as joint-bookrunner in the placement of a fixed rate bond issued by Prysmian with institutional investors, maturing in 2022, for a total of Euro 750 million, which represented the highest European issue by an unrated issuer. Banca Akros also participated, as additional guarantor, in the public offering to the retail public of a fixed rate bond issued by Autostrade per l'Italia, maturing in 2023 for a total of Euro 750 million, which was then admitted to listing on Borsa Italiana's MOT market. Still in the Corporate sector, the Bank participated as co-manager in the two Euro issues by International Game Technology, carried out as part of the business combination with GTECH. Banca Akros also took part in eight issues by leading international financial issuers, including, in particular, those of the European Investment Bank and the German company KFW.

In the **Advisory** area, Banca Akros acted as the intermediary responsible for coordinating the collection of acceptances for the voluntary public offering launched by the Parent Company to repurchase part of its own bonds. Activities in the field of real estate funds also continued; worth mentioning in particular is the collaboration with Polis Fondi SGR in connection with its bank asset funds, which invest in property linked to non-performing loans of certain banks. In the credit advisory activity, we would point out the bank's participation, as advisor and arranger, in the structuring of a medium-term loan granted by BPM as lending bank, which saw the participation of SACE S.p.A. as guarantor.

4. Risk management and internal control system

Risk Management

In the first half of 2015, the Risk Management Function was involved in a series of projects, such as: various activities for the AIRB (Advanced Internal Rating Based) Project, in both development and validation, aimed at strengthening the internal rating system, consolidation of the Risk Appetite framework in support of the ICAAP (Internal Capital Adequacy Assessment Process) and preparation of the ILAAP report (Internal Liquidity Adequacy Assessment Process). Discussions have continued and intensified with the Joint Supervisory Team (JST) as part of the Single Supervisory Mechanism (SSM) with respect to various issues regarding both methodology and preparation of data requests from the Regulator, such as the STE (Short Term Exercise) and TE (Transparency Exercise). Generally speaking, we continued the activities aimed at enhancing the supervision and management of the overall risks to which the bank is exposed.
The following is a summary of the main activities carried out by the Risk Management Function in the first half of 2015, broken down by organisational unit.

Risk Monitoring and Reporting

With full definition of the Risk Appetite Framework (RAF), work continued on discussing and agreeing it with the JST, which verified its consistency with the business model, the strategic plan, the ICAAP, the budget and the overall system of internal controls.
With better reporting of the risks faced by the Group, there has also been an improvement in benchmarking with the other banks subject to the Single Supervisory Mechanism, making it possible to further expand the integrated reporting system.
Support has been provided for the strategic processes involved in the methodological definition and execution of the ICAAP report and, as part of the risk governance activities, the overall regulations governing risk management have been consolidated.

Operational Risk

At the beginning of the half-year, in accordance with the EU Regulation 575 (the so-called "CRR"), we revised the system of calculating capital requirements for operational risk according to the standardised approach (TSA) on the basis of the new definition of "Relevant Indicator". In addition, at the request of the JST (ECB) and in application of the CRR, work began on introducing the TSA to Banca Popolare di Mantova and ProFamily by the end of this year.
During the first half, various activities took place in connection with the assessment of "reputational risk", as defined in the framework adopted by the Group last year.
As part of the strategic management of insurance coverage, work continued on managing and renewing the entire corporate portfolio. In particular, work was completed on the Banker's Blanket Bond (BBB) and Professional Indemnity (PI) on policy wordings that have been substantially renewed to make them more appropriate to the risk profile of the Group by taking out contracts with major players in the insurance market.
Maintenance work continued on the rules that define the processes and methodologies for operational risk management at Group level, after their complete preparation and publication the previous year.

Credit Risk

During the year, work continued on the AIRB project aimed at the revision of the Internal Rating System (IRS), also in view of validation by the ECB. In particular, the re-development of the rating models for companies was completed. Specific models were also developed for LGD and EAD. The rating model for Individuals, on the other hand, is still being revised.
Particular attention was paid to the identification of specialised lending relationships for which an ad hoc treatment is envisaged.
Regarding the use of credit risk parameters, the first half saw a strengthening of the metrics used for ICAAP purposes for calculating regulatory capital under stress conditions according to scenarios and methods in line with recent guidance provided by EBA/ECB.
With reference to company policy in the field of Data Governance and the architectural model of DQM (Data Quality Management) adopted, the structure of the control systems for AIRB Data Quality has been defined.
Work has continued on methodological refinement of the criteria adopted by the Group for the correct identification of so-called "forborne" exposures for which concessions have been granted, in accordance with the EBA ITS on "Forbearance and non-performing exposures", helping to define the process of identifying and monitoring them once the system is up and running.

Market & Liquidity Risk

During the first half of 2015, work continued on monitoring the measurement of market, interest rate, liquidity and counterparty risk, in accordance with the system of operating limits and benchmark indicators, and the results have been reported to the corporate bodies. For the risks mentioned above, we also defined the second-level indicators of the Risk Appetite Framework and related thresholds.
In the same period, activities were undertaken to update the internal rules on Finance Regulations and the Hedge Accounting Policy.
Lastly, the Group has documented the process of identification, measurement, management and monitoring of liquidity risk as part of the ILAAP report, where an opinion on the adequacy of the Group's liquidity was also expressed.

Validation

During the first half of 2015, the Validation Unit was mainly involved in AIRB-related verification activities for the review of the IRS. In particular, they reviewed the methodological structure proposed by the development functions with the purpose of verifying compliance by the proposed model with the regulatory requirements. In-depth ad hoc checks were carried out to verify the methodology aspects being proposed. Verification began of the processes defined for the segmentation and assignment of ratings to borrowers.
They also continued verification activities on market risks in order to check that they meet the minimum requirements established by the supervisory regulations.
In the area of counterparty and interest rate risk, work is ongoing to ensure that the models currently implemented are in line with best market practices from an operational point of view.

Audit

During the first half of 2015, the Audit Function ensured that the system of controls was being monitored properly, using a new work methodology based on risks and processes, in line with the dictates of the Bank of Italy's Circular 263/06 and aligned with sector best practices.

The following activities were completed for both the Parent Company and Group companies:

- 29 audits of processes in accordance with the Audit Plan prepared at the start of the year;
- 11 extraordinary unplanned audits (on processes or targeted checks);
- 8 specific checks.

With regard to audit activities at BPM's Commercial Network, Banca Popolare di Mantova and ProFamily, 102 inspections were carried out during the period.

Line controls

On the activities related to first-level controls, it is worth highlighting the start of the **IT "Line Control" project** aimed at carrying out various initiatives on line controls, such as extending control activities to Mantova and the Virtual Branch, extending control activities to the Private Banking and Corporate sectors, integrating the new flows needed for control activities and the automated implementation of flows currently being handled manually.

Compliance

In 2014, the Compliance Function commenced the "ComplyMetodi" project for the adoption of risk-based tools and methodologies so as to analyse the Bank's compliance risks in a structured fashion. This project has made it possible to meet the regulatory requirements, preparing a complete mapping of compliance risks and developing a work plan for the function. In operating terms, as regards the work needed to develop a specific IT tool to manage ordinary assurance activities (compliance assessments and checks), implementation was completed in the first half of 2015 and may in the future be extended to traditional advisory activities (issuing of opinions, guidelines, etc.).

During the first half of 2015, the Compliance Unit launched a process of involving other organisational units of the Bank in so-called "Specialist Supervision" compliance activities; new information products (ComplyAlert, ComplyInfo and ComplyStudi) were also introduced by Compliance for the benefit of all areas of the Bank, with differently structured goals in terms of training and refresher courses.

The following are being implemented in order to ensure the necessary regulatory updates:

- the **"Anti-Money Laundering"** project which involved monitoring the AML areas being managed, such as due diligence, risk profiles, recording and storage of sensitive data on money laundering on the Centralised Computer Archive and reporting suspicious transactions;
- the **"FATCA (Foreign Account Tax Compliance Act)"** project.

5. Organisation and IT

Organisation

Work in the first half of 2015 focused on an organisational review of the Bank, in order to boost the efficiency of the functions listed below. The following are worth mentioning in particular:

- activation of the following functions: "Planning and Financial Reporting" and "Finance" (eliminating the previous Finance Function, which combined the two), reporting directly to the Managing Director, in order to separate the more strategic from those that are purely operational;
- activation of the following organisational units in the Information Technology field:
  - "IT Core Banking", which manages the applications that make up BPM's core banking activities;
  - "IT Support Systems", which handles the applications used in the governance, control and administration of the Bank;
  - "IT Indirect Channels", reporting to the existing "Channels" Unit (which has been renamed "IT Channels"), which manages the applications used in interaction with external customers with regard to indirect channels;
- structural revision of the General Counsel Function;
- activation of the "Operational Monitoring of Credit and Loans" Unit, reporting directly to the Head of "Credit and Loans", which is assigned the task of monitoring the preliminary investigation and approval procedures.

Information Technology

Information systems

In addition to the support provided to the commercial network (especially in the field of marketing efficiency and multichannel selling), loans, risk governance, controls and regulatory updates, some of which have already been mentioned in the preceding paragraphs, in the first half of 2015 activities in the IT field have been mainly directed towards finding solutions to support the Masterplan 2015 and other relevant activities.
The following is an explanation of the principal initiatives.

Solidity and Resilience
During the first half of 2015, we completed the **"Privacy Guarantor"** project as part of "IT Security", which enabled the Bank to comply with the rules on "Tracking Bank Transactions".
Ongoing projects include **"Information Security"** which aims to raise the security level of the Bank in order to mitigate IT risks and increase the level of protection of assets (data and IT infrastructure), also by means of greater awareness, policies and operating procedures. The project is divided into seven themes:

- **Governance,** to improve the governance of security issues and increase awareness at board level and among employees;
- **Information protection,** to install and configure technology solutions to protect corporate information;
- **Log and Monitoring,** to bring the Bank into line with the requirements of the Privacy Guarantor and make it possible to log security events;
- **Identity & Access Management** to be improved by means of access control solutions;
- **IT Risk and Business Continuity** to increase the awareness and management of IT risk and the creation of new business continuity scenarios;
- **Strong Authentication** to introduce strong authentication for web customers (individuals and companies);
- **Uppo Application and Mobile Security** to increase security during software development.

As part of the "Process of Granting Credit", during the first half of 2015, the **"Credit Risk Management"** project was completed with the release of the "Dossiers in course of restructuring" module, while as part of the **"New PEF – Electronic Loan Dossier"** project, the new application for managing the process of Granting Loans to corporate and retail companies was released. Lastly, the **"Problem loans"** project was launched with the aim of optimising the recovery of loans in default.

Commercial effectiveness

Activities in the commercial area mainly concerned the multi-channel area. The following activities in particular continued:

- implementation of the new consulting and sales platform (the **"New Network System"** project) which simplifies the administrative duties to be carried out at branch level and to give priority to the various sales and marketing processes with the activation of new modules;
- strengthening the Group's multi-channel platform;
- the **"Price Lab"** project for the release relating to savings passbooks;
- activation of the NSR platform for the **"Contact Centre"** with integration of the telephone bar, appointment management and monitoring dashboard.

New projects were activated for the Multi-channel "indirect channels" (sales visits and management of circularity) and Multi-channel "direct channels" (new apps for Webank and BPM mobile banking, extension of financial advisory services to Webank customers at branches and release of the remote digital signature).

Efficiency in supporting growth

The first half of 2015 saw the completion of the **"Management Reporting"** project, which made it possible to adjust the management processes and control tools to respond to the Bank's new strategic needs and market challenges.
Implementation of the **"Integrated Datawarehouse"** project continued with the preparation of the common parts (master data) and release of the Data Governance policies together with the first data quality controls that were activated from 1 February 2015. The rebuild of the DWH IDEA continues for the management accounting and control portion.
Work also started on two new projects: **"Workplace Strategy – IT"**, which as part of the "Real Estate Valuation" initiative provides for the preparation of the necessary equipment to start smart working on IT (Pilot) and the extension to other areas of the company; and the **"Smart Processing"** initiative which aims to certify the functionality of the dematerialisation operating platform and speed up certain processes, eliminating paper-based communication and handling the process in terms of workflow management.

Technological Infrastructure

In this area, the following projects were underway or being implemented during the first half of 2015:

- the replacement of BMC and Serena products with IBM products, for the following areas: Mainframe (monitoring, automation and optimisation), Storage (prevention and resolution of problems related to abnormal termination of the program), Open (software lifecycle management solution);
- studies related to "Defining the Oracle Infrastructure" as a result of the integration with Webank;
- start of the "CICO E SSE" project, for the installation of new machines at branches;
- start of the "Batch Modernization" project to optimise batch loading with a review of application flows;
- launch of the "Workplace Strategy – Construction Technology" project, included as part of the "Real Estate Valuation" initiative, which involves a comprehensive review of the workstation to ensure access to mobility.

Distribution network and human resources

The distribution network

At 30 June 2015, the Bipiemme Group's distribution network totalled 705 points of sale, consisting of 654 retail branches (including three virtual branches), 105 of which are hubs, 9 Corporate Centres, 14 Private Banking Centres (of which 12 pertain to Banca Popolare di Milano and 2 to Banca Akros) and 28 ProFamily branches.
Compared with 30 June 2014, there has been a decrease of 14 retail branches in line with the objectives of optimisation/ streamlining of the physical network and 6 corporate centres, whereas there has been an increase of 6 outlets in the Profamily network and of 2 private banking centres with the opening of branches in Naples and Bari. Overall, there are 12 fewer points of sale in the distribution network with respect to 30 June 2014 and one less compared with the end of 2014.

Distribution network	**30.06.2015 A**	**31.12.2014 B**	**30.06.2014 C**	**Change A – B**	**Change A – C**
Total branches	654	654	668	0	–14
Corporate Banking Centres [1]	9	15	15	–6	–6
Private Banking Centres [2]	14	12	12	2	2
Financial shops and direct branches (3)	28	25	22	3	6
Total distribution network	**705**	**706**	**717**	**–1**	**–12**

(1) Following the new segmentation and portfoliation, the Corporate Banking Centres have replaced the 10 SME units which catered for companies with revenues of up to Euro 50 million and the 5 Large Corporate branches, which looked after companies with revenues of more than Euro 50 million. The new Corporate Banking Centres handle the following types of customers: Large Corporate (turnover in excess of Euro 250 million), Upper Corporate (turnover between Euro 50 and 250 million) and Middle Corporate (turnover between Euro 15 and 50 million).
(2) The 12 Private Banking Centres, 10 belonging to Banca Popolare di Milano and 2 to Banca Akros, provide customised advisory services on financial matters.
(3) The financial shops and direct branches provide financial advice and loans to households.

Branches of Group banks	**30.06.2015 A**	**%**	**31.12.2014 B**	**30.06.2014 C**	**Change A – B**	**Change A – C**
Banca Popolare di Milano [1]	636	97.2%	636	650	0	–14
Banca Popolare di Mantova	17	2.6%	17	17	0	0
Banca Akros	1	0.2%	1	1	0	0
Total branches	**654**	**100%**	**654**	**668**	**0**	**–14**

(1) The figures at 30 June 2014 take account of the merger of WeBank with Banca Popolare di Milano that took place on 23 November 2014.

Geographical distribution of branches	**30.06.2015 A**	**%**	**31.12.2014 B**	**30.06.2014 C**	**Change A – B**	**Change A – C**
Lombardia	410	63%	410	418	0	–8
Piemonte	87	13%	87	89	0	–2
Lazio	64	10%	64	65	0	–1
Puglia	36	6%	36	39	0	–3
Emilia Romagna	28	4%	28	28	0	0
Other Regions [1]	29	4%	29	29	0	0
Total branches	**654**	**100%**	**654**	**668**	**0**	**–14**

(1) other regions comprise the following branches: 11 (Liguria), 7 (Veneto), 5 (Toscana), 2 (Campania), 1 (Marche), 1 (Molise), 1 (Abruzzo) and 1 (F.V. Giulia).

Other distribution channels

The branch network, with its strong local roots, is being integrated more and more by the services offered by remote channels such as internet banking, the call centre and a network of financial advisors.

As regards the network of financial advisors, which is complementary to the traditional network, its main task being to place asset management and asset administration products, at 30 June 2015 consists of 50 sole agents (35 of whom report to BPM and 15 to Banca Akros), 8 fewer than at 30 June 2014.

The results from internet banking, in terms of distribution and utilisation of services by customers, continue to be highly satisfactory; at 30 June 2015 the Bipiemme Group had 723,674 customers who use the internet banking services, of whom 614,381 individual customers and 109,293 companies.
The number of Group customers that use the online channel rose by 5.6% on the end of June 2014. This means an increase of 37 thousand individual customers and over 2 thousand companies versus the same period of the previous year; overall, more than 12 million e-banking and e-trading instructions were transmitted through the Group's on-line channel during the first half of 2015.
Lastly, the telephone banking service of the Group's commercial banks has 580 thousand customers at 30 June 2015 compared with 450 thousand at the end of June 2014; there is also a multilingual service that responds to the needs of foreign customers.

Personnel

At 30 June 2015 Group personnel, including employees, project workers and staff on other types of contracts, amounted to 7,770, an increase of 11 compared with the end of 2014 and decrease of 45 compared with June 2014.
On 6 December 2012 a framework agreement was entered into that, following the guidelines laid down by the Business Plan, provides for a voluntary retirement plan for those who are already or will be eligible for a pension or who meet the conditions for access to the sector's Solidarity Fund, as from the first quarter of 2013.
2015 is the last year of the voluntary retirement plan, which counted 107 leavers at the end of the first half 2015. To date, 690 people have left under this plan (684 from the Parent Company).
Moreover, note that, within this aggregate, people employed in commercial network functions represent 67.3% of the total and that 14.4% of the total employees has a part-time contract.

Personnel (number at year end)	**30.06.2015**	**31.12.2014**	**30.06.2014**	**Change A – B**		**Change A – C**	
	A	**B**	**C**	**amount**	**%**	**amount**	**%**
a) managers	146	150	151	–4	–2.7	–5	–3.3
b) total officials	2,746	2,798	2,823	–52	–1.9	–77	–2.7
– of which: 3rd and 4th level	*1,430*	*1,472*	*1,486*	*–42*	*–2.9*	*–56*	*–3.8*
c) other employees	4,871	4,792	4,814	79	1.6	57	1.2
Total employees	**7,763**	**7,740**	**7,788**	**23**	**0.3**	**–25**	**–0.3**
Staff with project-related and other types of contract	7	19	27	–12	–63.2	–20	–74.1
Total personnel	**7,770**	**7,759**	**7,815**	**11**	**0.1**	**–45**	**–0.6**

Number of employees by company	**30.06.2015**	**31.12.2014**	**30.06.2014**	**Change A – B**	**Change A – C**
	A	**B**	**C**		
Banca Popolare di Milano (1)	7,280	7,253	7,300	27	–20
Banca Popolare di Mantova	70	70	66	0	4
Banca Akros	261	261	269	0	–8
ProFamily	98	102	98	–4	0
Ge.Se.So	54	54	55	0	–1
Total employees	**7,763**	**7,740**	**7,788**	**23**	**–25**
Contract staff	7	19	27	–12	–20
Total personnel	**7,770**	**7,759**	**7,815**	**11**	**–45**

(1) The figures at 30 June 2014 take account of the merger of WeBank with Banca Popolare di Milano that took place on 23 November 2014.

Personnel management

During the first half of 2015, 181 persons were hired at Group level – more than in the whole of last year – of which 166 by the Parent Company. Preference was given to people with new and important skills, using different tools and different reference groups, such as the modernity of social networks (via Linkedin), market competition (through head hunters), the availability of many profiles submitted as CVs posted on the our Group website, in addition to the updated assessment of the best qualified children of former employees who were waiting to be evaluated.

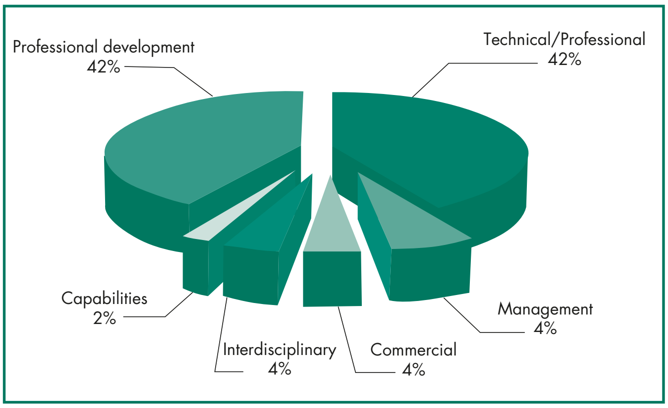
During the period, a new search method, called Job Posting, was introduced. It is designed to restore value to in-house selection, raising awareness of positions that may be of interest to people already working for BPM. Out of 25 searches commenced in a five month period, there were 5,472 views on the company intranet, 312 candidates and 65 interviews. Also at a Group level, the integration of people with a variety of skills, transferred from (or to) Profamily, Banca Popolare di Mantova and Banca Akros, has brought diverse and valuable experience.

Training and development

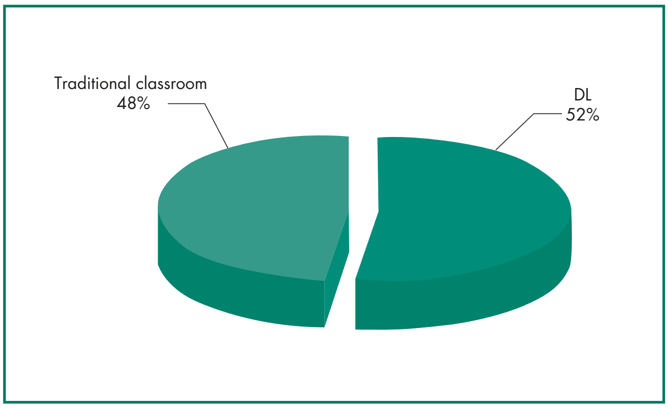
Training

A total of 22,659 training days were delivered at Group level during the first six months of 2015, of which 97% dedicated to the Parent Company in line with the training plan for 2015.
The breakdown by training area shows the main topics dealt with during the first half-year, where 46% was devoted to professional training for role development (technical/professional and commercial), 8% to management training and skills development and 42% to compulsory training. Training was delivered using traditional classroom methods (48%) and distance learning (DL) (52%).

Breakdown by training area



Breakdown by delivery method



The training plan for 2015, prepared in line with the 2014-2016/18 Business Plan, is designed to strengthen the new corporate culture based on performance, meritocracy, equal opportunities, enhancement of skills and upgrading of resources to handle new business models. Briefly, the plan envisages the following lines of action:

1. recruitment of young people, generally for inclusion in the new customer centre and retail network on the basis of dedicated training courses;
2. new appointments with training strongly focused on core skills;
3. enhancement of professional skills of the central functions, also through the promotion of attitudes needed to deal positively with change (under the "Responsibility and Resilience" Project);
4. a common management model spread through training courses devoted to new appointments of positions with responsibility, under the "Creating Value" Project, with the aim of promoting a culture of assessment and feedback;
5. the "Women at Work" project which aims to enhance the potential of a group of young women and a greater appreciation of skills typically regarded as feminine;
6. compulsory training on money laundering, also for a particular qualification (granted by IVASS – Istituto di Vigilanza delle Assicurazioni);

7. refresher and retraining courses, to upgrade skills for use in the following areas:
   - the commercial network (to keep step with the evolution of the service model for small businesses);
   - the lending area in support of the credit and loans and corporate functions;
   - new projects, such as the "credit granting process" using the new PEF (Pratica Elettronica di Fido – Electronic Application for Credit) for corporates and companies, the "new rating model (AIRB)", the "new condition setting software" and "service levels", in addition to the "Evolution of the Private Banking and Wealth Management" project with a training course for certification that is recognised nation-wide.

Development

In line with previous years, in the first half of 2015, the Development Function oversaw personnel management to make better use of the professional skills already available in-house. The annual cycle of performance assessment (Contribution Management System) began in January. It is designed to recognise merit by evaluating the quality of the action taken. This system has been revised on the basis of the feedback from last year's assessment, with the aim of improving the tool provided to managers and workers and to increase the objectivity and fairness of assessments. In its various phases, the assessment process involved around 7,100 people in the Bipiemme Group.

The mapping of the Professional Families is being completed. It provides for the definition of skill profiles, development paths, professional itineraries, criteria of internal mobility and enhancement of the levels of expertise that people have achieved. At the end of the first half, the following HR functions have been mapped: audit, compliance, communication and risk management and all of the other central functions will be mapped over the coming months. In this context, the mapping of jobs will be accompanied, during the second half, by application of a model to record the skills held by individual members of the chosen population.

For 2015 we plan to measure the skills of the sales network. In June, a first tranche of the survey was begun, involving a total of around 1,600 people, which concerns the roles of personal account manager, family manager and branch contact person. Based on the information gathered, we will take the development steps needed to ensure that all positions are filled, in terms of know-how and the ability to produce results that last over time, and to plan the growth of potential candidates for positions of increasing complexity. The second tranche of the survey will be launched in the second half of the year.

Industrial relations

During the first part of 2015, Industrial Relations focused on starting contractual negotiations about the reorganisation and streamlining of head office operations at Banca Popolare di Milano.
It was also agreed with the Trade Unions to open discussions about the renewal/definition of the 2nd level negotiation by planning meetings on the subject of:

- company social bonus;
- shifts, availability and planned interventions;
- employment levels of the commercial network staff.

Moreover, agreement was reached with regard to the FBA (Training Fund for the Banking and Insurance Industries), involving financing of projects designed to acquire the skills needed to support the professional development of human resources, focusing especially on young employees and women.

Welfare

Initiatives completed during the first half of 2015 include the opening of a company gym at the "Bezzi 2" complex, for the exclusive use of BPM employees. Employees pay a contribution towards the subsidised registration fee for a six or twelve month subscription.
A series of conferences has been started by LILT (Italian League for the Fight against Cancer) to provide information to BPM staff; the first meeting on the topic of skin problems was held at the Bezzi 2 Auditorium on 24 June 2015.
In the first half of 2015 – on 25 March to be precise – the various initiatives regarding the "agile working day" were confirmed. They were sponsored by the City of Milan in partnership with ABI, among others, for the testing of smart working methods; the "Diversity at Work" event promoted by UNAR, People and Fondazione Sodalitas and Adecco also took place to support the employment of people at high risk of discrimination.
Lastly, also worth mentioning is the harmonisation of certain insurance coverage for staff, as well as the start-up of identification of additional ways of using the company social bonus in order to maximise the diversification of possible uses according to the specific personal and family needs of each employee.

Personnel administration

The first half of 2015 saw a gradual consolidation of the Zucchetti payroll and attendance application software, which was also extended to Banca Akros. With reference to the "HR Information System" project, the transfer of duties from Human Resources to Organisation was managed, to further broaden the scope of HR processes affected by the change in the IT system. The analysis of administrative processes also continues, together with the Organisation function, with a view to creating added value (AVA methodology) designed to make them more efficient and free up resources.

The Bipiemme Group's scope of consolidation

The following tables show the contribution made by each Bipiemme Group company to total consolidated assets and consolidated net income.

Contribution made by each Bipiemme Group company to consolidated total assets

(Euro/000)

Company	% held (*)	Total assets	Eliminations and consolidation adjustments	Contribution to consolidated total assets	% Contribution to consolidated total assets
Parent Company:					
Banca Popolare di Milano		**46,313,231**	**–1,805,279**	**44,507,952**	**90.26**
Companies consolidated line-by-line:		**11,861,094**	**–7,060,774**	**4,800,320**	**9.74**
Banca Akros	96.89	4,084,969	–1,036,254	3,048,715	6.18
ProFamily	100.00	934,616	–3,725	930,891	1.89
Banca Popolare di Mantova	62.82	546,653	–178	546,475	1.11
Bpm Covered Bond	80.00	5,209,683	–5,041,801	167,882	0.34
Bpm Securitisation 3	n.a.	697,572	–620,116	77,456	0.16
Bpm Securitisation 2	n.a.	385,663	–357,158	28,505	0.06
Ge.Se.So.	100.00	1,440	–1,122	318	0.00
Bpm Luxembourg in liq.	99.97	498	–420	78	0.00
BPM Capital I in liq.	100.00	0	0	0	0.00
Total		**58,174,325**	**–8,866,053**	**49,308,272**	**100.00**

(*) Based on equity ratios

Contribution made by the individual Group companies to consolidated net income

(Euro/000)

Company	% held (*)	Net income (loss) as per financial statements	Net income (loss) pertaining to the Group	Consolidation adjustments	Contribution to consolidated net income (loss)	% Contribution to consolidated net income (loss)
Parent Company:						
Banca Popolare di Milano		**123,924**	**123,924**	**22,536**	**146,460**	**95.07**
Companies consolidated line-by-line:		**7,753**	**7,584**	**9**	**7,593**	**4.93**
Banca Akros	96.89	6,684	6,476	9	6,485	4.21
ProFamily	100.00	1,926	1,926		1,926	1.25
Ge.Se.So.	100.00	19	19		19	0.01
Banca Popolare di Mantova	62.82	–106	–67		–67	–0.04
Bpm Capital I (in liq.)	100.00	–292	–292		–292	–0.19
Bpm Luxembourg (in liq.)	99.97	–478	–478		–478	–0.31
Total			**131,508**	**22,545**	**154,053**	**100,00**

Reconciliation of the Parent Company and consolidated net income

(Euro/000)

Net income (loss) of Banca Popolare di Milano	**123,924**
Net income (loss) pertaining to companies consolidated line-by-line	7,584
Net income (loss) pertaining to companies consolidated at equity	56,534
Effect of reversing intraGroup dividends	–24,293
Reversal of the writedowns/revaluations of consolidated investments made in BPM's separate financial statements	–7,297
Other adjustments	–2,399
Net income (loss) consolidated of the Bipiemme Group	**154,053**

Principal balance sheet aggregates

Banking intermediation for customers

At 30 June 2015, **direct and indirect deposits** from customers of the Bipiemme Group total Euro 71,009 million, an increase compared with the end of December 2014 of Euro 1,562 million (+2.2%) but with a slight decrease on 31 March 2015 (–0.4%).

Total customer deposits (Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Direct deposits	36,802,499	36,428,872	373,627	1.0	36,836,892	–34,393	–0.1	36,286,576
Indirect deposits	34,206,627	34,884,729	–678,102	–1.9	32,610,223	1,596,404	4.9	32,170,550
of which								
Assets under management	*20,227,048*	*19,632,760*	*594,288*	*3.0*	*17,872,354*	*2,354,694*	*13.2*	*16,632,554*
Assets under administration	*13,979,579*	*15,251,969*	*–1,272,390*	*–8.3*	*14,737,869*	*–758,290*	*–5.1*	*15,537,996*
Total direct and indirect deposits	**71,009,126**	**71,313,601**	**–304,475**	**–0.4**	**69,447,115**	**1,562,011**	**2.2**	**68,457,126**

Direct deposits

Direct deposits (Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Due to customers	28,777,043	27,589,895	1,187,148	4.3	27,702,942	1,074,101	3.9	26,812,018
Securities issued	7,867,754	8,677,218	–809,464	–9.3	8,981,834	–1,114,080	–12.4	9,316,712
Financial liabilities designated at fair value through profit and loss	157,702	161,759	–4,057	–2.5	152,116	5,586	3.7	157,846
Total direct deposits	**36,802,499**	**36,428,872**	**373,627**	**1.0**	**36,836,892**	**–34,393**	**–0.1**	**36,286,576**

Direct deposits: breakdown by type (Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Current and savings accounts	23,125,103	22,470,787	654,316	2.9	22,306,372	818,731	3.7	22,673,610
Repurchase agreements	5,535,442	5,006,301	529,141	10.6	5,267,799	267,643	5.1	3,989,677
Other types of loan	116,498	112,807	3,691	3.3	128,771	–12,273	–9.5	148,731
Due to customers	**28,777,043**	**27,589,895**	**1,187,148**	**4.3**	**27,702,942**	**1,074,101**	**3.9**	**26,812,018**
Bonds and structured securities	5,699,011	6,343,367	–644,356	–10.2	6,554,710	–855,699	–13.1	6,714,944
Subordinated liabilities	1,437,591	2,078,299	–640,708	–30.8	2,095,802	–658,211	–31.4	2,064,134
Repos on own securities repurchased	542,165	–	542,165	n.a.	–	542,165	n.a.	–
Other types of deposit	188,987	255,552	–66,565	–26.0	331,322	–142,335	–43.0	537,634
Securities issued	**7,867,754**	**8,677,218**	**–809,464**	**–9.3**	**8,981,834**	**–1,114,080**	**–12.4**	**9,316,712**
Financial liabilities designated at fair value through profit and loss	**157,702**	**161,759**	**–4,057**	**–2.5**	**152,116**	**5,586**	**3.7**	**157,846**
Total direct deposits	**36,802,499**	**36,428,872**	**373,627**	**1.0**	**36,836,892**	**–34,393**	**–0.1**	**36,286,576**

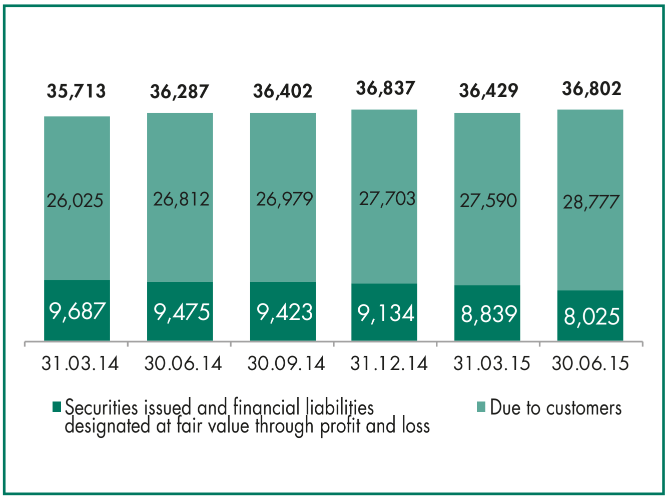
The aggregate **direct deposits** – consisting of amounts due to customers, debt securities in issue and financial liabilities designated at fair value – at 30 June 2015 amount to Euro 36,802 million, stable on 31 December 2014, but with an increase compared with the end of March 2015 (+ Euro 374 million; +1%).

Comparing the aggregate figure to that as of December 2014, it can be seen that:

- the amounts **due to customers** reach Euro 28,777 million posting a significant rise of Euro 1,074 million compared with the end of 2014 (+3.9%) attributable to the growth in the number of current and savings accounts (+3.7%) and in repurchase agreements (+5.1%). The line item "Current and savings accounts", which rose by Euro 818.8 million in the period, also includes on-demand current accounts which have risen by Euro 1,446.4 million since the end of 2014; this growth is entirely due to private banking customers (corporate and retail). Restricted accounts decline by Euro 627.7 million in the period;
- **securities issued** amount to Euro 7,868 million and decline by Euro 1,114 million on the end of 2014 (–12.4%). This is essentially due to:
  - a decrease in bonds and structured securities of Euro 855.7 million, caused by the already mentioned repurchase transaction, for nominal Euro 358.5 million, and by other investment choices made by holders of matured or early repaid bonds;
  - a decrease in subordinated liabilities of Euro 658.2 million, largely due to the maturity of a subordinated bond (Lower Tier 2) and to early repayment of the Preferred Securities issued by BPM Capital I.

  The trend described above was partially offset by a short-term repurchase operation, made with own securities repurchased (covered bonds), for Euro 542 million [1].
- **financial liabilities designated at fair value through profit and loss**, represented by structured bonds placed with retail customers, stood at Euro 158 million and are substantially stable compared with the end of 2014 (+ Euro 6 million).

Quarterly trend of indirect deposits (Euro/million)



The quarterly analysis shows an increase of 1% in direct deposits compared with the previous quarter, mainly attributable to an increase in amounts due to customers (+ Euro 1,187 million; +4.3%) which offset the decline in securities issued and financial liabilities designated at fair value through profit and loss of Euro 814 million (–9.2%).

Within the item "due to customers" both current and savings accounts and repurchase agreements increase by Euro 654 million (+2.9%) and Euro 529 million (+10.6%) respectively.

As regards aggregate securities issued and financial liabilities designated at fair value through profit and loss, the contraction (–9.2%) is due to the repayment of two structured bond (Lower Tier 2 and Preferred Securities) for Euro 610 million and to the decrease of Euro 644.4 million in bonds and certificates of deposit placed with private banking customers, offset by repurchase agreements with underlying own securities issued (Euro 542 million).

(1) These transactions are recorded as securities issued in compliance with a specific provision of the Bank of Italy.

Direct deposits by counterparty

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Unrestricted current and savings accounts	20,500,733	19,781,577	719,156	3.6	19,054,341	1,446,392	7.6	18,643,957
Restricted deposits and other term deposits	2,745,959	2,807,623	–61,664	–2.2	3,515,619	–769,660	–21.9	4,185,139
Securities issued	3,013,818	3,742,538	–728,720	–19.5	3,984,000	–970,182	–24.4	4,339,801
of which: subordinated	*710,723*	*723,200*	*–12,477*	*–1.7*	*719,058*	*–8,335*	*–1.2*	*717,596*
of which CDs	*101,062*	*159,458*	*–58,396*	*–36.6*	*249,068*	*–148,006*	*–59.4*	*434,069*
Financial liabilities designated at fair value	157,702	161,759	–4,057	–2.5	152,116	5,586	3.7	157,846
Direct deposits from retail customers	**26,418,212**	**26,493,497**	**–75,285**	**–0.3**	**26,706,076**	**–287,864**	**–1.1**	**27,326,743**
Covered bonds and securitisations	2,064,602	2,071,183	–6,581	–0.3	2,077,609	–13,007	–0.6	2,147,946
EMTN and innovative capital instruments	2,247,169	2,863,497	–616,328	–21.5	2,920,225	–673,056	–23.0	2,828,965
Repurchase agreements entered into with Cassa Compensazione e Garanzia	5,530,351	5,000,695	529,656	10.6	5,132,982	397,369	7.7	3,982,922
Repos on own securities repurchased	542,165	–	542,165	n.a	–	542,165	n.a.	–
Direct deposits from institutional customers	**10,384,287**	**9,935,375**	**448,912**	**4.5**	**10,130,816**	**253,471**	**2.5**	**8,959,833**
Total direct deposits	**36,802,499**	**36,428,872**	**373,627**	**1.0**	**36,836,892**	**–34,393**	**–0.1**	**36,286,576**

The Group's market share of direct deposits (excluding repos with central counterparties) is 1.57% (updated to May 2015), a contraction compared with December 2014 (1.61%).

Indirect deposits and assets under management

At 30 June 2015, the volume of **indirect deposits with ordinary customers**, valued at market values, amounts to Euro 34,207 million, and increases compared with the end of December 2014 (+4.9%) but declines with respect to 31 March 2015 (–1.9%).

Breakdown of indirect customer deposits at market value

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Funds	12,052,221	11,550,302	501,919	4.3	10,279,397	1,772,824	17.2	9,203,528
Individual portfolio management (1)	2,355,544	2,403,532	–47,988	–2.0	2,344,018	11,526	0.5	2,402,585
Insurance-sector reserves	5,819,283	5,678,926	140,357	2.5	5,248,939	570,344	10.9	5,026,441
Total assets under management	**20,227,048**	**19,632,760**	**594,288**	**3.0**	**17,872,354**	**2,354,694**	**13.2**	**16,632,554**
Assets under administration	13,979,579	15,251,969	–1,272,390	–8.3	14,737,869	–758,290	–5.1	15,537,996
Total indirect customer deposits	**34,206,627**	**34,884,729**	**–678,102**	**–1.9**	**32,610,223**	**1,596,404**	**4.9**	**32,170,550**

(1) Individual portfolio management includes securities-based portfolio management schemes, fund-based portfolio management schemes and cash accounts.

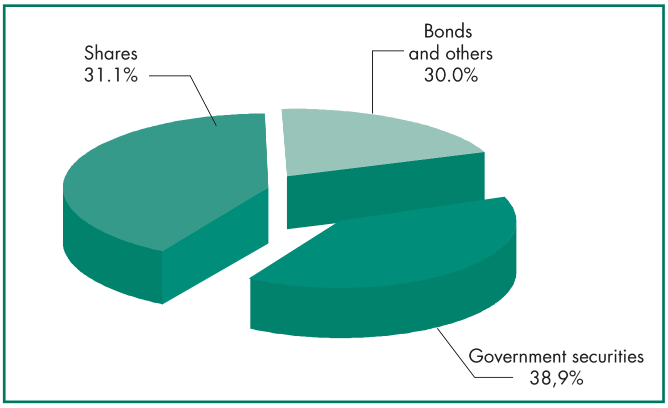
The analysis of the aggregate compared with the end of 2014 shows that indirect customer deposits increased by Euro 1,596 million (+4.9%). This performance benefited from the positive results of asset under management (+13.2%) which continues the positive trend of the last two years. Assets under administration have decreased by Euro 758.3 million (–5.1%), mainly because of the reallocation of liquidity from Government securities that have expired to asset management products.

After a more than positive 2014, also at 30 June 2015 **assets under management** have risen to Euro 20,227 million, a significant increase of Euro 2,355 million (+13.2%) compared with the end of 2014. Within this aggregate we can see a significant increase in the fund segment of Euro 1,773 million (+17.2%) and in insurance reserves of Euro 570 million (+10.9%). This trend benefited during the first six months of the year from positive net deposits of Euro 1,798 million, of which Euro 1,399 million in mutual funds/ individual portfolio management and the other Euro 399 million in insurance products.

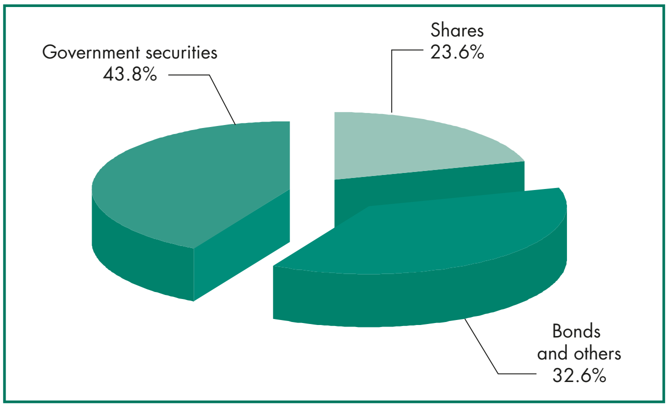
The Group's market share has improved by 1.54% compared with December 2014.

Looking at the breakdown of assets under administration, it can be seen that there is a lower weighting of government securities (–4.9 p.p.) and bonds (–2.6 p.p.), but a greater weighting of equities (+7.5 p.p.).

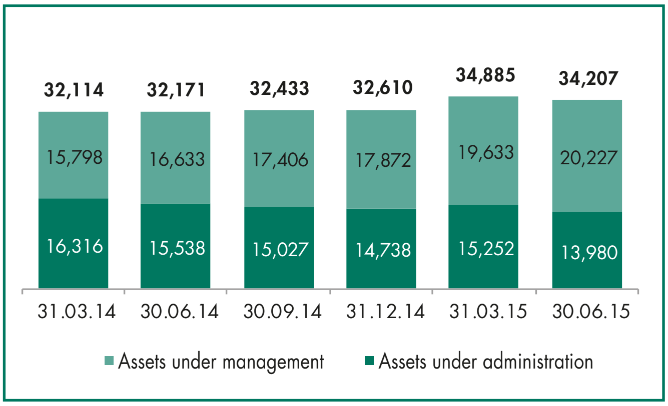
Distribution of assets under administration at June 2015



Distribution of assets under administration at December 2014



Quarterly trend of indirect deposits (Euro/million)



Indirect customer deposits decline by Euro 678 million (–1.9% Q/Q) in the second quarter of 2015 attributable to the following trend:

- a growth in assets under management of Euro 594 million (+3%), sustained by the strong performance by funds (+ Euro 502 million; +4.3%);
- a decline in assets under administration of Euro 1,272 million (–8.3%). In addition to continued reallocation, the quarter was also characterised by the negative performance by financial markets, which hit government bond prices in particular.

Loans to customers

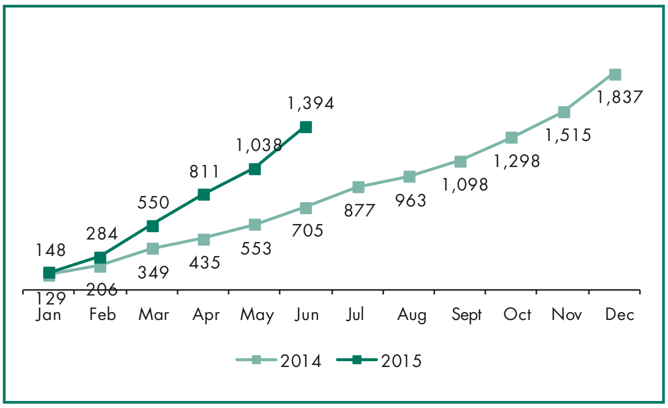
At 30 June 2015, **loans to customers** amounted to Euro 33,483 million, up by Euro 1,404 million compared with the end of 2014 (+4.4%) and by Euro 883 million compared with the end of March 2015 (+2.7%). Compared with the end of 2014, the rise in the aggregate is mainly attributable to the increase in other loans (+ Euro 1,037 million; +14.3%) and in the line item mortgage loans, up by Euro 384 million (+2.4%). The growth in other loans was driven mainly by syndicated loans (+17.3%) and stand-by loans (+26.9%), largely in the corporate segment.

The evolution of loans has benefited from the recovery in new mortgages and loans. Overall, based on management figures, disbursements in the first half of the year are up 62% on the same period of 2014. Mortgage loan disbursements in the first half of 2015 are up 29.4%, reflecting a positive trend for both individuals and companies. New loans have almost doubled (Euro 1,394 million at June 2015 on Euro 705 million in the first half 2014), mainly attributable to the corporate segment.

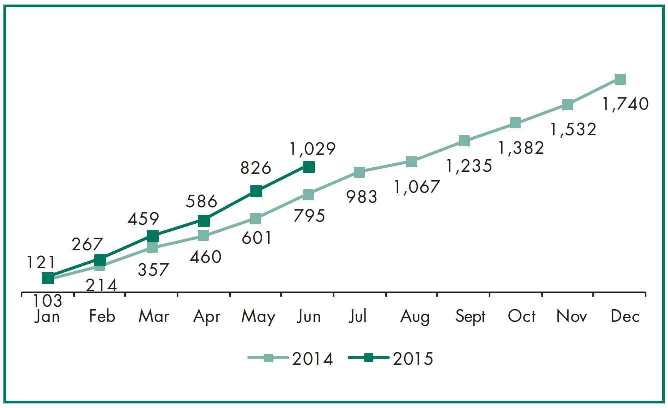
As regards performance by segment – based on period end management figures – there have been the following changes compared with December 2014:

a) a slight increase in loans to individuals (+0.6%);
b) loans to companies are up (+4.5%), mainly attributable to loans to the corporate segment (+7.7%).

Loans granted (cumulative amounts) (Euro/million)



Mortgage loans granted (cumulative amounts) (Euro/million)

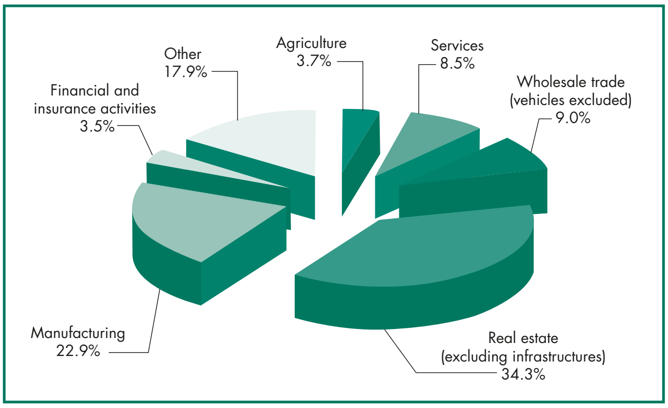


Breakdown of loans to customers (Euro/000)

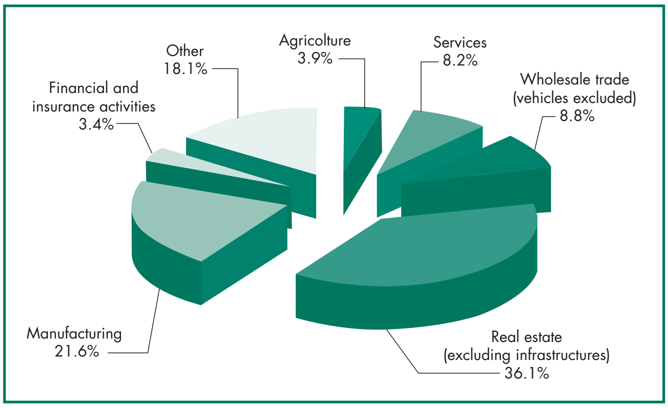
	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Mortgage loans	**16,157,544**	**15,822,444**	**335,100**	**2.1**	**15,773,904**	**383,640**	**2.4**	**15,636,378**
Other types of deposit	**17,207,464**	**16,661,461**	**546,003**	**3.3**	**16,189,974**	**1,017,490**	**6.3**	**16,742,271**
Current accounts	3,413,288	3,548,034	–134,746	–3.8	3,468,453	–55,165	–1.6	3,777,504
Repurchase agreements	91,788	97,413	–5,625	–5.8	64,875	26,913	41.5	287,398
Credit cards, personal loans and salary assignments	1,502,573	1,512,380	–9,807	–0.6	1,566,559	–63,986	–4.1	1,630,029
Finance leases	211,891	212,878	–987	–0.5	218,713	–6,822	–3.1	230,842
Other loans	8,310,037	7,591,965	718,072	9.5	7,273,473	1,036,564	14.3	7,222,438
Impaired assets	3,677,887	3,698,791	–20,904	–0.6	3,597,901	79,986	2.2	3,594,060
Total loans to customers	**33,365,008**	**32,483,905**	**881,103**	**2.7**	**31,963,878**	**1,401,130**	**4.4**	**32,378,649**
Debt securities	118,021	116,472	1,549	1.3	114,965	3,056	2.7	142,137
Total loans to customers	**33,483,029**	**32,600,377**	**882,652**	**2.7**	**32,078,843**	**1,404,186**	**4.4**	**32,520,786**

As regards changes in loans by economic sector at 30 June 2015 (comprising large companies, SMEs and Small Businesses), of particular note are a general increase in all sectors, especially in the manufacturing sector (+9.4%), services (+7.5%) and wholesale trade (+6.6%). The real estate segment has decreased (–1.7%).

Loans to businesses by economic sector June 2015
(weighting in%)



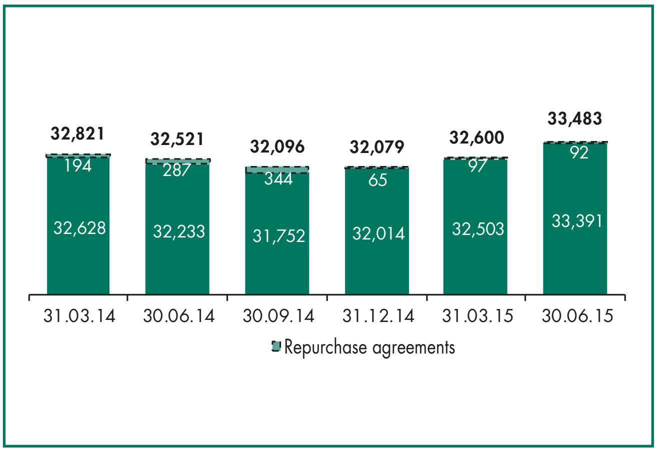
Loans to businesses by economic sector December 2014
(weighting in%)



(1) the businesses segment includes corporates, SMEs and small retail businesses.

The Group's market share of loans (excluding repurchase agreements with central counterparties) came to 1.89% (May 2015 figure), which has increased compared with December 2014 (1.83%).

Quarterly trend in loans to customers (Euro/million)



At 31 March 2015 loans to customers increased by Euro 883 million (+2.7%), principally because of the good trend in loans by the Parent Company (+2.2%). Within this aggregate: other loans (+ Euro 718 million; +9.5%) and mortgage loans (+ Euro 335 million; +2.1%) have increased.

As regards performance by segment – based on period-end management figures – there have been the following changes compared with March 2015:

a) loans to individuals have increased slightly (+0.9%);
b) loans to companies are up (+3.1%), mainly because of loans to the corporate segment (+3.8%).

Asset quality

Since the end of 2014, the Italian economy has been experiencing a gradual, albeit slight, improvement as confirmed by Istat's GDP figures for the first quarter of 2015, which show an increase of 0.3% compared with the last quarter of 2014. The improvement in the business climate has been positively affected by factors such as low oil prices, a more favourable exchange rate and the liquidity injected by the ECB.

A prominent role in the economy is played by the real estate sector: interaction between the property market and the credit industry significantly affect economic trends and the stability of the financial system. The duration of the crisis has had a significant impact on the business system, also in the real estate sector, with the result that hence the flow of new loans granted for investment in construction in Italy has seen a gradual decline, reaching the lowest level for the last two years. This situation contrasts with the greater financial needs of companies operating in this sector due to the increase in unsold properties and the consequent reduction in revenues. Against this backdrop, new mortgage loans for the non-residential sector in the first quarter of 2015 showed growth in disbursements for investment (source: ANCE), while disbursements of new loans for residential investment decreased by 12% (after a fall of –18.5% in 2014).

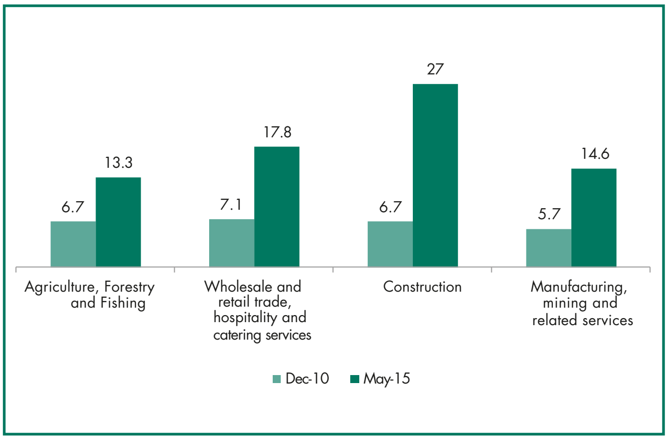
The latest forecast by ANCE for the whole of 2015 shows a reduction in construction investment of 1.3% in real terms, an improvement on the estimate for 2015 made in last December (–2.4%).

There has been a fall in the number of bankruptcies (source: Cerved), which in the first quarter of 2015 showed a decrease of 2.8% (3,800 companies went bankrupt) compared with the same period of 2014; the number of non-bankruptcy settlements is on the decline, mainly because the reduction in pre-bankruptcy arrangements with creditors (-21.2% compared with the same period of 2014 versus –25.3% in the first quarter).

As regards the trend in bad loans of the banking system in general, the ABI figures updated to May 2015 show an increase in gross bad loans of Euro 10 billion compared with December 2014 (+5.5%), which amounted to Euro 193.7 billion, reflecting a ratio of gross bad loans to total loans of 10.1%, the highest figure for the last twenty years (it was 9.9% in December 1996). Again at a system level, the ratio of net bad loans to total loans comes to 4.62%, more or less stable compared with the December 2014 figure of 4.64%.

ABI – Gross bad loans to loans by production sector

(Euro/million)



Compared with a ratio of gross bad loans to total loans which in May 2015 averages 10.1%, the ratio of gross bad loans to loans to companies varies according to the industry (as shown in the chart), with the construction industry positioned well above the rest of the production system.

As regards the Bipiemme Group, first-half management figures show a reduction in arrangements with creditors compared with the first half of 2014: –55.8% for the number of transactions and –30.4% in terms of volume.
Moving on to look at the Group's figures at 30 June 2015, gross non-performing exposures stood at Euro 6,062 million with an increase of 3.6% compared with December 2014 (+ Euro 209 million). In other words, the long recession is still influencing the trend in bad loans.

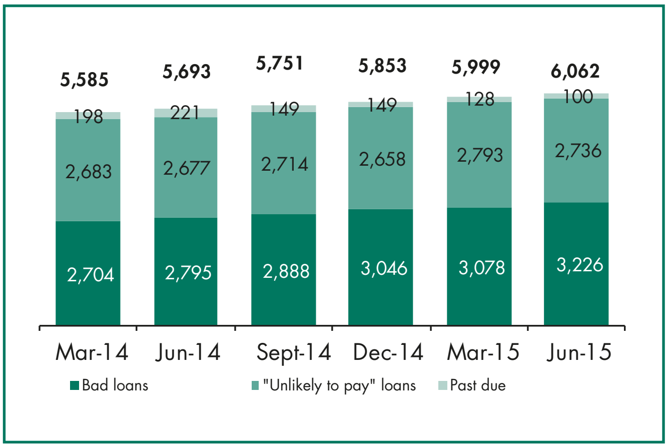
Compared with the situation at 31 December 2014, the following trends have emerged:

- **gross bad loans** have increased by 5.9% compared with the end of 2014, coming in at Euro 3,226 million, mainly because of the deterioration of loans to real estate companies. The proportion of gross bad loans to total Group loans comes to 8.9%, in line with the December 2014 figure of 8.8%;
- **"unlikely to pay"** loans increased during the quarter by Euro 78 million (+2.9%) to Euro 2,736 million; this rise is due to the reclassification of a particularly large position from performing loans. The ratio of "unlikely to pay" loans to total loans is 7.6%, which is substantially in line with the 2014 year end figure (7.7%);
- **past due** continued to confirm the downward trend that was seen throughout 2014 and came to Euro 100 million (–32.6% on the end of 2014), representing 0.3% of total Group loans.

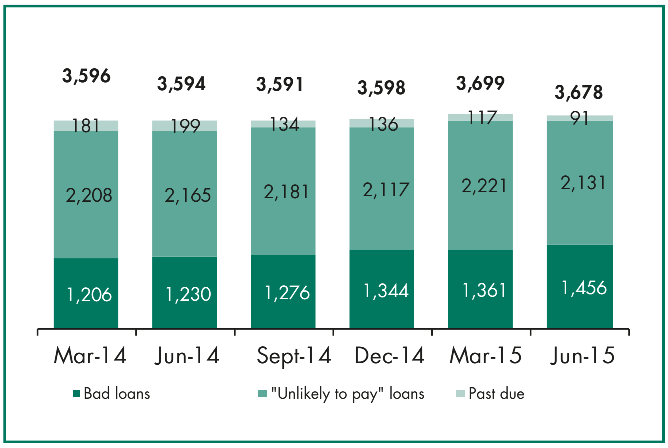
The proportion of gross non-performing exposures to total loans comes to 16.8%, a slight decrease compared with December 2014.

With reference to **net non-performing exposures**, they show a decline to Euro 3,678 million compared with Euro 3,699 million in first quarter 2015, which benefited from a decrease in "unlikely to pay" positions (–4%) and in past due (–22.6%).

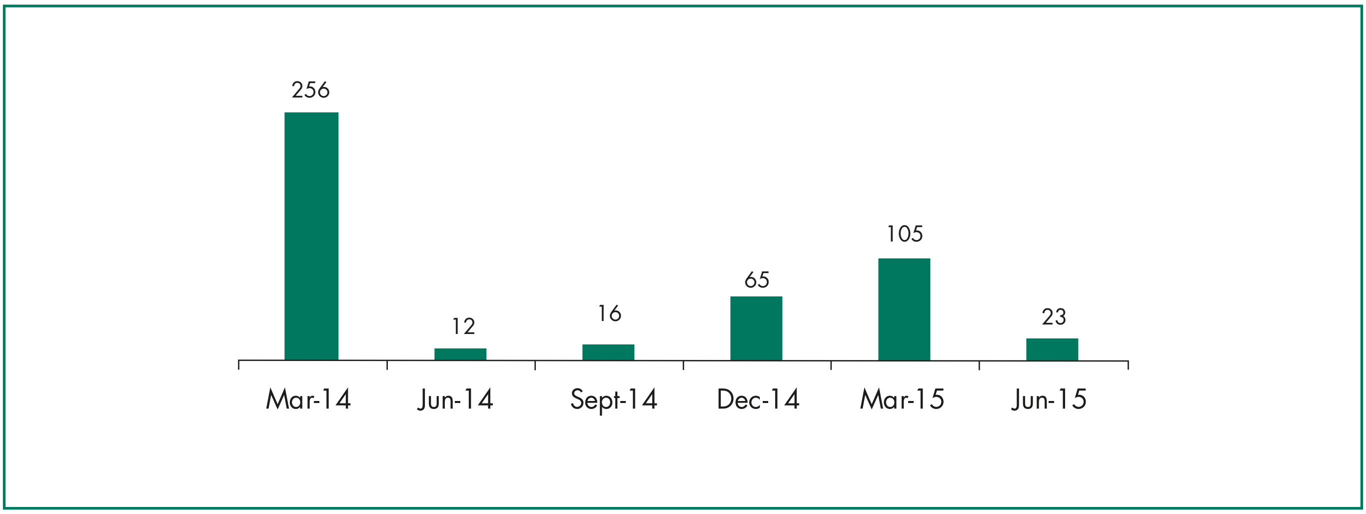
Gross non-performing exposures (Euro/million)



Net non-performing exposures (Euro/million)



Change in net inflows from performing loans to non-performing exposures during the period* (Euro/million)



* including collections

The flow of new net positions from performing loans to non-performing exposures came to a total of Euro 23 million during the second quarter of 2015, confirming the gradual slowdown in the dynamics of gross non-performing exposures.

Coverage of non-performing exposures in June 2015 came to 39.3%, a further increase on the level at the end of 2014, reaching its highest level for the last three years.
In detail:

- coverage of bad loans came to 54.9% compared with 55.9% in December 2014, mainly due to the transfer of new positions represented mainly by loans secured by mortgage;
- coverage of "unlikely to pay" loans came to 22.1%, which is up on the December 2014 figure of 20.3%, due to an increase in adjustments from Euro 541 million in December 2014 to the current figure of Euro 604 million; this increase is the result of adjusted recovery estimates based on updated information on significant exposures.
- the coverage of past due has also increased, to 9.7% compared with 8.4% in December 2014.

As regards performing loans, they increased in the first half by 4.6%, thanks to a positive trend in low risk loans. This trend, together with a reclassification of high risk positions to non-performing exposures, affected the total coverage of performing loans, which came to 0.67% versus 0.73% as of December 2014.

Overall, total non-performing exposures at 30 June 2015, net of adjustments, amounted to Euro 3,678 million, up by 2.2% compared with the December 2014 figure.

Coverage of loans (%)	**Mar-14**	**Jun-14**	**Sept-14**	**Dec-14**	**Mar-15**	**Jun-15**
Total non-performing exposures	**35.6**	**36.9**	**37.6**	**38.5**	**38.3**	**39.3**
Bad loans	55.4	56.0	55.8	55.9	55.8	54.9
"Unlikely to pay" loans	17.7	19.1	19.6	20.3	20.5	22.1
Past due	8.4	9.8	10.3	8.4	8.4	9.7
Performing loans	0.72	0.68	0.73	0.73	0.69	0.67
Total adjustments to loans	**6.3**	**6.6**	**6.9**	**7.1**	**7.1**	**7.2**

Asset quality

(Euro/000)

Gross loans to customers	30.06.2015		31.03.2015		31.12.2014		Changes A – B		Changes A – C		30.06.2014	
	A	%	B	%	C	%	Amount	%	Amount	%	D	%
of which: non-performing exposures	**6,062,179**	***16.8***	**5,998,625**	***17.1***	**5,852,919**	***16.9***	**63,554**	**1.1**	**209,260**	**3.6**	**5,693,174**	***16.4***
a) Bad loans	3,226,453	*8.9*	3,077,768	*8.8*	3,046,339	*8.8*	148,685	4.8	180,114	5.9	2,795,467	*8.0*
b) "Unlikely to pay" loans	2,735,534	*7.6*	2,793,218	*8.0*	2,658,033	*7.7*	–57,684	–2.1	77,501	2.9	2,676,937	*7.7*
c) Past due	100,192	*0.3*	127,639	*0.4*	148,547	*0.4*	–27,447	–21.5	–48,355	–32.6	220,770	*0.6*
of which: Performing loans	**30,006,345**	***83.2***	**29,102,592**	***82.9***	**28,690,833**	***83.1***	**903,753**	**3.1**	**1,315,512**	**4.6**	**29,125,380**	***83.6***
Total gross loans to customers	**36,068,524**	***100.0***	**35,101,217**	***100.0***	**34,543,752**	***100.0***	**967,307**	**2.8**	**1,524,772**	**4.4**	**34,818,554**	***100.0***

Total writedowns	30.06.2015		31.03.2015		31.12.2014		Changes A – B		Changes A – C		30.06.2014	
	A	Coverage %	B	Coverage %	C	Coverage %	Amount	% Difference in coverage	Amount	% Difference in coverage	D	Coverage %
of which: non-performing exposures	**2,384,292**	***39.3***	**2,299,834**	***38.3***	**2,255,018**	***38.5***	**84,458**	**1.0**	**129,274**	**0.8**	**2,099,114**	***36.9***
a) Bad loans	1,770,405	*54.9*	1,716,712	*55.8*	1,701,935	*55.9*	53,693	–0.9	68,470	–1.0	1,565,714	*56.0*
b) "Unlikely to pay" loans	604,217	*22.1*	572,371	*20.5*	540,584	*20.3*	31,846	1.6	63,633	1.8	511,671	*19.1*
c) Past due	9,670	*9.7*	10,751	*8.4*	12,499	*8.4*	–1,081	1.3	–2,829	1.3	21,729	*9.8*
of which: Performing loans	**201,203**	***0.67***	**201,006**	***0.69***	**209,891**	***0.73***	**197**	**–0.02**	**–8,688**	**–0.06**	**198,654**	***0.68***
Total adjustments	**2,585,495**	***7.2***	**2,500,840**	***7.1***	**2,464,909**	***7.1***	**84,655**	**0.1**	**120,586**	**0.1**	**2,297,768**	***6.6***

Net loans to customers	30.06.2015		31.03.2015		31.12.2014		Changes A – B		Changes A – C		30.06.2014	
	A	%	B	%	C	%	Amount	%	Amount	%	D	%
of which: non-performing exposures	**3,677,887**	***11.0***	**3,698,791**	***11.3***	**3,597,901**	***11.2***	**–20,904**	**–0.6**	**79,986**	**2.2**	**3,594,060**	***11.1***
a) Bad loans	1,456,048	*4.3*	1,361,056	*4.2*	1,344,404	*4.2*	94,992	7.0	111,644	8.3	1,229,753	*3.8*
b) "Unlikely to pay" loans	2,131,317	*6.4*	2,220,847	*6.8*	2,117,449	*6.6*	–89,530	–4.0	13,868	0.7	2,165,266	*6.7*
c) Past due	90,522	*0.3*	116,888	*0.4*	136,048	*0.4*	–26,366	–22.6	–45,526	–33.5	199,041	*0.6*
of which: Performing loans	**29,805,142**	***89.0***	**28,901,586**	***88.7***	**28,480,942**	***88.8***	**903,556**	**3.1**	**1,324,200**	**4.6**	**28,926,726**	***88.9***
Total net loans to customers	**33,483,029**	***100.0***	**32,600,377**	***100.0***	**32,078,843**	***100.0***	**882,652**	**2.7**	**1,404,186**	**4.4**	**32,520,786**	***100.0***

Net interbank position

The net interbank position at 30 June 2015 shows a negative balance of Euro 3,332 million, a deterioration compared with the negative figure of Euro 2,334 million in December 2014 (– Euro 998 million), and on Euro 3,121 million in March 2015 (– Euro 211 million). This trend is largely attributable to the decrease in amounts due from banks, which were Euro 1,176 million higher on the end of 2014.

To determine the unsecured net interbank position at 30 June 2015, the following components should be deducted from the difference between amounts due to and from banks:

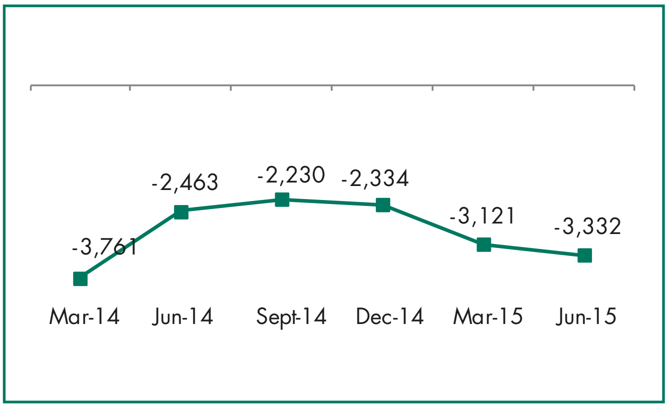
- Euro 3.1 billion from open market operations with the European Central Bank, including TLTRO (Targeted Longer Term Refinancing Operations) and MRO (Main Refinancing Operations) auctions. As regards TLTRO, the Bipiemme Group shows a balance at 30 June 2015 of Euro 2.75 billion, of which Euro 1.5 billion requested at the auction on December 2014, Euro 250 million at the first quarter 2015 auction and Euro 1 billion with the last request to ECB in June 2015; the remaining Euro 300 million are attributable to MRO transactions of BPM and Akros;
- Euro 288 million resulting from net deposits deriving from repurchase agreements with banks;
- Euro 195 million relating to amounts due from banks shown in the financial statements of BPM Securitisation 2, BPM Securitisation 3 and BPM Covered Bond, as they relate to liquidity that is not immediately available.

Net of these components, the unsecured net interbank position at 30 June 2015 shows a negative balance of Euro 187 million, an improvement on 31 December 2014 (– Euro 598 million) and at 31 March 2015 (– Euro 722 million).

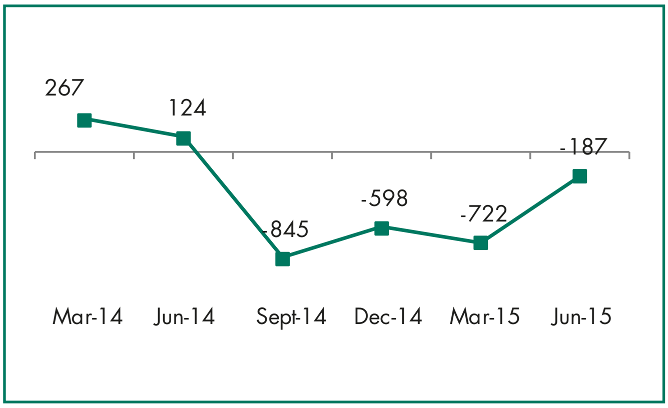
Difference between amounts due from and due to banks (Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2013
	A	B	amount	%	C	amount	%	D
Due from banks	1,162,731	1,050,829	111,902	10.6	984,777	177,954	18.1	1,849,987
Due to banks	4,494,906	4,171,724	323,182	7.7	3,318,564	1,176,342	35.4	4,313,017
Total	**–3,332,175**	**–3,120,895**	**–211,280**	**–6.8**	**–2,333,787**	**–998,388**	**–42.8**	**–2,463,030**

Difference between amounts due from and due to banks (Euro/million)



Unsecured net interbank position (Euro/million)

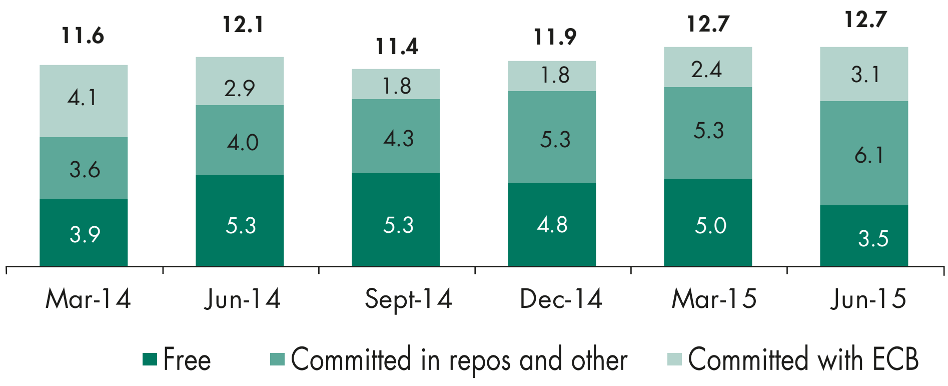


Liquidity position

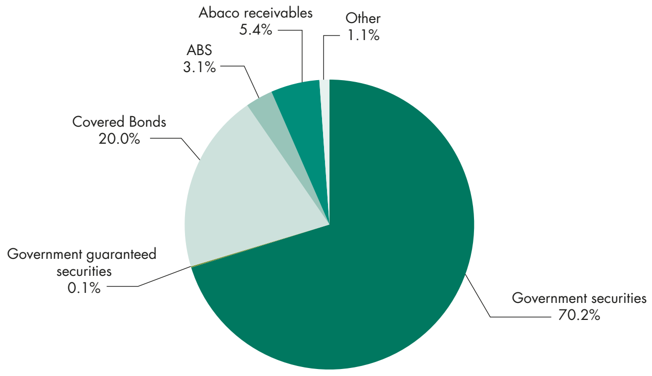
The Group's liquidity position remains strong and the main indicators of the liquidity situation have remained within the set limits. Net liquidity – being assets available for use as collateral plus net inflows and outflows over a given time horizon – amounts to Euro 3,939 million at 30 June 2015, with a time horizon of 1 month, giving a ratio of total assets of 8% (11.3% at the end of December 2014).
Liquidity at three months at the end of March 2015 comes to Euro 2,905 million (5.9% of total assets).
The assets eligible as collateral with the European Central Bank amounted to Euro 12.7 billion at the end of June 2015, which is stable on the previous quarter, and are committed for Euro 9.2 billion – of which Euro 3.1 billion is committed to TLRO and MRO – while the remaining Euro 3.5 billion is represented by free assets.

As expected, the liquidity requirement of commercial banks, being the difference between commercial funding and lending to customers, amounted to Euro 5 billion at the end of June 2015 (management figures), up on the December 2014 figure (Euro 3.2 billion).

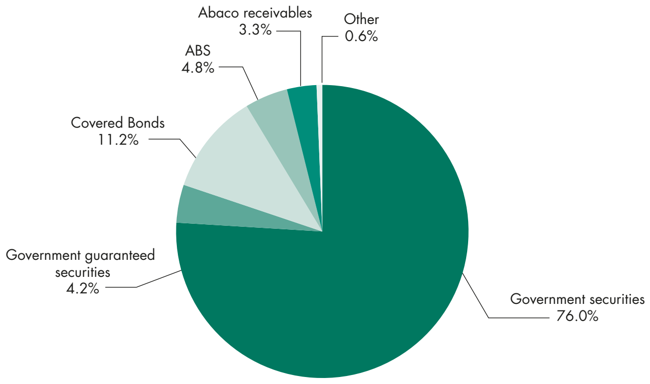
Assets eligible as collateral with the ECB (Euro/million)



Composition of total eligible assets at 30 June 2015



Composition of total eligible assets at 31 December 2014



Financial assets

The financial assets of the Bipiemme Group, net of financial liabilities, amount to Euro 10,329 million with a contraction on March 2015 (– Euro 631 million; –5.8%) but stable on the end of 2014.
In detail, the net balance of financial assets and financial liabilities held for trading, Euro 498 million at 30 June 2015, is up by Euro 40 million on December 2014 (+8.7%) but it is down by Euro 39 million on March 2015 (–7.3%). This aggregate is largely represented by the trading book of Banca Akros, whose operations mainly consist of trading, market making and risk management with dynamic hedging strategies within a system of operating limits.
Financial assets designated at fair value through profit and loss – which include structured debt securities and open-ended funds for which regular valuations are available from independent sources - come to Euro 81 million, showing a decrease compared with the figure in December 2014 (– Euro 16 million, –16.5%) and compared with March 2015 (– Euro 24 million, -22.8 %).
Financial assets available for sale amount to Euro 9,632 million, stable on the end of December 2014 (–0.4%) but down compared with March 2015 (–5.6%). This trend is due to the contraction in the Parent Company's portfolio of Italian government securities, mainly following the change in debt securities caused by the volatility of financial markets.

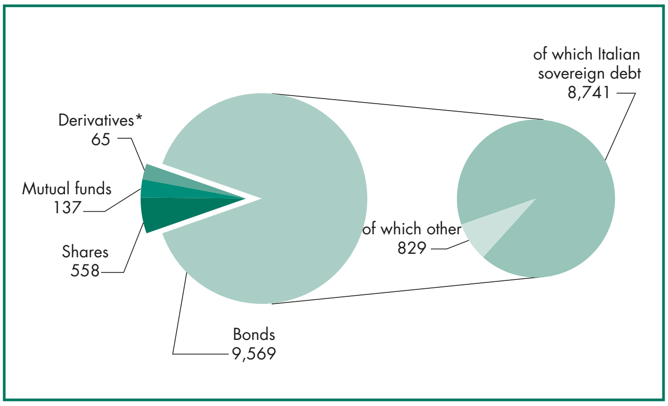
Financial assets/liabilities of the Group: breakdown

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2013
	A	B	amount	%	C	amount	%	D
Financial assets held for trading	1,824,944	2,284,325	–459,381	–20.1	1,921,518	–96,574	–5.0	1,712,025
Financial assets designated at fair value through profit and loss	81,410	105,443	–24,033	–22.8	97,449	–16,039	–16.5	172,235
Financial assets available for sale	9,632,210	10,208,114	–575,904	–5.6	9,670,272	–38,062	–0.4	9,336,110
Hedging derivatives receivable	161,979	160,497	1,482	0.9	178,460	–16,481	–9.2	198,790
Fair value change of financial assets in hedged portfolios (+/–)	14,544	21,872	–7,328	–33.5	20,107	–5,563	–27.7	15,196
Total financial assets	**11,715,087**	**12,780,251**	**–1,065,164**	**–8.3**	**11,887,806**	**–172,719**	**–1.5**	**11,434,356**
Financial liabilities held for trading	1,326,834	1,746,892	–420,058	–24.0	1,463,445	–136,611	–9.3	1,321,381
Hedging derivatives payable	44,092	58,053	–13,961	–24.0	58,751	–14,659	–25.0	45,742
Fair value change of financial liabilities in hedged portfolios (+/–)	14,809	14,567	242	1.7	16,084	–1,275	–7.9	19,682
Total net financial assets	**10,329,352**	**10,960,739**	**–631,387**	**–5.8**	**10,349,526**	**–20,174**	**–0.2**	**10,047,551**

Breakdown of net financial assets portfolio

(Euro/million)



(*) Mainly include hedging derivatives.

As regards the type of securities in portfolio, at 30 June 2015 financial assets are made up of bonds for around 93% (of which Euro 8,741 million relating to Italian sovereign debt). Equities, mutual funds and Sicavs in total represent 7%. The remainder consists mainly of hedging derivatives.

Fixed assets

At 30 June 2015, total **fixed assets**, including **investments in associates and companies subject to joint control, property and equipment and intangible assets**, amount to Euro 1,156 million, up compared with December 2014 (+3.4%) and 31 March 2015 (+2.5%).

Investments in associates and companies subject to joint control of Euro 331 million have increased with respect to December 2014 (+ Euro 37 million; +12.6%) and to the end of March 2015 (+ Euro 25 million; +8.1%). They are mainly attributable to the valuation of Selmabipiemme and reflect the higher value of this company's net equity.

Property and equipment of Euro 709 million have decreased with respect to December 2014 (–0.9%) and are stable on the end of March 2015 as a result of the depreciation charge.

Intangible assets (consisting mainly of software) amount to Euro 116 million, which is higher than in December 2014 (+ Euro 8 million) and higher than in March 2015 (+Euro 5 million) as a consequence of investment during the period.

Fixed assets: breakdown

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
investments in associates and companies subject to joint control	330,883	306,120	24,763	8.1	293,797	37,086	12.6	284,500
Property and equipment	709,164	710,809	–1,645	–0.2	715,705	–6,541	–0.9	720,676
Intangible assets	115,981	110,614	5,367	4.9	108,377	7,604	7.0	94,512
Total fixed assets	**1,156,028**	**1,127,543**	**28,485**	**2.5**	**1,117,879**	**38,149**	**3.4**	**1,099,688**

Provisions for specific use

At 30 June 2015 the provisions for specific use amount to Euro 468 million and consist of the provision for risks and charges for Euro 341 million and employee termination indemnities for the other Euro 127 million.

Shareholders' equity and capital adequacy

At 30 June 2015, the **Group's shareholders' equity**, including income for the period of Euro 154.1 million, amounts to Euro 4,488 million, down compared with the end of 2014 (–1.1%) and on March 2015 (–4.1%).
These changes are attributable to the reduction in the valuation reserves of debt securities booked under "financial assets available for sale" caused by market volatility that characterised the month of June, coinciding with the worsening of the financial crisis in Greece.

Group shareholders' equity: breakdown

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
1. Share capital	3,365,439	3,365,439	–	–	3,365,439	–	–	3,365,439
2. Share premium reserve	–	–	–	–	–	–	–	–
3. Reserves	762,726	855,665	–92,939	–10.9	617,888	144,838	23.4	600,676
4. (Treasury shares)	–859	–858	–1	–0.1	–854	–5	–0.6	–854
5. Valuation reserves	206,202	393,342	–187,140	–47.6	321,917	–115,715	–35.9	301,702
6. Equity instruments	–	–	–	–	–	–	–	–
7. Net income (loss) pertaining to the Group	154,053	67,603	86,450	n.s.	232,293	–78,240	n.s.	191,468
Total	**4,487,561**	**4,681,191**	**–193,630**	**–4.1**	**4,536,683**	**–49,122**	**–1.1**	**4,458,431**

Valuation reserves of the Group: breakdown

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Financial assets available for sale	254,450	448,255	–193,805	–43.2	377,758	–123,308	–32.6	345,326
Actuarial gains (losses) on defined-benefit pension plans	–55,884	–61,977	6,093	9.8	–61,977	6,093	9.8	–53,009
Cash flow hedge	–3,323	–3,910	587	15.0	–4,502	1,179	26.2	–1,511
Share of valuation reserves connected with investments carried at equity	–2,483	–2,468	–15	–0.6	–2,804	321	11.4	–2,546
Non-current assets held for sale	–	–	–	–	–	–	–	–
Special revaluation laws	13,442	13,442	–	–	13,442	–	–	13,442
Total	**206,202**	**393,342**	**–187,140**	**–47.6**	**321,917**	**–115,715**	**–35.9**	**301,702**

Minority interests

At 30 June 2015 minority interests amount to Euro 19 million, stable compared with the end of 2014.

Minority interests: breakdown

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
1. Share capital	2,354	2,359	–5	–0.2	2,359	–5	–0.2	2,357
2. Share premium reserve	11,921	11,982	–61	–0.5	11,982	–61	–0.5	12,081
3. Reserves	4,707	4,710	–3	–0.1	4,353	354	8.1	4,356
4. Treasury shares	–	–	–	–	–	–	–	–
5. Valuation reserves	–113	158	–271	–171.5	90	–203	–225.6	125
6. Equity instruments		–	–	–	–	–	–	–
7. Net income (loss) pertaining to minority interests	169	284	–115	n.s.	640	–471	n.s.	309
Total	**19,038**	**19,493**	**–455**	**–2.3**	**19,424**	**–386**	**–2.0**	**19,228**

Valuation reserves of minority interests: breakdown

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Valuation reserves: financial assets available for sale	–66	219	–285	–130.1	151	–217	–143.7	173
Valuation reserves: actuarial gains (losses) on defined-benefit pension plans	–47	–61	14	23.0	–61	14	23.0	–48
Valuation reserves: share of valuation reserves connected with investments carried at equity	–	–	–	–	–	–	–	–
Valuation reserves: special revaluation laws	–	–	–	–	–	–	–	–
Total	**–113**	**158**	**–271**	**–171.5**	**90**	**–203**	**–225.6**	**125**

Valuation reserves on financial assets available for sale

At 30 June 2015, the positive balance of valuation reserves on financial assets available for sale – including the portion attributable to minority interests – amounts to Euro 254 million, lower by Euro 124 million on the positive figure at 31 December 2014. This was caused by the contraction in the reserves for debt securities (– Euro 130 million) as a result of the already mentioned market volatility in June due to the worsening of the Greek financial crisis.

Valuation reserves on financial assets available for sale: breakdown

(Euro/000)

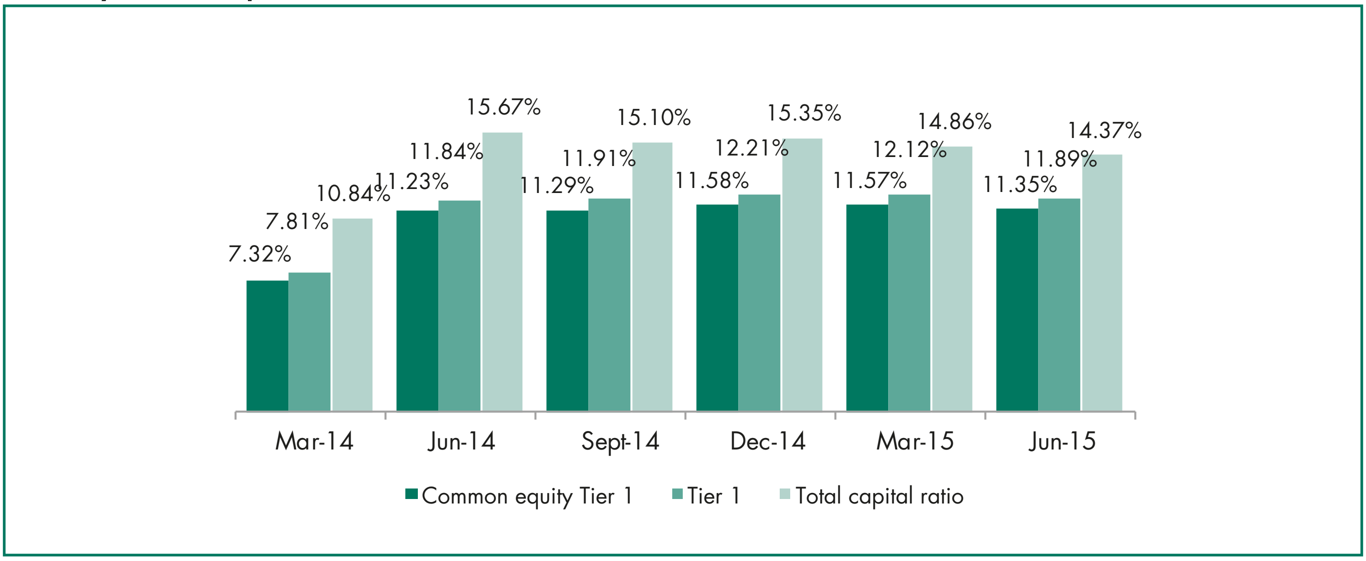
	30.06.2015			31.12.2014			Change	
	Gross book value	Tax effect	Net book value	Gross book value	Tax effect	Net book value	A – B	
	a1	a2	A = a1 – a2	b1	b2	B = b1 – b2	amount	%
Debt securities of which:	**173,551**	**–57,394**	**116,157**	**367,284**	**–121,463**	**245,821**	**–129,664**	**–52.7**
Italian sovereign debt	168,266	–55,644	112,622	365,117	–120,745	244,372	–131,750	–53.9
Other	5,285	–1,750	3,535	2,167	–718	1,449	2,086	144.0
Equities	**141,133**	**–9,730**	**131,403**	**135,541**	**–9,374**	**126,167**	**5,236**	**4.2**
Mutual Funds	**10,176**	**–3,352**	**6,824**	**8,820**	**–2,899**	**5,921**	**903**	**15.3**
Total valuation reserves	**324,860**	**–70,476**	**254,384**	**511,645**	**–133,736**	**377,909**	**–123,525**	**–32.7**

Own funds and capital adequacy ratios

At 30 June 2015 the Common equity tier 1 ratio is of 11.35%, Tier 1 capital ratio 11.89% and Total capital ratio of 14.37%. The CET 1 ratio at the end of June 2015 decreased compared with 11.58% in December 2014 and with 11.57% in March 2015. The decrease reflects the change in RWA (+Euro 1.3 billion compared with the end of 2014 and +Euro 1.1 billion compared with the end of March 2015) versus a positive trend in loans, which grew by 2.7% and 4.4% respectively. In particular, compared with 31 December 2014, the assets weighted for credit and counterparty risk have gone up by Euro 884 million, with an additional Euro 422 million to cover market risk, while compared with 31 March 2015 risk-weighted assets have increased by Euro 888 million and Euro 199 million respectively.

Note that, currently, the capital adequacy ratios do not benefit from any impact arising from the adoption of AIRB internal models.

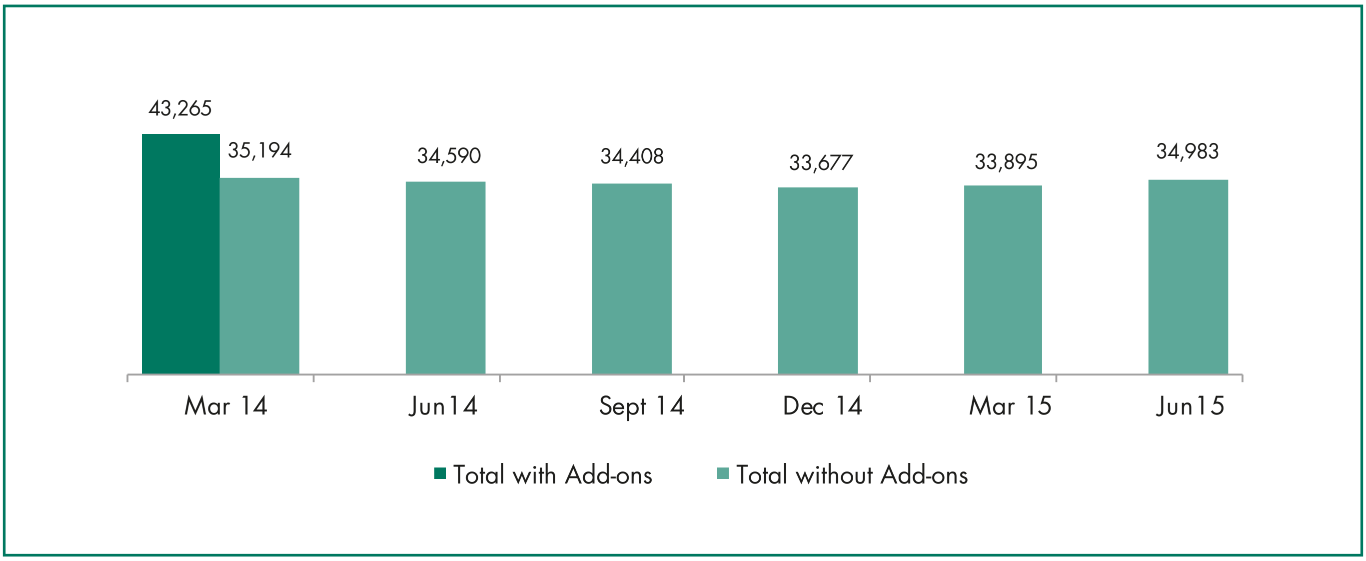
Quarterly trend of capital ratios (*)



(*) The new harmonized framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26 June 2013 is applicable from 1 January 2014; they transpose the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel 3 Framework") into the European Union.

Quarterly trend in risk-weighted assets

(Euro/million)



Income statement

Moving on to analyse the income statement, the first half of 2015 closed with **net income** of Euro 154.1 million, a decrease of 19.5% compared with the same period of 2014 which included the gain from the sale of a portion of the investment in Anima Holding SpA of Euro 103 million, net of taxes. The normalised net result, Euro 164.7 million, however, is an important improvement on the same period of 2014 (+Euro 67.3 million).
Revenues during the first half of 2015 have been sustained by the trend in interest margin (which remained more or less steady) and by a good performance by net fee and commission income (+11%). The result of net income from banking activities, even if down on June 2014 because of lower gains on the proprietary securities portfolio, also made a positive contribution of Euro 70.8 million.

Operating expenses confirm their declining trend (–2.3% compared with the same period last year), despite booking a charge of Euro 12.4 million for the contribution envisaged under the new European rules on bank bail-ins and deposit guarantee systems.

Net adjustments to loans are also down (–15.4%), while there has been an improvement in the already good levels of coverage, reaching 39.3% of total impaired loans at 30 June 2015.

Operating income

In June 2015, operating income amounts to Euro 823.5 million compared with 864.3 million in the previous year, registering a decline of 4.7%.
This figure is the net of the following changes:

- a slight decrease in interest margin from Euro 407.2 million of June 2014 to Euro 402.9 million (–1.1%);
- an increase in net fee and commission income of Euro 30.4 million (+11%);
- a decline in other income (– Euro 66.8 million; –37%). This mainly reflects the decline in the net income from banking activities (– Euro 73.9 million; –51%).

Interest margin

Interest margin comes to Euro 402.9 million, a decrease of Euro 4.4 million (–1.1%) compared with June 2014, mainly due to the contraction in revenues from the Parent Company's securities portfolio (– Euro 18 million; –16.4%).

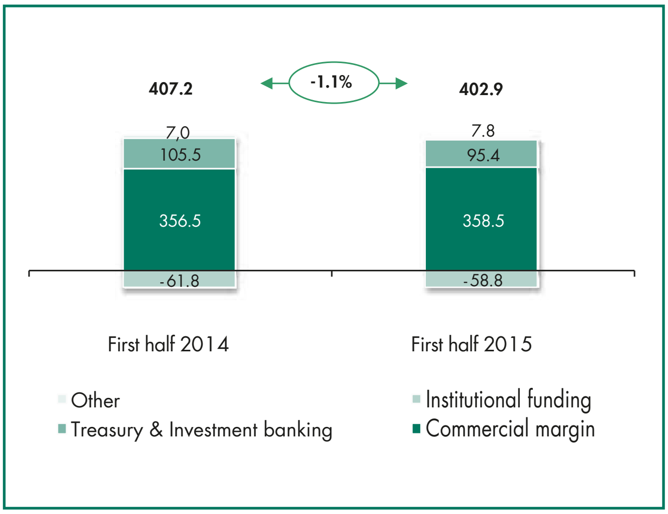
Interest margin

(Euro/000)

	First half 2015	First half 2014	Change amount	Change %
Interest and similar income	593,064	667,103	(74,039)	–11.1
Interest and similar expense	(190,184)	(259,857)	69,673	26.8
Total interest margin	**402,880**	**407,246**	**(4,366)**	**–1.1**

Trend in interest margin by business line

(Euro/million)

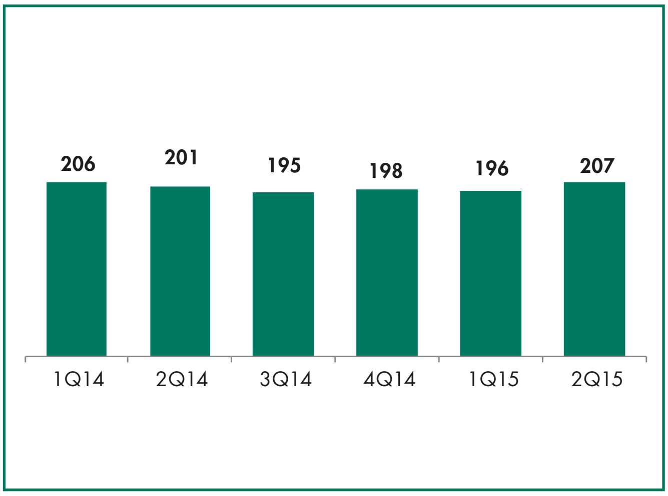


The following is a breakdown of the interest margin by business line, on the basis of the allocation of interest income and expense for management purposes to the various business segments. The following trends emerge from this analysis:

- **commercial margin:** increases with respect to the first half 2014 by Euro 1.9 million (+0.6%), from Euro 356.5 million to Euro 358.5 million. This performance is attributable to the enlargement of the spread between lending and borrowing rates, up by 8 bps. The average spread in the first half of 2015 was 2.20% compared with 2.12% in June 2014;
- **treasury & investment banking margin:** this stands at Euro 95.4 million, a decrease of some Euro 10.1 million with respect to the first half of 2014, due to the combined effect of a contraction in income from the Parent Company's securities portfolio of Euro 18.1 million (–16.4%) and a lower cost of interbank deposits (+ some Euro 5 million);
- **interest expense on institutional funding:** they amount to Euro 58.8 million in the first half of 2015 with an improvement of Euro 3 million compared with June 2014 due to lower interest rates and to a contraction in the volume of institutional funding.

Quarterly trend in the interest margin

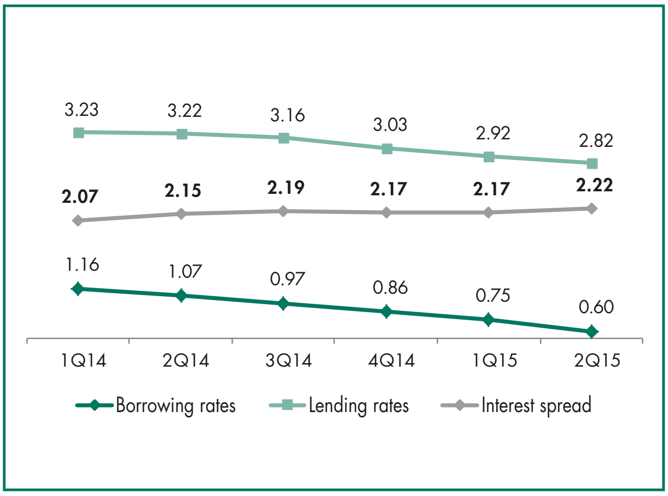
(Euro/million)



The **interest margin** during second quarter 2015 increases by Euro 10.6 million compared with the previous quarter (+5.4%) because of the rise in commercial margin (+ Euro 8.5 million; +4.9%). This change is due to lower interest expense of Euro 9.8 million versus a slight decline in interest income (-Euro 1.5 million). It should also be noted that the quarter benefited from a Euro 4 million VAT rebate that took place earlier than expected at the time of purchase.

Revenues from treasury and investment banking increased slightly during the quarter (+ Euro 0.5 million; +1%).

Quarterly trend in Bipiemme Group interest spread
(%)



The interest spread in the first quarter of 2015 stood at 2.22%, which is up on the figure for the previous quarter (2.17%). Lending rates (2.82%) fell by 10 bps compared with the first quarter of 2015, and borrowing rates continued the downward trend that commenced in the middle of 2012, with an average rate of 0.60% compared with 0.75% in the previous quarter.

Non-interest margin

The **non-interest margin** of Euro 420.7 million posts a decline of Euro 36.4 million (-8%) at the end of first half 2015 compared with the same period last year. This result reflects a significant decrease compared with June 2014 in the net result from banking activities (-Euro 73.9 million; -51%), only partially offset by the increase in net fee and commission income of Euro 30.4 million (+11%) and by profits (losses) on investments carried at equity (+Euro 7.1 million; +59.8%).

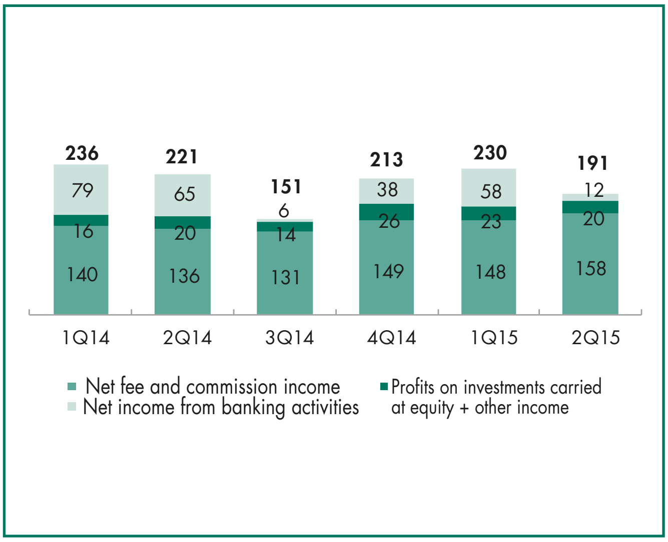
Non-interest margin

(Euro/000)

	First half 2015	First half 2014	Changes amount	Changes %
Net fee and commission income	**306,753**	**276,361**	**30,392**	**11.0**
Other income:	**113,900**	**180,700**	**(66,800)**	**–37.0**
Profits (losses) on investments carried at equity	19,083	11,945	7,138	59.8
Net income from banking activities	70,827	144,691	(73,864)	–51.0
Other operating charges/income	23,990	24,064	(74)	–0.3
Non-interest margin	**420,653**	**457,061**	**(36,408)**	**–8.0**

Quarterly trend in non-interest margin

(Euro/million)



The quarterly analysis of **non-interest margin** shows a contraction of Euro 38.6 million (–16.8%) attributable to the lower net income from banking activities (– Euro 46 million; –78.7%) which mainly discounts the result of trading activities (– Euro 56.7 million q/q) associated with the weakness of the bond market.

The quarterly trend in net fee and commission income increases with respect to first quarter 2015 (+ Euro 10.2 million; +6.9%), principally because of higher net fee and commission income from management, dealing and advisory services (+Euro 8.2 million) thanks to a good performance on the part of the asset management business.

Lastly, profits (losses) on investments carried at equity and other operating charges/income totalled Euro 20 million compared with 23 million in the previous quarter.

Net fee and commission income

Net fee and commission income (Euro/000)

	First half 2015	First half 2014	Changes amount	Changes %
Fee and commission income	**344,003**	**316,765**	**27,238**	**8.6**
Fee and commission expense	**(37,250)**	**(40,404)**	**3,154**	**7.8**
Total net fee and commission income	**306,753**	**276,361**	**30,392**	**11.0**
Breakdown:				
guarantees given and received	15,456	10,321	5,135	49.8
credit derivatives	–	–	–	–
management, dealing and advisory services	163,397	134,700	28,697	21.3
collection and payment services	31,206	32,750	(1,544)	–4.7
servicing for securitisation transactions	–	–	–	–
management of current accounts	29,094	32,764	(3,670)	–11.2
other services	67,600	65,826	1,774	2.7
Total net fee and commission income	**306,753**	**276,361**	**30,392**	**11.0**

Net fee and commission income has risen with respect to the first half of 2014 by Euro 30.4 million (+11%) mainly due to an increase in net fee and commission income from management, dealing and advisory services of Euro 28.7 million (+21.3%), which benefited from a successful performance by asset management.

Profits (losses) on investments in associates and companies subject to joint control (carried at equity)

This line item comes in at Euro 19.1 million, posting an increase of Euro 7.1 million with respect to the first half 2014, thanks to the good results obtained by associated companies.

Net income (loss) from banking activities

Net income (loss) from banking activities

(Euro/000)

	First half 2015	First half 2014	Changes amount	Changes %
Dividends	11,966	12,474	(508)	–4.1
Profits (losses) on trading	10,356	22,017	(11,661)	–53.0
Fair value adjustments in hedge accounting	(1,055)	1,030	(2,085)	–202.4
Profits/losses on disposal or repurchase of financial assets/liabilities	61,803	110,327	(48,524)	–44.0
Profits (losses) on financial assets/liabilities designated at fair value	(3,415)	11,035	(14,450)	–130.9
Net losses/recoveries on impairment: financial assets available for sale	(8,828)	(12,192)	3,364	27.6
Total net income from banking activities	**70,827**	**144,691**	**(73,864)**	**–51.0**

Net income (loss) from banking activities: details by company

(Euro/000)

	First half 2015	First half 2014	Changes amount	Changes %
Banca Popolare di Milano	57,237	109,860	(52,623)	–47.9
Banca Popolare di Mantova	–	14	(14)	–100.0
Banca Akros	14,131	31,776	(17,645)	–55.5
Consolidation eliminations/adjustments	(541)	3,041	(3,582)	–117.8
Total net income from banking activities	**70,827**	**144,691**	**(73,864)**	**–51.0**

“Net income from banking activities”, comes in at Euro 70.8 million, Euro 73.9 million down on the first half of 2014 (–51%). As regards the main changes, we point out the following:

- **profits (losses) on trading activities** record a decline of Euro 11.7 million compared with the end of June 2014 coming to Euro 10.4 million. This result reflects, in particular, the negative effects of the “mark to market” valuation at the end of the period, as well as the contraction in the results of market making by Banca Akros on account of lower flows from customers in the fixed income segment. In fact, during the second quarter, the resurgence of serious worries about the state of Greece's public finances, together with the emergence of other factors of instability, including uncertainties about developments in US monetary policy and the sharp correction in the Chinese stock market in June, led to a gradual deterioration in the reference scenario. This resulted in a widening of credit spreads, which at the end of the period, at the time of the Greek referendum, pushed the spread between 10-year BTPs and 10-year Bunds close to 160 basis points, corresponding to a yield on Italian bonds of close to 2.3%;
- the **profit on the disposal or repurchase of financial assets/liabilities** came to Euro 61.8 million, down by Euro 48.5 million compared with June 2014. This trend substantially reflects lower gains on debt securities for Euro 35 million compared with June 2014, in addition to the non-recurring charge of Euro 11.5 million resulting from the purchase of own bonds;
- **profits (losses) on financial assets and liabilities designated at fair value** are negative for Euro 3.4 million, down on the positive balance of Euro 11 million at June 2014, due to losses on disposal of Euro 1.4 million and potential losses of Euro 5.2 million, only partly offset by unrealised gains of Euro 3.2 million;
- **net lossess/recoveries on impairment financial assets available for sale** amount to a loss of Euro 8.8 million, compared with a loss of Euro 12.2 million of June 2014 (+Euro 3.4 million). This amount includes specific adjustments on bonds (– Euro 6.3 million), in addition to adjustments on shares (- Euro 1.9 million) and Mutual Funds (- Euro 0.6 million).

Other operating charges/income

Other operating charges/income amount to Euro 24 million at 30 June 2015, stable with respect to the previous year.

Operating expenses

In the period ended 30 June 2015, **operating expenses** – made up of administrative expenses and net adjustments to property and equipment and intangible assets – amounted to Euro 481.4 million, a slight decrease of Euro 11.5 million compared with the same period in 2014 (–2.3%). The cost/income ratio (the ratio of operating expenses to operating income) deteriorated by 1.4 p.p. to 58.5% owing to the contraction in operating income (–4.7%).

Operating expenses: breakdown

(Euro/000)

	First half 2015	First half 2014	Changes amount	Changes %
Administrative expenses:	**(448,249)**	**(455,289)**	**7,040**	**1.5**
a) personnel expenses	(303,365)	(320,480)	17,115	5.3
b) other administrative expenses	(144,884)	(134,809)	(10,075)	–7.5
Net adjustments to property and equipment and intangible assets	**(33,124)**	**(37,544)**	**4,420**	**11.8**
Total	**(481,373)**	**(492,833)**	**11,460**	**2.3**

Operating expenses: details by company

(Euro/000)

	First half 2015	First half 2014	Changes amount	Changes %
Banca Popolare di Milano (1)	(442,205)	(450,870)	8,665	1.9
Banca Popolare di Mantova	(5,119)	(5,003)	(116)	–2.3
Banca Akros	(24,903)	(29,001)	4,098	14.1
ProFamily	(10,702)	(9,863)	(839)	–8.5
Other companies	(1,527)	(1,491)	(36)	–2.4
Consolidation eliminations/adjustments	3,083	3,395	(312)	–9.2
Total operating expenses	**(481,373)**	**(492,833)**	**11,460**	**2.3**

(1) The 2014 figures take account of the merger of WeBank with Banca Popolare di Milano that took place on 23 November 2014.

In detail, **personnel expenses**, Euro 303.4 million, decreased by Euro 17.1 million (–5.3%).
This reduction is the result of:

- lower provision for art. 60, including the related social contribution of Euro 6.8 million. This reduction is due to lower net income for the first half of 2015, compared with that recorded in the same period last year, which benefited from the gain arising from the sale of Anima Holding;
- lower adjustments to the solidarity fund of Euro 6.3 million, also considering the fact that retirements were substantially completed at 30 June 2015.

Excluding this component, personnel expenses are down by 1.1%, having benefited from a reduction in the average cost due to leavers who had signed up for the Solidarity Fund (since the fund was set up at the end of March 2013, there have been 690 leavers, of which 51 in the last quarter).

Other administrative expenses: breakdown

(Euro/000)

	First half 2015	First half 2014	Changes amount	Changes %
IT expenses	(36,209)	(36,787)	578	1.6
Expenses for buildings and furniture	(22,943)	(24,486)	1,543	6.3
Property leases	*(17,609)*	*(18,997)*	*1,388*	*7.3*
Other expenses	*(5,334)*	*(5,489)*	*155*	*2.8*
Purchases of assets and non-professional services	(26,179)	(27,989)	1,810	6.5
Purchases of professional services	(21,526)	(18,260)	(3,266)	–17.9
Insurance premiums	(1,907)	(1,910)	3	0.2
Advertising expenses	(10,493)	(7,264)	(3,229)	–44.5
Indirect taxes and duties	(54,108)	(54,245)	137	0.3
Other	(17,152)	(5,660)	(11,492)	n.s.
Total	**(190,517)**	**(176,601)**	**(13,916)**	**–7.9**
Reclassification of "indirect tax recoveries"	45,633	41,792	3,841	9.2
Total	**(144,884)**	**(134,809)**	**(10,075)**	**–7.5**

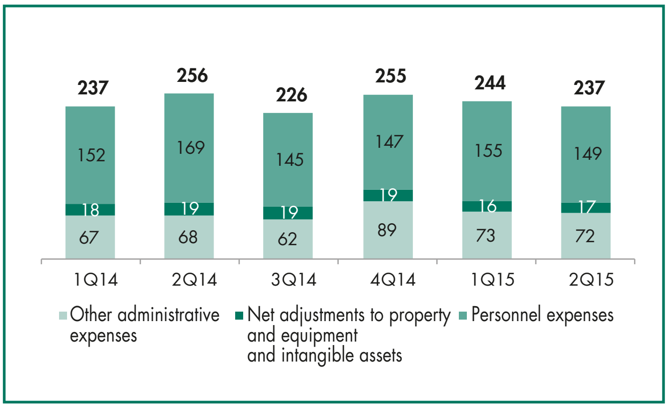
Other administrative expenses amount to Euro 144.9 million, including indirect tax recoveries. This increase compared with 30 June 2014, amounting to Euro 10.1 million (+7.5%), is affected by the estimated Euro 12.4 million contribution (for the whole of 2015) envisaged under the new European rules on bank bail-ins and deposit guarantee systems.
Moreover, the following trends have been seen:

- advertising expenditures have increased by Euro 3.2 million as a result of a number of promotional campaigns and product co-marketing/advertising initiatives;
- expenses for the purchase of goods and professional services have increased by Euro 3.3 million due to higher consulting services to support projects in the business plan, as well as higher legal fees and related real estate appraisals for subrogations and mortgages;
- purchases of assets and non professional services show a reduction of Euro 1.8 million;
- expenses for buildings and furniture have decreased by Euro 1.5 million, thanks above all to lower rent and property maintenance expenses due to the closure of 62 branches in 2014.

Net adjustments to property and equipment and intangible assets come to Euro 33.1 million versus Euro 37.5 million of June 2014.

Quarterly trend in operating expenses

(Euro/million)



The quarterly analysis of **operating expenses** indicates a fall during the first quarter of 2015 (– Euro 7.6 million; –3.1%).

Personnel expenses for the second quarter of the year came in at Euro 149 million versus Euro 155 million for the previous quarter due to a decrease in certain variable components linked to the results.

The **other administrative expenses** mark a reduction compared with the previous quarter (– Euro 1.6 million; –2.2%).

Profits (Losses) from equity and other investments and adjustments to goodwill and intangible assets

Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets amount to Euro 37.5 million with a decrease on June 2014, which included a gain from the sale of a share of Anima Holding SpA of Euro 104.5 million. The June 2015 figure reflects the higher value of the equity of Selmabipiemme Leasing following the company's merger with Palladio Leasing, also part of the MedioBanca Group.

Net adjustments, provisions and other items

Net adjustments for impairment of loans and other activities amount to Euro 168.3 million at the end of the first half of 2015 and are lower than the amount of Euro 199 million reported in the same period in 2014 (– Euro 30.7 million; –15.4%).

The breakdown of this aggregate is shown in the table below.

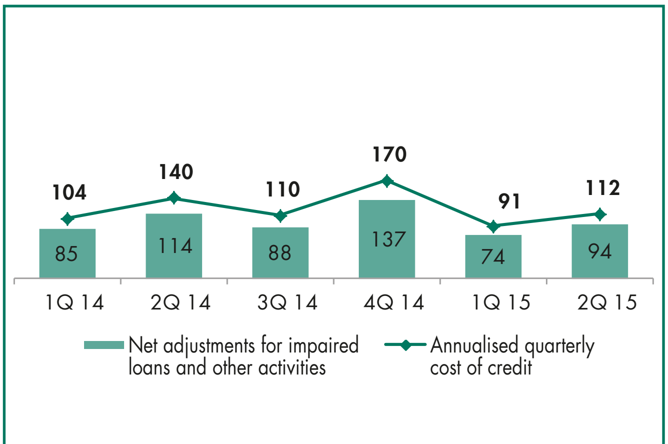
The cost of credit, which is the ratio of annualised net loan adjustments to total loans outstanding, decreased from 122 bps in June 2014 to 101 bps in the first half of 2015 (-21 bps). For further analysis, reference should be made to the section in this report on "Asset quality".

Net adjustments for impairment of loans and other activities: breakdown

(Euro/000)

Transactions/ Income elements	Adjustments			Writebacks			First half 2015	First half 2014	Changes	
	Specific	Portfolio	Total	Specific	Portfolio	Total			amount	%
Loans:	**(288,130)**	**(8,915)**	**(297,045)**	**99,538**	**17,104**	**116,642**	**(180,403)**	**(193,039)**	**12,636**	**6.5**
Due from banks	(209)	(540)	(749)	207	41	248	(501)	(439)	(62)	–14.1
Loans to customers	(287,921)	(8,375)	(296,296)	99,331	17,063	116,394	(179,902)	(192,600)	12,698	6.6
Profits/losses on disposal/repurchase of loans	**(1,510)**	**–**	**(1,510)**	**940**	**–**	**940**	**(570)**	**(49)**	**(521)**	**n.s.**
Other financial activities	**(2,988)**	**(293)**	**(3,281)**	**14,673**	**1,242**	**15,915**	**12,634**	**(5,902)**	**18,536**	**n.s.**
Total	**(292,628)**	**(9,208)**	**(301,836)**	**115,151**	**18,346**	**133,497**	**(168,339)**	**(198,990)**	**30,651**	**15.4**

Quarterly trend in net adjustments for impaired loans and other activities (Euro/mn) **and the annualised cost of credit** (*bps*)



The quarterly analysis of adjustments on loans and other activities amount to Euro 94 million in the first half of 2015 and compares with Euro 74 million in the previous quarter. This result reflects the rise in non-performing exposures coverage (+100 bps from 38.3% to 39.3%), as described in the paragraph entitled "Asset quality" included in this report.

The cost of credit has also risen, showing a similar trend, reaching 112 bps on a quarterly basis, up on the first quarter of 2015.

Net result

Net income for the period amounts to Euro 154.2 million and decreases by Euro 37.6 million compared with the net income of Euro 191.8 million for the first half of 2014. The June 2014 net income included a gain from the sale of a share in Anima Holding. Excluding this gain, the net income for the first half 2015 would result in an increase of 69% (+ Euro 67.3 million). The **net income of the Parent Company**, after **minority interests** (Euro 169 thousand), amounts to Euro 154.1 million compared with a net income of Euro 191.5 million for first half 2014.

Statement of cash flows

The following statement of cash flows for the Bipiemme Group at 30 June 2015 shows cash absorption of Euro 99 million, compared with cash absorption of Euro 114 million in the first half of 2014.

During the first half of 2015, **operating activities** generated total cash of Euro 30 million, and we would point out in particular that:

- **operations** generated cash of Euro 416 million, which is less than in the same period of 2014;
- **financial assets** absorbed Euro 1,470 million of liquidity compared with Euro 267 million generated in the first half of 2014, also thanks to the increase in loans;
- **financial liabilities** generated liquidity for Euro 1,083 million compared with an absorption of Euro 1,599 million in June 2014, due essentially to the growth in interbank deposits.

The investing activities absorbed some Euro 32 million, compared with liquidity generated for Euro 209 million in the same period of 2014, essentially due to the disposal of a share of Anima Holding.

Bipiemme Group – Statement of cash flows (indirect method)

(Euro/000)

A. OPERATING ACTIVITIES	First half 2015	First half 2014
1. Cash flow from operations	416,164	523,380
2. Cash flow from/used in financial assets	–1,469,629	266,835
3. Cash flow from/used in financial liabilities	1,083,188	–1,598,591
Net cash flow from (used in) operating activities	**29,723**	**–808,376**
B. INVESTING ACTIVITIES		
1. Cash flow from investing activities	2	225,306
2. Cash flow used in investing activities	–31,787	–15,807
Net cash flow from/used in investing activities	**–31,785**	**209,499**
C. FINANCING ACTIVITIES		
Net cash flow from/used in financing activities	**–96,594**	**484,617**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–98,656**	**–114,260**
Reconciliation		
Line items	**30.06.2015**	**30.06.2014**
Cash and cash equivalents at the beginning of the period	322,840	363,202
Net increase (decrease) in cash and cash equivalents	–98,656	–114,260
Cash and cash equivalents: foreign exchange effects	0	0
Cash and cash equivalents at the end of the period	**224,184**	**248,942**

Key: (+) generated (–) absorbed

BPM shareholders, stock price and ratings

Shareholders

As at 30 June 2015, there were 56,334 registered members and a further 57,000 shareholders recorded in the Shareholders' Register (the latter figure based on information available to the Bank). There are therefore 113,000 recorded shareholders.
Share capital at 30 June 2015 amounts to Euro 3,365,439,319.02, represented by 4,391,784,467 ordinary shares. The Bank holds 1,395,574 of its own shares ("treasury shares") at 30 June 2015.
On 11 April, the Ordinary General Meeting of the Members of Banca Popolare di Milano took place and was attended by 4,000 Members (in person or by proxy).
According to the rules defined in the "Framework resolution for rules concerning the admission and handling of members" (approved by the Supervisory Board and the Management Board on 24 January 2012), 259 new members were admitted during the first half of 2015.

Performance of BPM stock

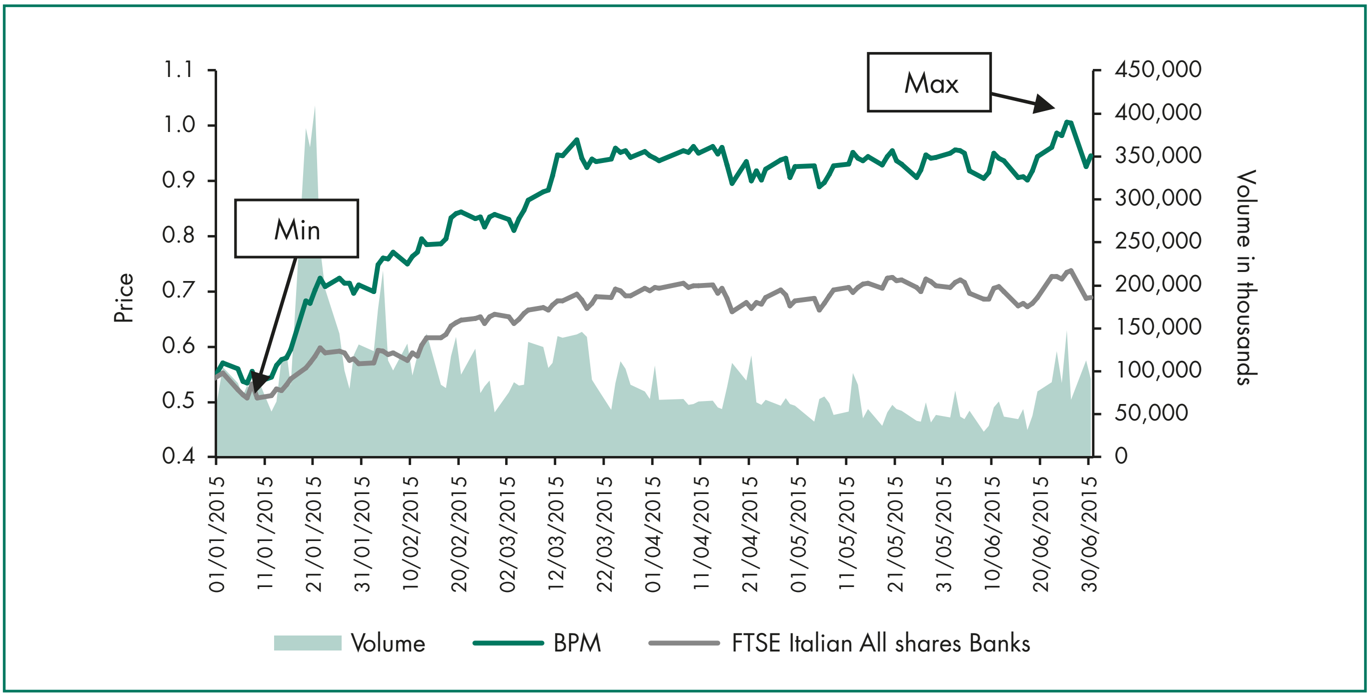
The global economy continued to grow in the first half of 2015. In Europe, we are witnessing a gradual consolidation of the macro data, thanks to a series of positive factors, such as the drop in oil prices and the depreciation of the euro exchange rate against the dollar. Positive effects also came from the TLTRO programme and from Quantitative Easing. In this context, the financial markets were characterized by high volatility, especially in the second quarter, mainly due to increasing uncertainty about the Greek crisis.

European markets turned in the best performance during the first half. The best performance was that recorded by the Italian Stock Exchange, with the FTSE MIB index having risen by 18.1%. The French Stock Exchange index also performed well and rose by 12%. They were followed by the German index rose by 11.6% and the English FTSE 100 that closed, however, with a loss of –0.7%. The US index (S&P's 500) closed with a more or less unchanged performance.

Worth noting is the particular growth in the banking sector in the first half of 2015, with the Italian sector index (FTSE Italia All Share Banks) posting an increase of 27%, more than the European index (Euro Stoxx Banks) which rose by 11.4%. The BPM stock outperformed the Italian index with a +74.4%.

Since the start of the year, BPM stock has fluctuated in a range that marked a low of Euro 0.53 on 7 January 2015 and a high of Euro 1.006 on 25 June 2015. Average daily trading volumes during the first half of 2015 were about 94 million shares.

Performance of the share price of Banca Popolare di Milano during the first half of 2015



The FTSE Italia All Share Banks index has adjusted its parameters for the BPM stock.

Ratings

The following table summarises the ratings given by the international rating agencies Standard & Poor's, Fitch Ratings and Moody's.

Banca Popolare di Milano rating at 30 June 2015

Rating agency	Latest updates	Long-term debt	Short-term debt	Outlook
Standard & Poor's	28 April 2015	B+	B	Stable
Fitch Ratings	19 May 2015	BB+	B	Stable
Moody's	22 June 2015	Ba3	N-P	Stable

The most recent revisions of BPM's rating by the main international rating agencies are as follows:

- **Standard & Poor's:** on 28 April 2015, S&P's confirmed both its long-term and short-term ratings for BPM of B+/B with a Stable outlook. This decision takes into account, among other things, the stabilisation of the financial profile, the signs of improvement in credit quality and an operating result in line with the rating agency's expectations.
- **Fitch Ratings:** on 19 May 2015 Fitch Ratings upgraded its Viability Rating for BPM, taking into account the increased financial strength of the Bank and the progress made in asset quality and profitability. The VR upgrade made it possible to offset the loss of sovereign support and to confirm the long-term rating of BB+. Fitch Ratings also changed its outlook for BPM from Negative to Stable.
- **Moody's:** on 22 June 2015, as part of its review of the methodology for allocating bank ratings which involved 17 Italian banks, Moody's increased its long-term rating for BPM by one notch from B1 to Ba3, thereby removing the credit watch applied on 17 March 2015. The outlook is Stable.

Related party transactions

As is generally known, the rules governing related party transactions aim to limit the risk that belonging to or, in any case, the proximity of certain people (so-called "related parties") to the company's decision-making bodies might compromise the impartiality of corporate decisions and the exclusive pursuit of the company's interests, with possible distortions in the process of allocating resources, exposure of the company to risks which are not adequately measured or controlled, and potential damage to the company and its stakeholders.

In this regard, Bipiemme Group has prepared specific internal regulations, approving the "Regulation governing related parties and connected persons" (hereinafter the "Regulation"), drawn up in accordance with the provisions of prudential supervision issued by the Bank of Italy on associated persons (circular no. 263/2006, Title V, Chapter 5) and Consob's Regulation of Related Party Transactions (Resolution no. 17221 of 12.3.2010, and subsequent amendments), as well as pursuant to article 136 of the Consolidated Banking Act (CBA), and which are available on the Bank's website www.gruppobpm.it (to which reference should be made for a detailed description).

In particular, these Rules:
i. set out criteria for identifying the Bipiemme Group's related parties and connected persons (hereinafter known collectively as "Associated Persons");
ii. define quantitative limits for the assumption by the Banking Group of risk-weighted assets involving Associated Persons, determining the relevant means for their computation and regulating, at the same time, the system of internal controls over transactions with Associated Persons;
iii. establish the manner in which transactions with Associated Persons are approved, differentiating between less and more material transactions and defining in this context the role and the duties of the Independent Directors;
iv. sets out cases for exemptions and exceptions for certain types of transactions with Associated Persons;
v. lays down the disclosure (and accounting) requirements as a result of entering into related party transactions.

The Bipiemme Group also prepared suitable "implementation instructions" (adopted individually by Group companies) to accompany this "Regulation". These *(i)* are designed to define certain aspects regarding the correct management of transactions with related parties, to optimise the monitoring and management of the related positions by operators, and to identify the specific authorisation levels; *(ii)* collect in a single integrated text (available on www.gruppobpm.it to which reference should be made for details) the internal policies regarding controls over risk assets and conflicts of interest in respect of associated persons adopted by the Bipiemme Group.

Therefore, having set out the general legal framework and regulatory system for "related parties" within the Group, it should be pointed out that, with particular reference to the granting of loans (one of the Bank's main businesses), the IT procedures currently used by the Bank make it possible, among other things, to recognise immediately – and consequently to centralise automatically with the pertinent head office structures – any lines of credit granted to those who are considered to be a related party.

Having said this by way of general introduction, as regards the first half of 2015 and, in particular, the relationships between BPM and its subsidiaries and associates, as well as with other related parties, we would point out that any such transactions have been carried out as part of the Bank's normal day-to-day activities. They are regulated at market conditions for transactions of that type and, where these do not exist, based on an adequate remuneration of the costs incurred to produce the services rendered.
In this regard, we would point out in particular that:
- there were no atypical or unusual transactions during the first six months of 2015 with related parties or any such that would significantly affect the balance sheet, income statement or financial position and hence requiring disclosure to the market in accordance with the Consob's Issuers Regulation in force;
- all loans to subsidiaries and associates, as well as to other affiliates were subjected to Board approval regardless of the amount, as foreseen in the internal Credit Line Regulations (without prejudice, where applicable, to the instructions on related party transactions contained in the "Rules");
- also subject to board resolution – i.e. approved by a unanimous vote of Directors and with the unanimous vote in favour of the audit committee – are the transactions carried out directly or indirectly (and, thus, also through "close relatives") with persons that fall into the field of application of art. 136 of the Banking Code ("Obligations of bank corporate officers").

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With reference to the requirements of art. 5, para. 8, of Consob Regulation 17221/2010 (and subsequent amendments) on half-yearly accounting information, note that as part of its normal operations the Bank carried out a number of transactions with related parties in 2015 that would qualify as being of "greater relevance" (under Consob's regulation and the related internal procedure); in particular, these transactions were carried out with direct or indirect subsidiary companies or associates of the Bank.
In this connection, with particular reference to credit line relationships (understood as the overall credit positions granted), the following summary table indicates the credit line relationships maintained by BPM with these companies, as approved or revised by BPM during the first half of 2015 and falling within the said relevance parameters.

(Euro/000)

Counterparty	**Nature of relationship**	**Total credit granted – minimum**	**Total credit granted – maximum**
Anima SGR S.p.A.	Associated company	286	300,286
Factorit SpA	Associated company	290,000	330,000
ProFamily SpA	Subsidiary company	1,122,042	1,122,042
SelmaBipiemme Leasing S.p.A.	Associated company	361,068	361,078

In addition, the Parent Company also carries out routine transactions with Banca Akros S.p.A. involving the specific activities of that subsidiary. These include, in particular, the provision of rotating funds that are used by Banca Akros S.p.A. for operations in the capital markets, as well as overnight transactions and repurchase agreements.

Outlook

Overall in 2015, global prospects for GDP growth show a deceleration with respect to the previous year (+2.9% compared with +3.2% in 2014), reflecting a slowdown in the United States (+2.2% compared with +2.4% in 2014) and in emerging countries (Brazil and Russia in particular). The possibility of a change in the Chinese development model is also becoming more and more likely; this could lead to a reduction in investment and consumption and a consequent decline in GDP growth to +6.3% from +7.4% last year. The European Union, on the other hand, should show a modest recovery (+1.4% compared with +0.9% in 2014), helped by the depreciation of the euro and the low prices of raw materials, although the situation in Greece is a factor of high instability, while Japan would benefit from expansionary policies that would bring growth to +1% (–0.1% in 2014). As for Italy, the growth forecast of +0.7% is confirmed for the current year, with a more sustained trend in the third quarter of the year (+0.4% q/q). Banks should continue to benefit from the ECB's unconventional policy of quantitative easing and the recovery in economic activity, which should raise the demand for loans. Banking margins are still expected to decline, while a rising contribution to profitability is expected from service revenues and the improving quality of the loan portfolio (source: Prometeia).
Under these circumstances, the Bipiemme Group's operations will continue, also during the second half of 2015, in line with the guidelines set out in the Business Plan approved in March of last year. Our commercial operations will remain focused on improving our territorial presence and the level of customer service, while our financial intermediation activities, supported by solid capital and liquidity bases, could benefit from a recovery in volumes of the first half-year, above all in the corporate segment, even if faced with an increase in competitive pressure. As regards funding, the switch into on-demand forms of deposits to replace time-restricted deposits will help stabilise the interest margin. Interest spread is not expected to change significantly; the effects of quantitative easing on lending and deposit rates should in fact balance out. Among the components of interest income, fees and commissions should still be supported by the positive performance of asset management, also benefiting from the growth in lending and the effect of the economic recovery on the use of banking services, while net income from banking activities may be in decline, net of any non-recurring items. Tight control over operating expenses and risks will continue to be an important lever to maintain profitability. New development initiatives will be aimed at achieving greater efficiency, productivity and organisational simplification.

Risks and uncertainties

The Group's operations are exposed to the risk of a macroeconomic trend that differs from that expected, with particular reference to the domestic economy and the territories in which the Group is more present. A further element of risk could be a recurrence of geo-political tensions, triggered, particularly, by the aforementioned Greek crisis, whereas uncertainty arising from low inflation is currently being contrasted in the Eurozone by a highly expansionary monetary policy. In the event of such adverse scenarios, the Group would be expected to be resilient, given its adequate level of capital, confirmed by the outcome of the Comprehensive Assessment conducted by the Supervisory last year.

The Group is expected to continue operating in the foreseeable future, so this Report on Operations has been prepared on a going-concern basis.

Opt-out from the obligation to publish a prospectus in the event of significant transactions

Pursuant to art. 3 of Consob Resolution no. 18079 of 20 January 2012, the Management Board of Banca Popolare di Milano has decided to take advantage of the opt-out provided for in arts. 70, paragraph 8, and 71, paragraph 1-bis of Consob Regulation no. 11971/99 (as amended).

Half-yearly condensed consolidated financial statements of the Bipiemme Group

Consolidated financial statements of the Bipiemme Group

Bipiemme Group – consolidated balance sheet

(Euro/000)

Assets		30.06.2015	31.12.2014	30.06.2014
10.	Cash and cash equivalents	224,184	322,840	248,942
20.	Financial assets held for trading	1,824,944	1,921,518	1,712,025
30.	Financial assets designated at fair value through profit and loss	81,410	97,449	172,235
40.	Financial assets available for sale	9,632,210	9,670,272	9,336,110
50.	Investments held to maturity	0	0	0
60.	Due from banks	1,162,731	984,777	1,849,987
70.	Loans to customers	33,483,029	32,078,843	32,520,786
80.	Hedging derivatives	161,979	178,460	198,790
90.	Fair value change of financial assets in hedged portfolios (+/–)	14,544	20,107	15,196
100.	Investments in associates and companies subject to joint control	330,883	293,797	284,500
110.	Technical insurance reserves reassured with third parties	0	0	0
120.	Property and equipment	709,164	715,705	720,676
130.	Intangible assets	115,981	108,377	94,512
	of which:			
	– goodwill	*0*	*0*	*0*
140.	Tax assets	1,061,237	1,091,309	1,038,139
	a) current	*161,356*	*187,310*	*155,934*
	b) deferred	*899,881*	*903,999*	*882,205*
	of which Law 214/11	*711,120*	*710,044*	*681,404*
150.	Non-current assets held for sale and discontinued operations	6,118	0	0
160.	Other assets	499,858	788,357	588,974
Total assets		**49,308,272**	**48,271,811**	**48,780,872**

Bipiemme Group – consolidated balance sheet

(Euro/000)

Liabilities and shareholders' equity		30.06.2015	31.12.2014	30.06.2014
10.	Due to banks	4,494,906	3,318,564	4,313,017
20.	Due to customers	28,777,043	27,702,942	26,812,018
30.	Securities issued	7,867,754	8,981,834	9,316,712
40.	Financial liabilities held for trading	1,326,834	1,463,445	1,321,381
50.	Financial liabilities designated at fair value through profit and loss	157,702	152,116	157,846
60.	Hedging derivatives	44,092	58,751	45,742
70.	Fair value change of financial liabilities in hedged portfolios (+/–)	14,809	16,084	19,682
80.	Tax liabilities	119,463	165,201	211,020
	a) current	*3,885*	*22*	*44,598*
	b) deferred	*115,578*	*165,179*	*166,422*
90.	Liabilities associated with non–current assets held for sale and discontinued operations	0	0	0
100.	Other liabilities	1,531,396	1,336,792	1,566,511
110.	Employee termination indemnities	126,696	137,730	137,451
120.	Allowances for risks and charges:	340,978	382,245	401,833
	a) post employment benefits	*88,093*	*92,568*	*91,618*
	b) other allowances	*252,885*	*289,677*	*310,215*
130.	Technical reserves	0	0	0
140.	Valuation reserves	206,202	321,917	301,702
150	Redeemable shares	0	0	0
160.	Equity instruments	0	0	0
170.	Reserves	762,726	617,888	600,676
180.	Share premium reserve	0	0	0
190.	Share capital	3,365,439	3,365,439	3,365,439
200.	Treasury shares (–)	–859	–854	–854
210.	Minority interests (+/–)	19,038	19,424	19,228
220.	Net income (loss) for the period (+/–)	154,053	232,293	191,468
Total liabilities and shareholders' equity		**49,308,272**	**48,271,811**	**48,780,872**

Bipiemme Group – consolidated income statement

(Euro/000)

Income statement line items		First half 2015	First half 2014
10.	Interest and similar income	593,064	667,103
20.	Interest and similar expense	(190,184)	(259,857)
30.	**Interest margin**	**402,880**	**407,246**
40.	Fee and commission income	344,003	316,765
50.	Fee and commission expense	(37,250)	(40,404)
60.	**Net fee and commission income**	**306,753**	**276,361**
70.	Dividend and similar income	11,966	12,474
80.	Profits (losses) on trading	10,356	22,017
90.	Fair value adjustments in hedge accounting	(1,055)	1,030
100.	Profits (losses) on disposal or repurchase of:	61,233	110,278
	a) loans	*(570)*	*(49)*
	b) financial assets available for sale	*74,788*	*110,327*
	c) investments held to maturity	*0*	*0*
	d) financial liabilities	*(12,985)*	*0*
110.	Profits (losses) on financial assets and liabilities designated at fair value	(3,415)	11,035
120.	**Net interest and other banking income**	**788,718**	**840,441**
130.	Net losses/recoveries on impairment of:	(176,597)	(211,133)
	a) loans	*(180,403)*	*(193,039)*
	b) financial assets available for sale	*(8,828)*	*(12,192)*
	c) investments held to maturity	*0*	*0*
	d) other financial activities	*12,634*	*(5,902)*
140.	**Net income from banking activities**	**612,121**	**629,308**
150.	Net insurance premiums	0	0
160.	Other net insurance income (expense)	0	0
170.	**Net income from banking and insurance activities**	**612,121**	**629,308**
180.	Administrative expenses:	(493,882)	(497,081)
	a) personnel expenses	*(303,365)*	*(320,480)*
	b) other administrative expenses	*(190,517)*	*(176,601)*
190.	Net provisions for risks and charges	1,092	4,745
200.	Net adjustments to/recoveries on property and equipment	(17,175)	(22,635)
210.	Net adjustments to/recoveries on intangible assets	(13,737)	(12,629)
220.	Other operating charges/income	67,411	63,576
230.	**Operating expenses**	**(456,291)**	**(464,024)**
240.	Profits (losses) on investments in associates and companies subject to joint control	56,534	116,419
250.	Net result of valuation differences on property, equipment and intangible assets measured at fair value	0	0
260.	Goodwill impairment	0	0
270.	Profits (losses) on disposal of investments	2	0
280.	**Income (loss) before tax from continuing operations**	**212,366**	**281,703**
290.	Taxes on income from continuing operations	(58,144)	(89,926)
300.	**Income (loss) after tax from continuing operations**	**154,222**	**191,777**
310.	Income (loss) after tax from discontinued operations	0	0
320.	**Net income (loss) for the period**	**154,222**	**191,777**
330.	Net income (loss) for the period pertaining to minority interests	(169)	(309)
340.	**Parent Company's net income (loss) for the period**	**154,053**	**191,468**
	Basic EPS from continuing operations – Euro	**0.035**	**0.055**
	Diluted EPS from continuing operations – Euro	**0.035**	**0.055**
	Basic EPS – Euro	**0.035**	**0.055**
	Diluted EPS – Euro	**0.035**	**0.055**

Bipiemme Group – statement of consolidated comprehensive income

(Euro/000)

Line items		First half 2015	First half 2014
10.	**Net income (loss) for the period (*)**	**154,222**	**191,777**
	Other comprehensive income, net of tax, without reversal to the income statement	**6,054**	**(13,944)**
20.	Property and equipment	0	0
30.	Intangible assets	0	0
40.	Actuarial gains (losses) on defined-benefit plans	6,107	(13,846)
50.	Non-current assets held for sale	0	0
60.	Share of valuation reserves connected with investments carried at equity	(53)	(98)
	Other comprehensive income, net of tax, with reversal to the income statement	**(121,972)**	**170,658**
70.	Hedging of foreign investments	0	0
80.	Foreign exchange differences	0	0
90.	Cash flow hedges	1,179	(1,511)
100.	Financial assets available for sale	(123,525)	171,499
110.	Non-current assets held for sale	0	0
120.	Share of valuation reserves connected with investments carried at equity	374	670
130.	**Total other comprehensive income (net of tax)**	**(115,918)**	**156,714**
140.	**Total comprehensive income (Line items 10+130)**	**38,304**	**348,491**
150.	Total consolidated comprehensive income of minority interests	34	(382)
160.	**Total Parent Company's consolidated comprehensive income**	**38,338**	**348,109**

(*)	*Parent Company's net income (loss)*	*154,053*	*191,468*
	Net income (loss) for the period pertaining to minority interests	*169*	*309*
	Net income (loss) for the period	***154,222***	***191,777***

The statement of comprehensive income is a restatement of the result for the period that includes changes in the value of assets booked directly to the valuation reserves (net of tax).

Bipiemme Group – statement of changes in shareholders' equity as at 30 June 2015

(Euro/000)

	Amounts as at 31.12.2014	Change in opening balance	Amounts as at 1.1.2015	Allocation of net income of the previous year		Changes for the period									Shareholders' equity at 30.06.2015	Group shareholders' equity as at 30.06.2015	Minority interests as at 30.06.2015
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves (*)	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Total comprehensive income for 1st half 2015			
Share capital:	**3,367,798**	**0**	**3,367,798**	**0**	0	**0**	0	0	**0**	**0**	**0**	**0**	**–5**	**0**	**3,367,793**	**3,365,439**	**2,354**
a) ordinary shares	3,367,798	0	3,367,798	0	0	0	0	0	0	0	0	0	–5	0	3,367,793	3,365,439	2,354
b) other shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share premium reserve	**11,982**	**0**	**11,982**	**0**	**0**	**0**	0	0	**0**	**0**	**0**	**0**	**–61**	**0**	**11,921**	**0**	**11,921**
Reserves:	**622,241**	**0**	**622,241**	**136,061**	0	**9,134**	0	0	**0**	**0**	**0**	**0**	**–3**	**0**	**767,433**	**762,726**	**4,707**
a) retained earnings	600,443	0	600,443	136,061	0	0	0	0	0	0	0	0	–3	0	736,501	731,794	4,707
b) other	21,798	0	21,798	0	0	9,134	0	0	0	0	0	0	0	0	30,932	30,932	0
Valuation reserves:	**322,007**	**0**	**322,007**	**0**	0	**0**	0	**0**	**0**	**0**	**0**	**0**	**0**	**–115,918**	**206,089**	**206,202**	**–113**
a) available for sale	377,909	0	377,909	0	0	0	0	0	0	0	0	0	0	–123,525	254,384	254,450	–66
b) cash flow hedges	–4,502	0	–4,502	0	0	0	0	0	0	0	0	0	0	1,179	–3,323	–3,323	0
c) Actuarial gains (losses) on defined-benefit pension plans	–62,038	0	–62,038	0	0	0	0	0	0	0	0	0	0	6,107	–55,931	–55,884	–47
d) Non-current assets held for sale and discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
e) Share of valuation reserves connected with investments carried at equity	–2,804	0	–2,804	0	0	0	0	0	0	0	0	0	0	321	–2,483	–2,483	0
f) Special revaluation laws	13,442	0	13,442	0	0	0	0	0	0	0	0	0	0	0	13,442	13,442	0
Equity instruments	**0**	**0**	**0**	**0**	**0**	**0**	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Treasury shares	**–854**	**0**	**–854**	**0**	**0**	**0**	**40**	**–45**	**0**	**0**	**0**	**0**	**0**	**0**	**–859**	**–859**	**0**
Net income (loss) for the period	**232,933**	**0**	**232,933**	**–136,061**	**–96,872**	**0**	0	**0**	**0**	**0**	**0**	**0**	**0**	**154,222**	**154,222**	**154,053**	**169**
Shareholders' equity	**4,556,107**	**0**	**4,556,107**	**0**	**–96,872**	**9,134**	40	**–45**	**0**	**0**	**0**	**0**	**–69**	**38,304**	**4,506,599**	**4,487,561**	**19,038**
Group shareholders' equity	**4,536,683**	**0**	**4,536,683**	**0**	**–96,589**	**9,134**	40	**–45**	**0**	**0**	**0**	**0**	**0**	**38,338**	**4,487,561**	**4,487,561**	
Minority interests	**19,424**	**0**	**19,424**	**0**	**–283**	**0**	0	**0**	**0**	**0**	**0**	**0**	**–69**	**–34**	**19,038**		

(*) the amounts in the column mainly refer to the recognition in the income statement of the provision relating to profit sharing by means of the allocation of shares to employees pursuant to art. 60 of the Articles of Association.

Bipiemme Group – statement of changes in shareholders' equity as at 30 June 2014

(Euro/000)

	Amounts as at 31.12.2013	Change in opening balance	Amounts as at 1.1.2014	Allocation of net income of the previous year		Changes for the period									Shareholders' equity at 30.06.2014	Group shareholders' equity as at 30.06.2014	Minority interests as at 30.06.2014
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves (*)	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Total comprehensive income for 1st half 2014			
Share capital:	**2,868,071**	**0**	**2,868,071**	**0**	0	**0**	499,729	0	**0**	**0**	**0**	**0**	**–4**	**0**	**3,367,796**	**3,365,439**	**2,357**
a) ordinary shares	2,868,071	0	2,868,071	0	0	0	499,729	0	0	0	0	0	–4	0	3,367,796	3,365,439	2,357
b) other shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share premium reserve	**12,638**	**0**	**12,638**	**–506**	**0**	**0**	–8	0	**0**	**0**	**0**	**0**	**–43**	**0**	**12,081**	**0**	**12,081**
Reserves:	**590,353**	**0**	**590,353**	**29,729**	0	**61**	–15,109	0	**0**	**0**	**0**	**0**	**–2**	**0**	**605,032**	**600,676**	**4,356**
a) retained earnings	570,748	0	570,748	29,729	0	61	0	0	0	0	0	0	–2	0	600,536	596,180	4,356
b) other	19,605	0	19,605	0	0	0	–15,109	0	0	0	0	0	0	0	4,496	4,496	0
Valuation reserves:	**145,174**	**0**	**145,174**	**0**	0	**–61**	0	**0**	**0**	**0**	**0**	**0**	**0**	**156,714**	**301,827**	**301,702**	**125**
a) available for sale	174,000	0	174,000	0	0	0	0	0	0	0	0	0	0	171,499	345,499	345,326	173
b) cash flow hedges	0	0	0	0	0	0	0	0	0	0	0	0	0	–1,511	–1,511	–1,511	0
c) Actuarial gains (losses) on defined-benefit pension plans	–39,211	0	–39,211	0	0	0	0	0	0	0	0	0	0	–13,846	–53,057	–53,009	–48
d) Non-current assets held for sale and discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
e) Share of valuation reserves connected with investments carried at equity	–3,057	0	–3,057	0	0	–61	0	0	0	0	0	0	0	572	–2,546	–2,546	0
f) Special revaluation laws	13,442	0	13,442	0	0	0	0	0	0	0	0	0	0	0	13,442	13,442	0
Equity instruments	**0**	**0**	**0**	**0**	**0**	**0**	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Treasury shares	**–859**	**0**	**–859**	**0**	**0**	**0**	**4,513**	**–4,508**	**0**	**0**	**0**	**0**	**0**	**0**	**–854**	**–854**	**0**
Net income (loss) for the period	**29,389**	**0**	**29,389**	**–29,223**	**–166**	**0**	0	**0**	**0**	**0**	**0**	**0**	**0**	**191,777**	**191,777**	**191,468**	**309**
Shareholders' equity	**3,644,766**	**0**	**3,644,766**	**0**	**–166**	**0**	489,125	**–4,508**	**0**	**0**	**0**	**0**	**–49**	**348,491**	**4,477,659**	**4,458,431**	**19,228**
Group shareholders' equity	**3,625,705**	**0**	**3,625,705**	**0**	**0**	**0**	489,125	**–4,508**	**0**	**0**	**0**	**0**	**0**	**348,109**	**4,458,431**	**4,458,431**	
Minority interests	**19,061**	**0**	**19,061**	**0**	**–166**	**0**	0	**0**	**0**	**0**	**0**	**0**	**–49**	**382**	**19,228**		

(*) The amounts shown in this column relate to:
- issue of 1,162,161,765 new BPM ordinary shares at Euro 0.43 each, for a total of Euro 499,729,558.95;
- revenues from the sale of unexercised options for Euro 1,251,293 booked entirely to the share premium reserve;
- expenses incurred in connection with the increase in capital for Euro 22,544,682, net of the related tax effect of Euro 6,199,788, booked for Euro 1,235,681 to the share premium and for Euro 15,109,214 to other reserves set up at the time the BPM 2009/2013 warrants were issued;
- changes in treasury shares, which reduced the share premium reserve by Euro 23,886.

Bipiemme Group – consolidated statement of cash flow – indirect method

(Euro/000)

A. OPERATING ACTIVITIES	First half 2015	Year 2014	First half 2014
1. Cash flow from operations	**416,164**	**903,393**	**523,380**
– net income (loss) for the period (+/–)	154,053	232,293	191,468
– profits/losses on financial assets held for trading and on financial assets/liabilities designated at fair value through profit and loss (–/+)	30,000	–7,098	–14,841
– profits/losses on hedging activities (–/+)	1,055	–411	–1,030
– net losses/recoveries on impairment (+/–)	193,782	499,814	225,206
– net adjustments to property and equipment and intangible assets (+/–)	30,912	70,309	35,264
– net provisions for risks and charges and other costs/revenues (+/–)	4,753	26,879	9,332
– net insurance premiums to be collected (–)	0	0	0
– other insurance revenues/charges to be collected (–/+)	0	0	0
– taxes and duties to be settled (+)	58,144	104,463	89,926
– net adjustments to/recoveries on discontinued operations net of tax effect (+/–)	0	0	0
– other adjustments (+/–)	–56,535	–22,856	–11,945
2. Cash flow from/used in financial assets	**–1,469,629**	**694,245**	**266,835**
– financial assets held for trading	70,091	–461,774	–245,616
– financial assets designated at fair value through profit and loss	14,404	121,373	45,891
– financial assets available for sale	–95,172	–126,010	114,485
– due from banks: repayble on demand	–92,152	–355,406	104,837
– due from banks: other	–86,303	1,176,457	–141,805
– loans to customers	–1,595,689	829,164	619,289
– other assets	315,192	–489,559	–230,246
3. Cash flow from/used in financial liabilities	**1,083,188**	**–2,282,179**	**–1,598,591**
– due to banks: repayble on demand	–29,853	269,494	188,744
– due to banks: other	1,206,195	–2,864,858	–1,789,655
– due to customers	1,071,472	1,272,309	384,983
– securities issued	–1,082,205	–1,134,294	–808,305
– financial liabilities held for trading	–136,611	299,707	157,643
– financial liabilities designated at fair value through profit and loss	3,704	–127,736	–120,232
– other liabilities	50,486	3,199	388,231
Net cash flow from (used in) operating activities	**29,723**	**–684,541**	**–808,376**
B. INVESTING ACTIVITIES			
1. Cash flow from	**2**	**225,306**	**225,306**
– sales of investments in associates and companies subject to joint control	0	225,304	225,304
– dividends collected on investments in associates and companies subject to joint control	0	0	0
– sales of investments held to maturity	0	0	0
– sales of property and equipment	2	2	2
– sales of intangible assets	0	0	0
– sales of subsidiaries and business branches	0	0	0
2. Cash flow used in from	**–31,787**	**–65,744**	**–15,807**
– purchases of investments in associates and companies subject to joint control	0	0	0
– purchases of investments held to maturity	0	0	0
– purchases of property and equipment	–10,420	–22,309	–5,083
– purchases of intangible assets	–21,367	–43,435	–10,724
– purchases of subsidiaries and business branches	0	0	0
Net cash flow from/used in investing activities	**–31,785**	**159,562**	**209,499**
C. FINANCING ACTIVITIES			
– issue/purchase of treasury shares	–5	484,617	484,617
– issue/purchase of equity instruments	0	0	0
– dividends distributed and other	–96,589	0	0
Net cash flow from/used in financing activities	**–96,594**	**484,617**	**484,617**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–98,656**	**–40,362**	**–114,260**

RECONCILIATION

Line items	30,06,2015	31,12,2014	30,06,2014
Cash and cash equivalents at the beginning of the period	322,840	363,202	363,202
Net increase (decrease) in cash and cash equivalents	–98,656	–40,362	–114,260
Cash and cash equivalents: foreign exchange effects	0	0	0
Cash and cash equivalents at the end of the period	**224,184**	**322,840**	**248,942**

Key: (+) generated (–) absorbed

Consolidated explanatory notes

Part A – Accounting policies

A.1 – General Part

Section 1 – Declaration of conformity with IFRS

The condensed consolidated half-yearly financial statements of the Bipiemme Group at 30 June 2015 have been prepared in accordance with the international accounting standards IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) issued by the International Accounting Standards Board (IASB) and with the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) as endorsed by the European Commission up to the date of this consolidated half-yearly report as foreseen by the EC Regulation 1606 of 19 July 2002, adopted in Italy with Decree Law 38 of 28 February 2005.
The "Bipiemme Group's half-yearly report" at 30 June 2015 has been prepared in accordance of art. 154-ter, para. 2 of Legislative Decree 58 of 24 February 1998 and subsequent updates.

In preparing the condensed consolidated half-yearly financial statements the IAS/IFRS in force as at 30 June 2015 have been applied. For an overview of the principles approved in 2015 and those approved in previous years, the application of which is planned for the year 2015 (or future years), please refer to "Section 2 – General method of preparation" below, where the main impacts for the Group are explained.

Section 2 – General method of preparation

In preparing the condensed consolidated half-yearly financial statements the IAS/IFRS in force as at 30 June 2015 have been applied. To help interpret and support the application we have also taken into account other documents prepared by the IASB or IFRIC to supplement the accounting standards that have been issued, even if they have not yet been endorsed, including: Framework for the Preparation and Presentation of Financial Statements, Implementation Guidance, Basis for Conclusion, IASB Update, IFRIC Update.
In addition, we also used the interpretative documents on the application of IAS/IFRS in Italy prepared by the Italian Accounting Board (OIC) and the Italian Banking Association (ABI), as well as the documents issued by ESMA (European Securities and Markets Authority) and Consob which make reference to specific IAS/IFRS standards or guidelines.

The Bipiemme Group's half-yearly report, including the condensed consolidated half-yearly financial statements, the half-yearly report on operations and the certification required by art. 154 bis para. 5 of the CFA, has to be published within sixty days from the end of the first half of the year.
The Independent Auditors' report on the condensed consolidated half-yearly financial statements has to be issued within the same term.

The condensed consolidated half-yearly financial statements have been prepared in compliance with IAS 34 "Half-yearly financial statements" applicable to half-yearly financial information, and are made up of the financial statement schedules (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flow prepared according to the indirect method) and explanatory notes in summarised form with respect to the annual financial statements.
For reasons of consistency with the information provided in the annual financial statements, we have preferred to prepare the notes to the condensed consolidated half-yearly financial statements with the same numbering as was used in the tables of the financial statements at 31 December 2014.

The consolidated half-yearly financial statements have been prepared using the euro as the reporting currency. In particular, in line with the instructions issued by the Bank of Italy, the amounts reported in the financial statements and in the explanatory notes, as well as those indicated in the report on operations, are expressed in thousands of Euro, unless otherwise specified. Roundings have been made on the basis of the Bank of Italy's recommendations.

The financial statement schedules comply with Bank of Italy Circular 262/2005 and subsequent updates and, in addition to the figures at 30 June 2015, show the following comparative figures, suitably adjusted where necessary to ensure that they are truly comparable:

- Balance sheet: 31 December 2014 and 30 June 2014;
- Income statement: first half 2014;
- Statement of comprehensive income: first half 2014;
- Statement of changes in shareholders' equity: 30 June 2014;
- Statement of cash flow (prepared according to the indirect method): 31 December 2014 and 30 June 2014.

Even if not required by art. 154-ter of Legislative Decree 58 of 24 February 1998 nor by IAS 34, the half-yearly report on operations of the Bipiemme Group includes in the "Attachments" a section called "Information on the main Group companies", which contains the reclassified financial statements and the related summary comments at 30 June 2015 of the Parent Company BPM and the other main Group companies.
This information has not been subjected to a limited audit.

Evolution of international accounting standards

Change in the accounting standards endorsed by the European Commission

The following table lists the changes to the standards and interpretations approved by the European Commission in 2015 or in previous years, application of which became compulsory from 2015, but for which no significant impacts were identified for the purposes of preparing these condensed consolidated half-yearly financial statements.

International accounting standards in force from 2015

Endorsement Regulation	Publication in the Official Journal of the European Union	Title and comments	In force from years beginning
1361/2014 of 17.12.2014	Law 365 of 19.12.2014	**Annual cycle of improvements to IFRSs 2011-2013 – Amendments to IFRS 1** "First-time Adoption of International Financial Reporting Standards", **IFRS 3** "Business Combinations", **IFRS 13** "Fair Value Measurement" and **IAS 40** "Investment Property". The cycle of improvements introduces minor changes as part of the rationalisation of accounting standards. These amendments seek to resolve a number of inconsistencies and provide methodological explanations.	1 luglio 2014
International accounting standards (IAS/IFRS) and related interpretations (SIC/IFRIC) endorsed by the European Commission, application of which is mandatory after 30 June 2015 Pursuant to paragraph 30 and 31 of IAS 8, the following are the Regulations that have made changes to accounting standards already in force, endorsed by the European Commission, of which mandatory application runs from 1 January 2016 or some later date in the case of financial statements that coincide with the calendar year. The Group has not taken the option of early application.			
28/2015 of 17.12.2014	Law 5 of 9.1.2015	**Annual cycle of improvements to IFRS 2010-2012** **Amendment to IFRS 2** "Share-based payments", **IFRS 3** "Business combinations", **IFRS 8** "Operating Segments", **IAS 16** "Property, plant and equipment", **IAS 24** "Related party disclosures", **IAS 38** "Intangible assets".	1 February 2015
29/2015 of 17.12.2014	Law 5 of 9.1.2015	**Amendments to IAS 19** "Employee benefits" – *Defined benefit plans: employees' contributions.*	1 February 2015
International accounting standards (IAS/IFRS), amendments and interpretations issued by the IASB and still to be endorsed by the European Commission For information purposes, set out below are the accounting standards, amendments and interpretations issued by the IASB, the application of which is subject to endorsement by the European Commission and, consequently, are not yet applicable to these consolidated half-yearly financial statements.			

Standard/Interpretation/Amendment	Date of IASB approval	Indicative effective date
IFRS 14 "Regulatory Deferral Accounts"	30/01/2014	Financial years beginning on or after 1 January 2016
Amendment to IFRS 11 "Joint Arrangement" – Acquisition of Interests in Joint Operations	06/05/2014	Financial years beginning on or after 1 January 2016
Amendment to IAS 16 "Property, Plant and Equipment" and **IAS 38** "Intangible Assets" – Clarification of acceptable methods of depreciation and amortisation	12/05/2014	Financial years beginning on or after 1 January 2016
IFRS 15 "Revenue from Contracts with Customers"	28/05/2014	Financial years beginning on or after 1 January 2018 (*)
IFRS 9 "Financial Instruments" 1st part	12/05/2014	Financial years beginning on or after 1 January 2018 (**)
Amendment to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements	12/08/2014	Financial years beginning on or after 1 January 2016
Amendment to IFRS 10 "Consolidated Financial Statements" and **IAS 28** "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11/09/2014	Financial years beginning on or after 1 January 2016
Amendment to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", **IFRS 7** "Financial Instruments: Disclosures", **IAS 19** "Employee Benefits" **and IAS 34** "Half-yearly Financial Reporting" – Annual Improvement to IFRSs 2012-2014 Cycle	25/09/2014	Financial years beginning on or after 1 January 2016

(*) On 19 May, the IASB published for consultation until 3 July 2015 the Exposure Draft: Effective Date of IFRS 15 (Proposed Amendments to IFRS 15), which proposes to defer the introduction of the standard by one year (1 January 2018). On 22 July 2015 the one-year postponement of the introduction of IFRS 15 was confirmed; the formal amendment should take place in September 2015.

(**) date identified by IASB. Pending confirmation by the competent bodies of the European Union.

The "Half-yearly Report of the Bipiemme Group" at 30 June 2015 relates to the companies (subsidiaries, associates and joint ventures) included in the scope of consolidation as detailed in the chapter below entitled "Scope of consolidation and consolidation procedures", which also reports the changes that took place during the period.

General principles

The condensed consolidated half-yearly financial statements have been prepared in accordance with the general principles laid down in IAS 1 "Presentation of Financial Statements".

Going concern

In their Joint Document no. 4 of 3 March 2010, the Bank of Italy, Consob and Isvap (today IVASS) made comments on the current state of the markets and businesses, requiring companies to provide a range of information in order to understand trends and business prospects.

In this regard, given that BPM's financial structure and economic performance do not reveal any uncertainties about the Group's ability to continue its activities in accordance with the provisions of IAS 1, the Directors believe that they have reasonable assurance about it being able to continue as a going concern. The accounting principles that have been adopted respond to the accrual principle, the concepts of relevance and materiality of accounting information, and the prevalence of substance over form. They are consistent with this assumption and have not changed with respect to 31 December 2014, except for what is explained in Section A.2, "Part relating to the main line items in the financial statements".

The assumptions underlying the preparation of the financial statements on a going-concern basis are explained in the section of the report on operations entitled "Outlook for operations".

Comparative information

Comparative figures from previous periods are provided for all information in the financial statements – including that of a qualitative nature if this helps explain the Group's situation – unless IAS/IFRS, or their interpretation, or instructions from the Bank of Italy on the financial statements of banks require or allow otherwise. If the accounts are not comparable, those of the previous period are adjusted to make them so; any lack of comparability and the adjustments made (or the fact that it was not possible to adjust the figures) is disclosed and explained in the notes.

Uncertainties in the use of estimates and assumptions when preparing the consolidated half-yearly financial statements

The preparation of consolidated half-yearly financial statements also requires the use of estimates and assumptions that may determine significant changes in the amounts reported in the balance sheet and income statement, and in the information relating to contingent assets and liabilities disclosed therein. The determination of these estimates involves using the available information and making subjective judgements, including on the basis of historical trends, used for deriving reasonable assumptions for reporting the results of operations.

These estimates and assumptions have been made on a going concern basis and are strongly influenced by growing uncertainty in the current economic and market climate, characterised by extremely volatile financial indicators and the very high levels of deterioration in credit quality.

The parameters and information used to determine estimates and assumptions are heavily influenced by these factors, which by their very nature are hard to predict. As a consequence, the estimates and assumptions used may vary from period to period, meaning that reported amounts may differ materially as a result of changing one of the subjective bases used.

The estimates and assumptions are subject to review to take into account any changes that have taken place during the period.

The main areas in which management is required to make subjective judgements are as follows:

1. the quantification of losses that are inherent in risk exposures, typically represented by "impaired" loans and "performing" loans, as well as by other financial assets;
2. the use of valuation models for measuring the fair value of financial instruments that are not quoted on active markets;
3. the determination of the fair value of financial instruments to be used for reporting purposes;
4. the quantification of employee-related provisions and allowances for risks and charges;
5. the estimates and assumptions relating to the recoverability of deferred tax assets.

The use of estimates and assumptions in the above cases is closely linked to the evolution of the national and international economic environment and the performance of financial markets, which generate a significant impact on interest rate trends, price fluctuations, actuarial bases and the creditworthiness of counterparties.
For certain of the assets or liabilities associated with the above cases, the most significant estimates made by the Group are for the purpose of the preparation of half-yearly financial reports and they may thus be used in the determination of the carrying amount of these assets and liabilities. Accordingly, it should be noted that the most significant assumptions and estimates adopted consist of the following:

- for the determination of the fair value of financial instruments not quoted in active markets, securities and derivatives, where there is a need to use parameters not derived from the market, the main estimates relate to the development of future cash flow (coupons, dividends, etc.) that is subject to correction factors derived from probable future events (e.g. default events) as well as the need to use specific input parameters not directly derived from active markets;
- as far as the estimation of future cash flow from impaired loans is concerned, the elements taken into consideration essentially relate to: cash flow arising from ordinary operations and/or from extraordinary events that are a feature of the debtor's business, the estimated realisable value of any guarantees, as well as costs expected to be incurred and the expected timing of the recovery of the loan exposure. For the determination of estimated future cash flow arising from loans for which no objective evidence of impairment has been identified, that is, collective evaluation, account is taken of information derived from historical series and other observable elements at the measurement date, which permits estimates to be made of the latent loss ("incurred but not reported") in each homogeneous category into which the Group's portfolio has been stratified for the purpose of monitoring the management of credit risk;
- for the quantification of allowances for post employment benefits, an estimate is made of the present value of commitments, taking account of discounted probable outflows inclusive of financial aspects (interest rates), the expected trend in remuneration and employee turnover rates, as well as demographic aspects (mortality);
- for the quantification of allowances for risks and charges an estimate is made, where possible, of the amount of outflows needed to meet commitments, taking account of the actual probability of costs being incurred;
- for the determination of the components of deferred taxation, an estimate is made of the probability of taxation arising in the future (taxable temporary differences) and of the reasonable degree of certainty, if this exists, of future taxable amounts as and when the tax deductibility will arise (deductible temporary differences).

Section 3 – Scope of consolidation and consolidation procedures

The "Consolidated half-yearly report of the Bipiemme Group" includes the balance sheet and income statement of Banca Popolare di Milano (parent company) and its direct and indirect subsidiaries.

Subsidiaries

IFRS 10 governs the consolidated financial statements and establishes how the scope of consolidation should be identified.
According to this standard, "control" appears to be the situation in which a company is exposed to the risk of variability in the results because of its links with another company and is able to influence these results through the power held over it.
In particular, subsidiaries are companies that show the coexistence of three conditions:

- power over the company;
- exposure to the risk of variability of the company's results;
- the ability to influence the results through the power held over the company.

"Power over the company" is the ability to direct the key activities of a company in which the investor holds a participatory interest and/or an interest that consists of other legal or contractual rights.
This power generally flows from the ownership of rights (not necessarily voting rights) that are legally recognised and of which the entity that holds the interest in the company is the owner or which has links with it; rights that give it the power to direct the company's activities: for example, holding a majority of the voting rights (which can also be acquired through agreements with other shareholders) or, in any case, enough of the voting rights to keep the company under control thanks to fragmentation of the other votes or because it has the right to appoint or remove the company's key management personnel.
These rights include the power to direct the company to carry out transactions (or to prohibit changes in them) in its own interest, while they do not include the rights of mere "protection" of the interests of whoever holds them (e.g. a pledge or similar rights).
In any case, in determining the extent of the voting rights for the purpose of checking the existence of control situations, one must also consider potential voting rights (both proprietary and third party), i.e. the rights attached to call options (including those embedded in convertible bonds) or similar instruments on the ordinary shares of investee companies, assuming that such rights can effectively be exercised. To assess whether or not the power to govern a company exists, it may also be necessary to consider additional factors that could constitute evidence that this power is in the hands of a particular entity: for example, if the latter's exposure to the risk of variability of the company's results is much higher than its voting rights or other rights over the company.

"Exposure to the risk of variability of the company's results" depends on the presence of returns arising from the investor's relationship with it, which may vary according to the economic performance of the entity making the investment. To this end, we must consider the dividends on shares and interest on securities, as well as changes in the value of the investments held in it.

As regards the "ability to influence the results through the power held over the company", in order to identify the entity that actually controls the company, we also have to ascertain whether the power to affect its results is exercised in its own interest (in which case it is the controlling entity or parent company) or on behalf of another entity (in which case it is merely an agent of the real parent company). Various factors have to be taken into consideration for this purpose, such as: the scope of application of this power (i.e. if there are limits or discretion in the way that it is exercised), the right of any other parties to remove or restrict the decisions taken by the entity exercising the power, the extent and variability of the remuneration foreseen for the services provided (the greater the extent and variability of the remuneration compared with the results expected from the company, the more likely that the recipient is the parent), whether or not other interests are held in the company and the related exposure to the risk of variability in the results. For example, having other interests in the company is usually typical of a parent company, especially if its interest is of a subordinated nature that constitutes forms of credit enhancement of the company's other liabilities.

Inclusion in the scope of consolidation for all legal entities is linked to the presence of a majority of the voting rights at the company's ordinary shareholders' meeting, i.e. where there is control by right.
The only exceptions are BPM Securitisation 2 S.r.l. and BPM Securitisation 3 S.r.l., where even without any direct equity interests, the parent company holds rights of a contractual nature (i.e. credit enhancement) which expose it substantially to variability in the results of that company.

Joint ventures or companies subject to joint control

The aim of IFRS 11 is to lay down the accounting treatment of entities that are party to agreements involving jointly controlled activities. The standard has to be applied by the entities participating in joint control agreements.
This accounting treatment and its presentation in the financial statements is based on rights and obligations laid down in the agreement in which the entities are involved; the entities themselves have to ensure that the agreement contains certain specifics in order to help identify the type of arrangement:

- **a joint operation**, in which the parties that have joint control have rights and obligations for the assets and liabilities involved in the agreement, which are accounted for as assets or liabilities based on the share of assets held jointly or of liabilities incurred jointly, or
- **Joint venture**, i.e. a joint control agreement in which the parties have rights to the net assets of the agreement, which can therefore only be accounted for by the equity method.

The Group considers as joint ventures those companies in which the voting rights and joint control over a business activity are equally shared, directly or indirectly, by Banca Popolare di Milano and by another entity. Also considered a joint venture is an investment in which control over the economic activity and strategic policies of the investee is shared with other entities under contractual agreements, even if the voting rights are not held equally.

The only investment that falls into this category is Calliope S.p.A. which, given the nature of the underlying contractual arrangements, qualifies as a joint venture.

Associated companies

Associates, i.e. companies subject to significant influence, are defined as all those enterprises over which the Group is able to exercise significant influence but not control. This influence is presumed to exist when the Group has between 20% and 50% of the voting power. Interests held below the threshold of 20% fall within the scope of consolidation and are classified as Investments only in relation to the existence of partnership agreements, under which the Parent Company has the possibility to intervene in the company's management decisions.
These cases involve:

- Bipiemme Vita, for which there is a partnership agreement with the Covéa Group linked to the development of bancassurance activities;
- Anima Holding, pursuant to the shareholders' agreements in force with the other shareholders.

Changes in the scope of consolidation

Changes in the scope of consolidation with respect to 31 December 2014 involve the following companies:

Banca Popolare di Mantova
The Parent Company's holding in Banca Popolare di Mantova has increased to 62.82% (from 62.62% at 31 December 2014) due to further purchases of shares made during the first half of 2015.

BPM Capital I LLC (in liq.) and BPM Luxembourg SA (in liq.)
The "8.393% Noncumulative Perpetual Trust Preferred Securities" bonds issued by BPM Capital Trust I and included in consolidated Own Funds under "Additional Tier 1" instruments were redeemed on 2 April 2015, after receiving authorisation from the ECB on 25 February 2015.
This resulted in the redemption of the subordinated bonds issued by BPM Capital I LLC and BPM Luxembourg SA as part of the operation that led to the issuance of the Preferred Securities in 2001.
As a result, the two subsidiaries in question were put into liquidation during the 2nd quarter of 2015.

Pitagora 1936 SpA
During 2nd quarter 2015, Pythagoras 1936 and Cassa di Risparmio di Asti signed a preliminary contract for the sale of Pythagoras 1936's controlling stake in Pythagoras SpA.

Consequently, BPM and other strategic partners with an interest in Pitagora 1936 signed an agreement to sell their shareholding. BPM's 24% stake in Pitagora 1936 is therefore shown in this Half-yearly Report under item 150 of Assets "Non-current assets held for sale and discontinued operations" in accordance with IFRS 5.

Wise Venture SGR SpA

In July 2015, BPM signed an agreement for the sale of its 20% stake in Wise Venture SGR.
Consequently, the interest is shown in this Half-yearly Report under item 150 of Assets "Non-current assets held for sale and discontinued operations" in accordance with IFRS 5.

1. Investments in significant subsidiary companies, companies subject to joint control and associated companies: disclosures

	Company name	Registered office and operational headquarters	Nature of holding (1)	Nature of investment		Voting rights (2)
				Holder	% held	
	Parent Company					
	Banca Popolare di Milano S.c.a r.l.	Milan				
	Significant subsidiary companies					
1	Banca Akros S.p.A.	Milan	1	Banca Popolare di Milano S.c.a r.l.	96.89	
2	Banca Popolare di Mantova S.p.A.	Mantua	1	Banca Popolare di Milano S.c.a r.l.	62.82	
3	BPM Capital I Llc.in liq.(*)	Delaware (USA)	1	Banca Popolare di Milano S.c.a r.l.	100.00	
4	BPM Luxembourg S.A. in liq. (*)	Luxembourg	1	Banca Popolare di Milano S.c.a r.l.	99.00	
5	ProFamily S.p.A.	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
6	Ge.Se.So. S.r.l.	Milan	1	Banca Popolare di Milano S.c.a r.l.	100.00	
7	BPM Covered Bond S.r.l.	Rome	1	Banca Popolare di Milano S.c.a r.l.	80.00	
8	BPM Securitisation 2 S.r.l. (**)	Rome	4	Banca Popolare di Milano S.c.a r.l.	n.a.	n.a.
9	BPM Securitisation 3 S.r.l. (**)	Conegliano	4	Banca Popolare di Milano S.c.a r.l.	n.a.	n.a.
	Companies subject to joint control					
1	Calliope Finance S.r.l.	Conegliano	7	Banca Popolare di Milano S.c.a r.l.	50.00	
	Associated companies					
1	SelmaBipiemme Leasing SpA.	Milan	8	Banca Popolare di Milano S.c.a r.l.	40.00	
2	Aedes Bipiemme Real Estate SGR SpA.	Milan	8	Banca Popolare di Milano S.c.a r.l.	39.00	
3	Factorit SpA.	Milan	8	Banca Popolare di Milano S.c.a r.l.	30.00	
4	Etica SGR SpA.	Milan	8	Banca Popolare di Milano S.c.a r.l.	24.44	
5	Pitagora 1936 SpA. (***)	Turin	8	Banca Popolare di Milano S.c.a r.l.	24.00	n.a.
6	Wise Venture SGR SpA (***)	Milan	8	Banca Popolare di Milano S.c.a r.l.	20.00	
7	Bipiemme Vita SpA (****)	Milan	8	Banca Popolare di Milano S.c.a.r.l.	19.00	
8	Anima Holding SpA. (****)	Milan	8	Banca Popolare di Milano S.c.a r.l.	16.85	

Key:
(1) Nature of holding:
1. majority of voting rights at general meetings
2. dominant influence at ordinary general meeting
3. agreements with other shareholders
4. other forms of control
5. co-ordinated control under art. 26.1 of Decree 87/92
6. co-ordinated control under art. 26.2 of Decree 87/92
7. Joint control
8. significant influence

(2) Disponibilità dei voti nell'assemblea ordinaria. I diritti di voto sono riportati solo laddove diversi dalla percentuale di partecipazione al capitale.

(*) Companies put into liquidation following the redemption of the Additional Tier I instruments issued by BPM Capital I.
(**) These entities are fully consolidated as the Group is exposed and has rights to variable returns from the relationship with the companies (IFRS 10§7 (b)).
(***) Following the disposals initiated during the period, the interests in Pitagora 1936 SpA and Wise Venture SGR SpA have been reclassified as discontinued operations in accordance with IFRS 5.
(****) Bipiemme Vita S.p.A. and Anima Holding S.p.A. are shown as companies "subject to significant influence" on the basis of partnership or shareholder agreements stipulated with other shareholders.

2. Significant judgements and assumptions made in determining the scope of consolidation

In particular, the inclusion of wholly-owned subsidiaries in the scope of consolidation of the Group is linked to the concept of a majority of the voting rights at ordinary shareholders' meetings, whereby entities may not be excluded where legal control exists. There are, however, two cases of inclusion in the scope of consolidation of companies in which there is no equity interest, that is, the special purpose vehicles Bpm Securitisation 2 Srl and Bpm Securitisation 3 Srl, for which the Parent Company holds contractual rights ("credit enhancement") which expose it to variability in the results of the companies.

Within the Group there is one company subject to joint control, Calliope Finance Srl, which, given the nature of the underlying contractual arrangements, qualifies as a joint venture. This company has already been consolidated previously using the equity method.

Associates are those companies over which the Group exercises significant influence, which is assumed to exist where voting rights are held of between 20% and 50%. As a departure from this principle, there are two cases whereby equity interests have been recognised as "investments in associates and companies subject to joint control" due to the existence of partnership arrangements: Bipiemme Vita SpA (19% held) and Anima Holding SpA (16.85% held).

3. Other information

Consolidation procedures

Investments in subsidiaries are consolidated on a line-by-line basis, whereas interests in companies under joint control and associates are accounted for under the equity method.

Line-by-line consolidation: this method of consolidation involves combining the contents of subsidiary companies' balance sheets and income statements on a "line-by-line" basis. For consolidation purposes, we have eliminated the book value of the investment in each subsidiary against the corresponding portion of its net equity.
Subsidiaries are consolidated line-by-line from the date of acquisition, i.e. from the date when the Group acquires control, and they are excluded from the scope of consolidation from the date on which control is transferred outside the Group. If the closing date of the subsidiary is different from that of the Parent Company, the subsidiary provides a separate report specifically for consolidation purposes. If this is not feasible, the Parent Company uses the latest available financial statements (prepared not more than three months prior to the reporting date), adjusted to take account of the main transactions that have taken place during the intervening period.
The financial statements of subsidiaries used to prepare the consolidated financial statements refer to the same period and are prepared with the same accounting policies of the Parent Company, adjusted where necessary for consistency.
All intragroup (or "intercompany") balances and transactions, including any unrealised post-tax profits resulting from intragroup transactions and dividends, are eliminated in full upon consolidation. The result of the comprehensive income statement for a subsidiary is attributed to minority interests even if this means that the minority interests have a negative balance.
If the Parent Company loses control of a subsidiary, it:

- eliminates the assets (including any goodwill) and the liabilities of the subsidiary;
- eliminates the book values of any minority interests in the former subsidiary;
- eliminates any accumulated exchange differences booked to shareholders' equity;
- recognises the fair value of the proceeds received;
- recognises the fair value of any interest maintained in the former subsidiary;
- recognises any gain or loss in the income statement;
- reclassifies the interest pertaining to the parent company in the items previously recognised in the statement of comprehensive income in the income statement or in retained earnings, as appropriate.

Acquisitions are accounted for according to the "acquisition method" in accordance with IFRS 3 as amended by Regulation 495/2009, under which all business combinations, except for those between companies under common control, are treated like genuine business acquisitions for accounting purposes. Application of the acquisition method requires: identification of the acquirer

(i.e. the identity of the entity that takes control of a group or entity); the acquisition date (i.e. the date on which the acquirer obtains control of the acquiree); recognition at the purchase date of the identifiable assets acquired and liabilities assumed (including contingent liabilities) at their respective fair values. In addition, for each business combination, any minority interests in the acquiree may be recognised at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquiree.
Goodwill is initially valued at cost, which arises as the surplus between the sum of the consideration paid plus any minority interests and the fair value of the net assets (identifiable assets acquired less liabilities) taken on by the Group. If the acquisition cost is lower than the fair value of the net assets acquired, the difference is expensed to income for the period.
After initial recognition, goodwill is measured at cost less any impairment losses. For impairment testing purposes, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating unit or units of the Group expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.
If goodwill has been allocated to a cash-generating unit and the Group disposes of part of the assets of that unit, the goodwill associated with the business being divested is included in the carrying amount when determining the gain or loss on disposal. The goodwill associated with the divested business is determined on the basis of the relative values of the divested business and the cash-generating unit retained.
The identification of the fair value of the assets acquired and liabilities assumed has to be completed within a year of the acquisition. In the case of a “step acquisition” (one that takes place in various stages), the acquirer has to recalculate the interest held in the acquiree prior to gaining control at its fair value at the acquisition date and book any gain or loss to the income statement.
Changes in the parent company's interest in a subsidiary that do not entail a loss of control are accounted for as transactions affecting Group shareholders' equity.
The costs related to the acquisition (except those for issuing debt securities or equities, which follow the rules laid down in IAS 32 and IAS 39) are charged to the income statement in the period when they are incurred.

Consolidation using the equity method: the equity method, which is used to value investments in associates and companies subject to joint control, requires the investment to be initially recorded at cost and adjusted thereafter for the investor's share of the investee's profits and losses realised after the acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is not subjected to amortisation or impairment tests.
The income statement reflects the Group's portion of the associate's result for the year. In the event that an associate books adjustments directly to equity, the Group recognises its portion of the adjustments in equity and shows it separately in the statement of comprehensive income. The value of the investment is also reduced by the amount of any dividends received periodically by the Group.
The overall value of the investment is subjected to impairment testing in accordance with IAS 28 and IAS 36. If the losses are greater than the carrying value of the investment, the Group books the losses to the extent of that value, i.e. writing it down to zero without recognising any additional loss, unless it has an obligation to make payments on behalf of the associate.
Unrealised gains relating to transactions between and with associates are eliminated upon consolidation in proportion to the equity interest held. Any unrealised losses are eliminated upon consolidation, unless there is evidence of impairment of the assets transferred.
For the purposes of consolidating investments in associated companies, their financial statements at the reporting date of the half-yearly report have been used. If no information is available under IAS/IFRS, then the financial statements prepared under local accounting standards are either adjusted accordingly or used directly for consolidation purposes provided the differences between local and international accounting standards are insignificant.

Consolidation of subsidiaries classified as “Non-current assets held for sale and discontinued operations” under IFRS 5: if an investment in a subsidiary is classified as a non-current asset held for sale, it is fully consolidated in accordance with IFRS 5; this means that the assets and liabilities relating to the unit being divested are presented separately from other assets and liabilities in the balance sheet, while a single amount is shown in the income statement to represent the costs and revenues of the operating unit being disposed of.

Section 4 – Subsequent events

No events have taken place after the balance sheet date that suggest amending the information provided in the consolidated half-yearly report.
For more complete information on events after 30 June 2015, reference should be made to the half-yearly report on operations in the chapter entitled “Subsequent events and outlook of the Bipiemme Group for the rest of the year”.

Section 5 – Other aspects

Deadlines for approval and publication of report

The Management Board of the Parent Company has reviewed the Bipiemme Group's half-yearly report at 30 June 2015 and authorised its publication on 6 August 2015, in accordance with art. 154-ter of Legislative Decree 58/98 introduced by Legislative Decree 195/2007, which adopted European legislation on the transparency of listed companies (2004/109/EC).
The condensed consolidated half-yearly financial statements are subjected to a limited audit by Reconta Ernst & Young S.p.A., in compliance with Consob Communication no. 97001574 of 20 February 1997 and with Consob Resolution no. 10867 of 31 July 1997 and in accordance with the decision of the General Meeting of Members' of 21 April 2007.

A.2 – Part relating to the main line items in the financial statements

Accounting policies

The accounting policies followed in preparing the condensed consolidated half-yearly financial statements at 30 June 2015, as regards the reclassification, recognition, measurement and derecognition of the various asset and liability items, as well as the recognition of revenues and costs, as approved by the European Commission.

Regarding the criteria for classification, recognition, measurement and derecognition of the main items please read Part A2. of the Notes to the Consolidated Financial Statements 31 December 2014 of the Bipiemme Group. Significant changes to these policies are explained below.

New classification of impaired loans and forbearance
The definitions of the various categories of non-performing loans have been revised by the Bank of Italy, starting from 1 January 2015. This revision was needed to adjust the risk classes previously applicable to the definition of "Non-Performing Exposures" (NPE) introduced by the European Banking Authority ("EBA") with the issue of Implementing Technical Standards ("ITS"), EBA/ITS/2013/03/ rev 1, of 24 July 2014.
The "Credit quality" section of Circular 272 of 30 July 2008 (6th update of 7 January 2015) was then updated, identifying the following categories of non-performing loans:

- **Bad loans:** cash and "off-balance sheet" exposures to borrowers in a state of insolvency (even if not yet established by a court) or substantially similar situations, independently of any loss forecasts made by the bank. Bad loans also include exposures to local authorities (municipalities and provinces) in a state of financial distress for the amount subject to the relevant liquidation procedure;
- **Probable defaults (which the European Banking Authority/Bank of Italy call "Unlikely to pay"):** classification in this category is above all the result of the bank's opinion on the likelihood that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as enforcing guarantees. This assessment has to be carried out whether or not there are any amounts or instalments past due and unpaid. This means that it is not necessary to wait for explicit signs of an anomaly, such as failure to repay, if there are elements that imply a situation of risk of default on the part of the borrower (for example, a crisis in the industry in which the debtor operates). The status of "probable default/unlikely to pay" is applied to all of the cash and off-balance exposures to the same debtor who finds itself in such as situation;
- **Impaired past due and/or overdrawn exposures:** cash exposures, other than those classified as non-performing or unlikely to pay that have a past due and/or overdrawn position for more than 90 days at the reporting date. As regards the Bipiemme Group, impaired past due and/or overdrawn exposures are determined with reference to the position of the individual debtor.

The overall amounts of loans classified in the categories of impaired loans used in the financial reporting at 31 December 2014 have been reallocated to the new classes of risk through:

- reconciliation of the positions in the "Restructured" class to that of "Unlikely to pay";
- allocation of loans classified as "Doubtful" to:
  - "Unlikely to pay" for positions where there is a situation of probable default at the reference date, regardless of whether or not there are any amounts or instalments past due and unpaid;
  - "Impaired past due and/or overdrawn exposures" for all those loans previously classed as in "Doubtful" only because of unpaid instalments and/or days overdrawn.

Overall, the amounts of impaired assets at 31 December 2014 restated in accordance with the new definitions introduced by the EBA are substantially in line with the impaired assets determined in accordance with the previously applicable instructions of the Bank of Italy. The following is a table of reconciliation between the balances shown according to the classes used at 31 December 2014 and those restated according to the new classifications.

(Euro/thousand)

	Situation at 31.12.2014				Situation at 31.12.2014 according to the new classes
	Non-performing loans	Doubtful loans	Restructured exposures	Past due exposures	
Gross Exposures					
	3,051,730	**1,657,014**	**1,031,808**	**129,831**	
Bad loans	3,051,730				3,051,730
Unlikely to pay		1,638,298	1,031,808		2,670,106
Past due exposures		18,716		129,831	148,547
Adjustments					
	1,707,326	**427,810**	**124,529**	**10,923**	
Bad loans	1,707,326				1,707,326
Unlikely to pay		426,234	124,529		550,763
Past due exposures		1,576		10,923	12,499
Net exposures					
	1,344,404	**1,229,204**	**907,279**	**118,908**	
Bad loans	1,344,404				1,344,404
Unlikely to pay		1,212,064	907,279		2,119,343
Past due exposures		17,140		118,908	136,048

The EBA's ITS introduces an additional disclosure requirement on forbearance. The term "forbearance" is used by the EBA to indicate debtors that find or could find themselves in difficulty with respect to their loan repayment terms and for which concessions have been made concerning the renegotiation of the original contractual conditions. Accordingly, a necessary condition for the identification of an exposure as forborne is the existence at the time of the request for renegotiation of a situation whereby a debtor is experiencing financial difficulty.
In January 2015 the Bank of Italy issued an update to circular no. 272, which provides definitions for "impaired exposures" and "forborne exposures" (i.e. exposures for which concessions have been made), based on the EBA's technical standards. The latter definition does not represent a new category of impaired loan, but is an additional information tool, since the "forborne" loan category applies to all existing risk classes and both performing and non-performing loans may be included in the scope of renegotiation.
The allocation of forborne status may be reversed subsequent to a review of the results and financial position of the debtor. This review process takes place after 2 or 3 years, based on whether the loan is performing or impaired.

Bipiemme Group has analysed the EBA and Bank of Italy documents and has identified the loans that fall within the definition of forborne. Further details are provided in part E – Credit risk in accordance with the requirements of the Bank of Italy Circular 262/2005.

Deductibility of loan losses and writedowns – Decree Law 83/2015

Decree Law 83 of 27 June 2015 introduced, among other things, a number of new elements related to the deductibility of loan losses and writedowns by financial and credit institutions. Briefly:

- writedowns and losses on loans to customers shown as such in the financial statements and losses realised by selling them for a consideration are fully deductible for IRES and IRAP purposes in the year in which they are recognised. Previously, they were deductible over 5 years;
- in the first period that this new rule is applied, writedowns and losses other than those realised by selling them for a consideration are deductible up to 75% of the amount involved;
- the excess and the amount of writedowns not yet deducted at 31 December 2014 are deductible for 5% in 2016, 8% in 2017, 10% in 2018, 12% in the years from 2019 to 2024 and the other 5% in 2025.

The provisions of the decree are applicable from the tax year in progress at 31 December 2015.
The new system of tax deductibility of loan losses and writedowns will not have a significant effect on the income statement,

because, regardless of the period of deductibility, the tax effect of the adjustments to loans is still being recorded, even now, in the income statement for the year in which the adjustments are recognised through direct reduction of the tax liability for the adjustments that are deductible immediately and booking deferred tax assets for those that are deductible in future years.

A.3 – Disclosures relating to transfers between portfolios of financial assets

In the first half of 2015 or prior periods, the Group has not carried out any portfolio reclassifications of financial assets from categories measured at fair value into categories carried at amortised cost.

A.4 – Fair value disclosures

Qualitative information

Introduction

Fair value measurements and disclosures are governed by IFRS 13 "Fair Value Measurement", which in paragraph 9 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

As regards the type of financial instruments to be measured at fair value, the requirements of paragraph 9 of IAS 39 remain valid, that is, fair value measurement applies to all financial instruments with the exception of: financial assets classified as "investments held to maturity" and "loans and receivables"; investments in equity instruments for which it is not possible to establish a reliable fair value; non-trading financial liabilities to which the fair value option has not been applied. Moreover, it is worth reiterating that accounting standards and the Bank of Italy require, in any event, to disclose the fair value of assets and liabilities measured at amortised cost (receivables and payables, securities issued).

IFRS 13 is based on the definition of market based fair value, in that the fair value of assets or liabilities should be measured based on their characteristics that a market participant would take into account.
Fair value measurement assumes a transaction involving the sale of an asset or the transfer of a liability taking place in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability.
Compared with the previous definition provided by IAS 39, there is no emphasis on an "arm's-length transaction between knowledgeable, independent parties", that is, on the neutrality of the transaction, but on a concept of fair value based on an exit price. In fact, the price should reflect the view of the participant that sells the asset or that pays to transfer the liability at the measurement date. There is therefore no longer an issue of inconsistency of financial statement presentation between those measuring fair value as a seller and those as a buyer.

Under these circumstances, there is a need for the fair value of financial instruments to reflect the risk an entity will not fulfil an obligation by means of appropriate adjustments to take account of the credit standing of the counterparty.

A.4.1 Fair value Levels 2 and 3: valuation techniques and inputs used

In the absence of quoted prices in active markets, financial instruments should be classified in Level 2 or 3.
Classification in Level 2 rather than Level 3 depends on the observability of significant market inputs used in determining fair value. Observable inputs are parameters developed using market data, such as publicly available information about actual events or transactions and that reflect the assumptions that market participants would use when pricing the asset or liability; unobservable inputs, on the other hand, are parameters for which no market data is available and which are developed on the basis of the best information available in relation to assumptions that market participants would use to determine a price for a particular financial instrument.
A financial instrument has to be classified entirely in a single level; if inputs belonging to different levels of the fair value hierarchy are used to value an instrument, the instrument being valued is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement. Consequently, in cases where observable market inputs (Level 2) and unobservable inputs (Level 3) are used for the valuation of a financial instrument, if the latter are deemed significant, as defined below, the instrument is categorised in Level 3 of the fair value hierarchy.
As required by IFRS 13, the Bipiemme Group uses valuation techniques "appropriate in the circumstances and which maximise the use of relevant observable inputs"; furthermore, the techniques are consistent with those commonly used by market participants: market approach, cost approach and income approach.

The valuation techniques are used continuously and consistently over time unless alternative valuation techniques exist that provide a more appropriate measurement of fair value (for example, in the case of the development of new markets, information that is no longer available or new information or different market conditions).
The fair value used for measuring financial instruments is determined on the basis of the criteria set out below, which assume, as indicated above, the use of observable or unobservable inputs.

LEVEL 2 – Measurement methods based on observable market parameters

For Level 2 instruments, an input is directly or indirectly "observable", when it is continuously available to all market participants with a regular distribution of information through appropriate channels (Stock Exchange, data providers, brokers, market makers, websites, etc.).
The measurement of a financial instrument is based on prices which can be derived from market quotations of similar assets (comparable approach) or by valuation techniques for which all relevant factors - including credit spreads and liquidity - are derived from observable market parameters (mark-to-model approach).
The comparable approach requires the search for transactions on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument being valued. The valuation techniques used in the mark-to-model approach are those commonly used and accepted as market "best practice".
Level 2 inputs are defined as:
- prices quoted for similar assets and liabilities on active markets;
- prices quoted for the instrument being analysed or for similar instruments on inactive markets (i.e. markets where there are few transactions, the prices are not current or vary substantially over time and between different market makers or little information is made public);
- observable market inputs other than quoted prices (e.g. interest rates or yield curves, volatility, credit curves, etc.);
- market-corroborated inputs (that is, derived from observable market inputs or corroborated by correlation analysis). In this case, the input is deduced from quoted prices through suitable mathematical techniques.

With respect to the portfolio of financial instruments on hand, those falling within Level 2 are over the counter (OTC) financial and credit derivatives, bonds without official prices expressed by an active market, financial liabilities measured at fair value and hedge funds.

OTC financial derivatives
Interest rate, foreign exchange, equity, commodity and inflation derivatives, if not traded on regulated markets, are considered "Over The Counter" (OTC) instruments, i.e. bilaterally traded with market counterparties. Their measurement is carried out through specific pricing models, fed by input parameters such as interest rate curves, volatility matrices and exchange rates, which are generally observable on the market, even if not quoted on regulated and/or active markets.

The methodology used in evaluating these contracts is as follows:
- non-option instruments (interest rate swaps, forward rate agreements, overnight interest swaps, domestic currency swaps, etc.): the valuation techniques use discounted cash flow models whereby certain or expected cash flow is discounted. In the event that linear or quasi-linear OTC derivatives incorporate optional components, the latter are measured using the same methodologies adopted for options;
- financial options:
    - in the case of plain vanilla options, the most used methodologies fall within a forward risk-neutral framework and are based on analytical Black-like formulas, whereby the volatility depends on the maturity date and strike price (volatility skew);
    - for more complex pay-offs (typically, equity basket options or path dependent equity options), while remaining risk-neutral, use is made of mathematical methodologies based on Monte Carlo simulation, whereby the option pay-off is measured by means of simulations with a sufficiently high level of repetitions (between 20,000 and 100,000) relating to the trend of the risk factors underlying the option. The price of the derivative is thus obtained by calculating the average of the values arising from each scenario;
    - for the types of products that are not among those managed by the Parent Company's internal systems, an external assessment is made.

Furthermore, to determine the fair value, account is also taken of the risk that the obligation will not be fulfilled. As required by the relevant standard, fair value takes into account counterparty risk (Credit Valuation Adjustment – CVA) and issuer risk (Debt Valuation Adjustment – DVA). To this end, Bipiemme Group has adopted algorithms for the determination of fair value, the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA), estimated on the basis of market and internal risk parameters (PD, LGD, interest curves).
For the determination of the CVA and DVA, the calculation algorithms take account of:
- the probability of default (PD) of the specific counterparty. This figure is determined on the basis of an official external rating of the counterparty and on related default statistics on market risk, where available; otherwise, the figure is determined on the basis of an internal rating. Based on these figures, a multi-period PD is determined based on the residual contractual duration of the instrument being valued;
- the loss given default (LGD): a standard value is used for all counterparties (60%) determined on the basis of market practice.

OTC credit derivatives
Credit derivatives traded by the Group consist of simple single name credit default swap contracts and ITRAXX indices bilaterally traded with market counterparties. Their measurement is based on an estimate of the implicit default probability curve for the issuer or issuers underlying the contract, arrived at using a bootstrapping technique based on market price, whereby the expected cash flow from the contract is weighted.

Bonds without official prices expressed in an active market
As regards plain vanilla bonds, that is, without any option or derivative component, a discounted cash flow (DCF) model is used, based on discounted expected future cash flow, which, in the case of floating-rate coupons, is estimated based on forward rates implicit in the curves for the indexing.
In the case of bonds with an option component (for example, structured bonds), the component is estimated based on the same methodologies adopted for stand-alone options, thus maintaining consistency between bonds with embedded options and the measurement of derivatives which feature the same type of option. For these types of bonds, the level of the fair value hierarchy assigned to the derivative component contributes, on the basis of an analysis of the significance of the amount of the option in comparison to the overall value of the bond, to the definition of the fair value hierarchy level of the bond, as required by specific internal policy.
For bonds assessed on the basis of the model, the issuer's creditworthiness is incorporated in the assessment and is obtained from the credit spread curves of that issuer, if available. In the event that credit spread information is not directly observable, measurement techniques that entail classification in level 3 are generally adopted.

Mutual funds
The individual units of such funds (UCITS) are measured on the basis of the latest available NAV (net asset value) reported by the management company or by the data provider and of any corrections due to dividends, coupons or other things.

Fair value option
For securities issued by the Group, categorised as FVO and measured on the basis of a model, creditworthiness is incorporated in the assessment and the credit spread used is derived implicitly from retail issues carried out by the Group in the last reference quarter. Classification in level 2 rather than level 3 depends essentially on the proportion of observable and unobservable inputs used in measuring the fair value of the instrument, as identified in Section A 4.3, paragraph "Criteria for transfers between levels".

LEVEL 3 – Measurement methods based on unobservable market parameters

Level 3 includes all financial instruments that are not quoted on an active market, for which the determination of fair value has to be done through valuation models that require the use of parameters that are not directly observable in the market.
Unobservable inputs have to be used to the extent that relevant observable inputs are not available and, therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Measurement has to be performed using the best information available in the circumstances, internal data included.
The measurement of assets and liabilities pertaining to Level 3 is generally carried out using the same valuation methodologies as those used for Level 2 instruments; the difference lies in the fact that input parameters used in the pricing model are unobservable. The valuation techniques for the latter, as detailed below, make use of various approaches, depending on the parameter. Unobservable

inputs may be: derived using mathematical techniques based on prices of options or price quotations by brokers or market-makers (for example, correlations or implicit volatility), or arrived at by extrapolation from observable data (for example, credit spread curves), or obtained from historical figures (for example, volatility of investment funds) or based on a comparable approach.

Set out below are the instruments categorised within **Level 3** that largely coincide with those previously described for Level 2, but which differ from them due to the presence of discretionary input parameters.

OTC derivatives
These are financial derivatives stipulated with institutional counterparties or retail customers, the valuation of which is based on the same pricing models as those used for Level 2 valuations and which differ from them due to the extent of the observability of the inputs used for the pricing techniques (reference is mainly made to correlations and implicit volatility). In addition, they are included under financial assets and liabilities categorised in Level 3, among others, are those positions for which the portion of the fair value adjustment that takes account of the risk that the obligation will not be fulfilled is significant compared to the overall value of the financial instrument, as reported in the internal policy.

Debt securities
They include structured financial instruments issued directly by leading issuers, including structured credit products such as CDOs (Collateralised Debt Obligations) and credit derivatives on index tranches, ABSs (Asset Backed Securities). Fair value is measured by discounting certain or expected cash flows, duly adjusted to take account of the issuer risk and, for the derivative element, based on models similar to those used for the option contracts assessed in level 2.

Unquoted equities
These are essentially minority interests in unquoted financial and non-financial companies. These instruments are measured with reference to significant transactions in the same stock or similar securities observed in a reasonable period of time compared with the valuation date, the method of market multiples of comparable companies and, to a lesser extent, alternative valuation methods based on financial parameters, earnings and net assets. In particular, for certain minority interests, in line with generally accepted valuation techniques, use is made of the Excess Capital variant of the dividend discount model (DDM) income approach. This method assumes that a company's economic value is the sum of the present value of: 1) present value of estimated distributable dividends in the so-called "explicit period" (period covered by the business plan); 2) excess/lack of Common Equity Tier I at the end of the explicit period; 3) terminal value comprising the perpetual return of normalised dividends.
Securities for which it is impossible to estimate the fair value on a reasonable basis are maintained at their original purchase cost in accordance with IAS 39, paragraph AG 81.

Mutual funds
These are closed-end funds and hedge funds that do not fall into Levels 1 and 2. The fair value is determined by applying the NAV reported by the management company, as this is considered the most reliable estimate of the fair value of the instrument, being an exit value on disposal of the investment and to any adjustments due to dividends and distributions.

Financial instruments carried at amortised cost
For other financial instruments carried at amortised cost and classified substantially among the amounts due to and from banks or customers, and among the securities issued, a fair value has been determined only for disclosure purposes in the notes.
In particular:
- for amounts due from and to customers and banks related to other technical forms:
  - for balances that are short term or receivable or payable on demand, that is, which are due within 12 months, the fair value is conventionally considered to be equal to book value, given the short term repayment date. Conventionally, certificates of deposit with a maximum maturity of 18 months are also measured at cost;
  - for amounts receivable and payable beyond 12 months, the fair value is determined in accordance with a valuation methodology based on a mark to model approach, the key elements of which are:
    - identification of future cash flow, corresponding to contractual cash flow. As regards loans to customers, cash flow is weighted based on PD (Probability of Default) and LGD (Loss Given Default). For retail and corporate customers, PD is assigned based on a matrix of reliability ratings used to categorise customers on the basis of internal procedures for assessing credit worthiness. As regards balances included in the line item due from banks, use is made of parameters provided by external rating agencies; the cash flows on loans suffering from impairment are quantified on the basis of

the repayment plan. As regards the assignment of LGD, solely to customers, this is differentiated based on the customer segment and the technical form of the facility;
  - discounting of cash flow quantified as explained above, using a market interest rate curve. For amounts due from customers and banks, the risk free rate is adopted, since the credit risk is quantified based on PD and LGD parameters;
- for debt securities classified as held in the "Due from banks or customers" portfolio, fair value is determined through the use of prices quoted in markets or by the use of valuation models, as described above for financial assets and liabilities carried in the balance sheet at fair value.

Given the high proportion of unobservable components, amounts due from and to customers and banks, other than securities, are normally categorised in level 3 of the fair value hierarchy.
For bonds carried in the balance sheet at amortised cost, the valuation falls into Level 1 if there is a quoted price in an "active market"; otherwise, the valuation is done by discounting the cash flows on the basis of the relevant interest rate curve. As regards valuation techniques, bonds are valued, where available, based on quoted prices, which already include an assessment of credit risk. In the absence of market prices, subordinated bonds are measured using internal models, applying a credit spread derived from quotations of subordinated Credit Default Swaps (CDS).

A.4.2 Valuation processes and sensitivity

The Group's valuation processes are subject to verification that extends to the valuation techniques for all financial instrument positions.
The valuation, also for accounting purposes, of all financial instruments classified in the HFT, AFS and FVO portfolios is carried out by specific internal functions, depending on the individual Group entity. The Bipiemme Group has procedures in place and manuals that describe the valuation techniques and inputs used. For certain valuations relating to a limited group of financial instruments, the Group is assisted by external companies that supply the prices of the assets and liabilities or the pricing models used, as the case may be.

For financial instruments, the fair value of which is based on a valuation model, analysis of the sensitivity of such instruments to market data is done by means of standard stress techniques, which, acting on input parameters to the pricing model, determine corresponding changes in the fair value of the instrument. Sensitivity is obtained individually for each curve or risk factor by applying to the latter an increase or decrease (shift) of a pre-defined size, obtaining as an output the corresponding change in fair value. In the case of non-scalar risk factors, such as those pertaining to an interest rate curve or volatility surface, a uniform shift is generally applied to the entire structure, thus obtaining an estimate of the sensitivity to parallel movements of the corresponding curve.

A.4.3 Fair value hierarchy

The fair value hierarchy, according to IFRS 13, has to be applied to all financial instruments for which their fair value is recognised in the balance sheet. In this regard, for these instruments top priority is given to the official prices available in active markets and a lower priority to the use of unobservable inputs, as they are more discretionary. Fair value is therefore determined through the use of prices obtained from financial markets in the case of instruments quoted on active markets, or, for other financial instruments, by using valuation techniques with the aim of estimating the fair value (exit price).

Based on the type of input used, the valuation techniques categorise fair value into the following three levels:
- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

The procedures for classifying financial instruments in the three levels are as follows:

LEVEL 1 – Quoted prices (unadjusted) in active markets

Financial instruments have to be classified as Level 1 if they have been valued using prices quoted on active markets for identical instruments to those being evaluated, without making any adjustments.
A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment. Any adjustment results in the categorisation of a financial instrument within a lower level (for example, no immediate access to information or the lack of availability of a price at the measurement date).
A market is considered active for a certain financial instrument on a certain date if in the previous 20 days changes in prices were recorded on at least 50% of the working days considered.
Markets in which inputs might be observable for certain financial instruments are: securities markets, direct and assisted exchange markets (for example, over-the-counter markets, the prices of which are public), brokered markets (for example, electronic trading platforms), principal-to-principal and autonomous markets.
Those normally considered to be principal markets are:

- MOT and MTS circuits for government bonds and for non-government bonds;
- MTA circuits for Italian equities and international regulated stock exchanges for foreign equities;
- official ECB exchange rates of the day for spot foreign exchange transactions.

Where a principal market has not been identified for a certain financial instrument, the reference market to be considered is that which is most advantageous.
The above considerations also apply to short positions in securities.

For financial instruments quoted on active markets, the current bid price is used for financial assets and the ask price for financial liabilities at the end of the reporting period.

LEVEL 2 and 3

In the absence of quoted prices in active markets, financial instruments have to be classified in Levels 2 or 3.
Classification in Level 2 rather than Level 3 depends on the observability of significant market inputs used in determining the fair value.
For further details on the classification in levels 2 and 3, see the previous paragraph A.4.1 “Fair value levels 2 and 3: valuation techniques and inputs used”.

CRITERIA FOR TRANSFERS BETWEEN LEVELS

The transfer of a financial instrument from Level 1 to Level 2 of the fair value hierarchy and vice versa is based mainly on the degree of liquidity of the instrument at the time of recognition of its quoted price that determines the use of a quoted price in an active market rather than a price obtained from a pricing model. In practice, if, for a financial asset or liability, there are objective indications of a significant loss or the lack of availability of a price in an active market (absence of multiple prices from market makers, prices that have not changed much or which are inconsistent), the instrument is categorised in Level 2 of the fair value hierarchy and, in certain cases, recourse is made to a model-based valuation. This valuation technique may no longer be necessary, if, for the same financial instrument, a price in an active market once again becomes available, with a corresponding transfer to Level 1.
Such an event mainly arises with debt securities, whereas derivatives listed on regulated markets normally pertain to Level 1, given that, for these, a price is normally provided by the relevant stockmarket. Vice versa, OTC derivatives are normally valued based on pricing models and thus are categorised in Level 2 or 3 of the fair value hierarchy, based on the significance of the input data.

A transfer from Level 2 to Level 3 and vice versa is determined by the weighting or the significance, at various times during the life of the financial instrument, of the unobservable input variables compared to the overall valuation of the instrument. In order to define whether an input is significant or not for the purpose of the categorisation of the fair value of an instrument, three significance thresholds have been adopted. Of these, the first two relate to the significance of unobservable market parameters, while the third

specifically relates to adjustments to the fair value of OTC derivatives to reflect in the mark-to-market the risk that the obligation will not be fulfilled.
The two thresholds relating to input data are applied on the basis of whether it is possible (first threshold) or not possible (second threshold) to accurately isolate the components of the financial instrument that, for the valuation thereof, require unobservable inputs. In other words, the first threshold applies if a financial instrument can be exactly broken down into more simple financial instruments, some of which require unobservable inputs, while the second applies in cases where it is not possible to isolate or unbundle from the instrument the component influenced by the unobservable factor.
In detail:

1. the first threshold (fair value ratio threshold) is defined based on the ratio of the fair value of the contractual component valued with unobservable inputs (for example, an implicit option) to the fair value of the entire contract: if this ratio equals or is less than 5%, the impact of the unobservable input is not considered significant for the purpose of the determination of the fair value and the latter is categorised as Level 2; otherwise, the contract is classified as Level 3;
2. the second threshold (sensitivity ratio threshold) is defined based on the sensitivity of the price of the financial instrument to the unobservable parameter: an input is considered not to be significant for the purpose of the determination of fair value if changes in the unobservable input of plus or minus 5% produce a change in the absolute amount of the fair value of the instrument equal to or less than 5% of the fair value, with a consequent classification as Level 2; otherwise, the contract is classified as Level 3. The shock is applied to the unobservable parameter in a symmetric manner, thus acknowledging in the classification any asymmetry in the non-linearity of the pricing function.

As regards adjustments made to the fair value of OTC derivatives, to establish the degree of significance of these adjustments, a materiality threshold is defined for counterparty risk (CVA ratio threshold). This is identified based on the ratio of the amount of the reduction in fair value, which represents the estimate of counterparty risk, to the overall fair value of the contract, that is, with the inclusion of counterparty risk. If this ratio is equal to or less than 20%, the impact of the adjustment for counterparty risk is not considered significant for the purpose of the determination of fair value and the latter is assigned to the level it would have been classified in without the CVA. Otherwise, the entire fair value is classified as Level 3.

A.4.4 Other information

The Group has not applied the option provided by IFRS 13, para. 48, to assess a group of financial assets and liabilities on the basis of its net exposure to market risk or credit risk.

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: breakdown of fair value levels

Financial assets and liabilities carried at fair value	30.06.2015			31.12.2014		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	566,325	1,169,277	89,342	497,598	1,341,597	82,323
2. Financial assets designated at fair value through profit and loss	7,793	19,925	53,692	10,710	75,118	11,621
3. Financial assets available for sale	8,853,385	183,715	595,110	8,892,830	110,706	666,736
4. Hedging derivatives	–	161,972	7	–	178,460	–
5. Property and equipment	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**9,427,503**	**1,534,889**	**738,151**	**9,401,138**	**1,705,881**	**760,680**
1. Financial liabilities held for trading	201,311	1,053,292	72,231	156,118	1,243,657	63,670
2. Financial liabilities designated at fair value through profit and loss	–	157,702	–	–	152,116	–
3. Hedging derivatives	–	44,092	–	–	58,751	–
Total	**201,311**	**1,255,086**	**72,231**	**156,118**	**1,454,524**	**63,670**

Key: L1 = Level 1; L2 = Level 2; L3 = Level 3

Level 3 financial assets as a whole amount to 738.2 million euro and represent 6.3% of the total of financial assets designated at fair value through profit and loss (6.4% at 31 December 2014); Level 3 financial liabilities amounted to 72.2 million euro, representing 4.7% of total financial liabilities designated at fair value (3.8% at 31 December 2014).

The following table shows the breakdown of financial assets designated at fair value in Level 3:

Financial assets carried at fair value: breakdown by type	Debt securities	Equities	Mutual funds	Derivatives	30.06.2015	Debt securities	Equities	Mutual funds	Derivatives	31.12.2014
Financial assets held for trading	355	10	–	88,977	**89,342**	805	8	–	81,510	**82,323**
Financial assets designated at fair value through profit and loss	53,692	–	–	–	**53,692**	11,621	–	–	–	**11,621**
Financial assets available for sale	113,372	346,682	135,056	–	**595,110**	111,811	438,241	116,684	–	**666,736**
Hedging derivatives	–	–	–	7	7	–	–	–	–	–
Total	**167,419**	**346,692**	**135,056**	**88,984**	**738,151**	**124,237**	**438,249**	**116,684**	**81,510**	**760,680**

As can be seen from this classification, financial assets carried at fair value are made up of:

a. Debt securities: 167.4 million euro. These are structured or subordinated debt securities issued directly by leading Italian or international banks.
b. Equities: 346.7 million euro. These are essentially minority interests in unquoted finance and non-finance companies. Note that for some of these financial instruments, for a total of 1.8 million euro, it has not been possible to make reasonable estimates of their fair value. In accordance with IAS 39, para. AG 81, these instruments have therefore been maintained at their original purchase cost, which is in any case close to the book net equity value of the companies concerned.
c. Mutual funds: 135.1 million euro. These are:
   i. Real estate funds: 74.4 million euro;
   ii. Mutual investment and similar types of funds: 60.7 million euro.

These financial instruments are valued on the basis of the NAV communicated by the management company, as this is considered the most reliable estimate of the instrument's fair value, given that NAV is the "exit value". This decision is due to the fact that, in accordance with the Group's investment strategies, these instruments are intended for a medium/long term investment and their unwinding only occurs on repayment of all or part of the shares decided by the management company after selling off the fund's investments.

d. Derivatives: 89 million euro entirely booked under financial assets held for trading. These are financial derivatives valued at fair value stipulated with institutional counterparties and customers. As regards derivatives with customers, financial assets designated at fair value through profit and loss Level 3 include, among others, those positions for which the quota of fair value adjustment that takes account of credit risk (i.e. the so-called "Credit valuation adjustment") is significant compared with the overall value of the financial instrument.

Sensitivity analysis based on unobservable parameters (Level 3)

The following table shows the sensitivity analysis for debt securities and derivatives for which the measurement at fair value is classified Level 3 of the hierarchy as a result of using significant unobservable inputs.
The sensitivity analysis was carried out by developing a scenario analysis that takes into account a 5% change, up or down, in unobservable inputs used in the valuation techniques as described in the previous paragraph A.4.1 "Fair value levels 2 and 3: valuation techniques and inputs used".

Debt securities
For bonds classified as **Financial assets available for sale** for which a sensitivity analysis is possible given the valuation model used (Euro 112.4 million out of a total book value of Euro 113.3 million), any variances are not material: in the event of adverse changes in the unobservable inputs, mostly related to volatility in inflation rates and correlation between interest rates and inflation, the valuation reserve would show a gross value that would be Euro 0.8 million lower than the figure in the financial statements; whereas there have been no significant favourable changes compared with the figures shown in the financial statements.
For the debt securities classified in **Financial assets designated at fair value through profit and loss** for which it is possible, given the valuation model used (book value of Euro 13.0 million out of a total of Euro 53.7 million), the sensitivity analysis showed that in the event of adverse changes in the unobservable inputs, mainly related to the volatility of equity markets and credit spreads calculated using internal models, there would be a negative impact on the income statement of Euro 0.5 million compared with what is shown in the financial statements; in the case of favourable changes, compared with the figures in the financial statements, there would be a positive impact on the income statement of Euro 0.5 million. As regards the rest of the debt securities included in this item, it was not possible to carry out a sensitivity analysis on pricing as valuations provided by third parties were used.

Equities
With regard to unquoted equities classified under Financial assets available for sale, for which the valuation model used permits a sensitivity analysis (book value of Euro 126.9 million out of a total of Euro 346.7 million), in the event of adverse changes in unobservable inputs, we would see a lower value for the equity reserve, before tax, amounting to approximately Euro 1.5 million, whereas in the case of favourable changes in these inputs, the change in the reserve would come to around Euro 1.8 million. The unobservable input in question is the expected growth rate in dividends ("g") used in the valuation model based on discounted expected future cash flows ("Dividend Cash Flow Model").
For the rest of the equity securities classified under financial assets available for sale, a sensitivity analysis was not possible because, to assess these assets, we mainly used information deriving from or direct transactions on the stock or assessments performed by third parties.

Derivatives
With reference to the other derivatives classified under **Financial assets held for trading**, the sensitivity analysis resulted in marginal differences, just over 1% of the total value for both favourable and unfavourable changes in the inputs used (volatility of shares and the correlation between equity indices and stock prices).

No sensitivity analysis was carried out on units in **mutual funds** because the methods of quantifying the fair value used at 30 June 2015 do not allow us to develop alternative hypotheses about the unobservable inputs used in the assessment (e.g. mutual fund units valued at NAV), or because the effects of the change in these inputs are not considered material.

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets			Hedging derivatives	Property and equipment	Intangible assets
	held for trading	designated at fair value through profit and loss	available for sale			
1. Opening balance	**82,323**	**11,621**	**666,736**	**–**	**–**	**–**
2. Increases	**75,023**	**44,823**	**40,940**	**7**	**–**	**–**
2.1. Purchases	58,220	9,519	28,948	–	–	–
2.2. Profits booked to:						
2.2.1. Income statement	12,817	641	–	7	–	–
– of which: gains	*11,149*	*641*	–	*7*	–	–
2.2.2. Shareholders' equity	X	X	3,956	–	–	–
2.3. Transfers from other levels	2,417	34,163	5,030	–	–	–
2.4. Other increases	1,569	500	3,006	–	–	–
3. Decreases	**68,004**	**2,752**	**112,566**	**–**	**–**	**–**
3.1. Sales	58,835	–	384	–	–	–
3.2. Redemptions	–	–	–	–	–	–
3.3. Losses booked to:						
3.3.1. Income statement	4,743	2,568	2,296	–	–	–
– of which: unrealised losses	*3,714*	*2,568*	*2,295*	–	–	–
3.3.2. Shareholders' equity	X	X	28,024	–	–	–
3.4. Transfers to other levels	2,496	–	79,071	–	–	–
3.5. Other decreases	1,930	184	2,791	–	–	–
4. 4. Closing balance	**89,342**	**53,692**	**595,110**	**7**	**–**	**–**

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

	Financial liabilities		Hedging derivatives
	held for trading	designated at fair value through profit and loss	
1. Opening balance	**63,670**	**–**	**–**
2. Increases	**10,221**	**–**	**–**
2.1. Issues	–	–	–
2.2. Losses booked to:			
2.2.1. Income statement	9,974	–	–
– of which: unrealised losses	*9,929*	–	–
2.2.2. Shareholders' equity	X	X	–
2.3. Transfers from other levels	–	–	–
2.4. Other increases	247	–	–
3. Decreases	**1,660**	**–**	**–**
3.1. Redemptions	–	–	–
3.2. Repurchases	–	–	–
3.3. Profits booked to:			
3.3.1. Income statement	1,406	–	–
– of which gains	*1,098*	–	–
3.3.2. Shareholders' equity	X	X	–
3.4. Transfers to other levels	225	–	–
3.5. Other decreases	29	–	–
4. Closing balance	**72,231**	**–**	**–**

Disclosures relating to transfers between Level 1 and Level 2 in the first half of 2015

During the course of the first half of 2015 the following transfers took place:

Financial assets held for trading
- Euro 23 million from Level 1 to Level 2;
- Euro 14.3 million from Level 2 to Level 1.

These transfers mainly relate to data having become available or no longer being available regarding prices quoted in organised markets and that, due to volumes traded and the frequency of the prices reported, permit or do not permit, on the basis of the parameters indicated above, the categorisation of the instruments in Level 1.

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

Financial assets/liabilities carried at fair value or carried at fair value on a recurring base	30.06.2015				31.12.2014			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Investments held to maturity	–	–	–	–	–	–	–	–
2. Due from banks	1,162,731	–	4,438	1,161,070	984,777	–	–	987,282
3. Loans to customers	33,483,029	–	92,630	35,628,364	32,078,843	–	97,095	34,812,139
4. Investment properties	23,202	–	–	36,343	23,632	–	–	36,343
5. Non-current assets held for sale and discontinued operations	6,118	–	6,118	–	–	–	–	–
Total	**34,675,080**	**–**	**103,186**	**36,825,777**	**33,087,252**	**–**	**97,095**	**35,835,764**
1. Due to banks	4,494,906	–	–	4,483,192	3,318,564	–	–	3,314,872
2. Due to customers	28,777,043	–	–	28,777,043	27,702,942	–	–	27,702,942
3. Securities issued	7,867,754	4,236,593	3,658,087	188,987	8,981,834	4,816,758	4,087,265	331,322
4. Liabilities associated with non-current assets held for sale and discontinued operations	–	–	–	–	–	–	–	–
Total	**41,139,703**	**4,236,593**	**3,658,087**	**33,449,222**	**40,003,340**	**4,816,758**	**4,087,265**	**31,349,136**

Information concerning exposures to sovereign debt

With reference to the request received by ESMA (European Securities Markets Authority) with Communication ESMA/2011/226 of 28 July 2011 and by Consob Communication DEM/11070007 of 5 August 2011, with reference to the figures shown at 31 December 2014 in the above item A.4.5.1 "Accounting portfolios: breakdown by level of fair value", the following is the Bipiemme Group's exposure to sovereign debt, consisting mainly of Italian government securities.

The table shows the following information of the accounting portfolios by individual country:

- fair value hierarchy level;
- nominal value;
- book value at 30 June 2015;
- effect of the valuation recognized in the income statement for the period with respect to securities classified as "Financial assets held for trading" and "Financial assets designated at fair value through profit and loss";
- effect of the gross overall valuation recognised at the date of the balance sheet as shareholders' equity under "Revaluation reserves", in relation to securities classified as "Financial assets available for sale".

(Euro/000)

Accounting portfolios/issuers	L1				L2				L3		
	Nominal value	Book value 30.6.2015	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 30.6.2015	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 30.6.2015	Valuation booked to income statement
1. Financial assets held for trading	**148,733**	**150,754**	**-6,184**	**X**	**3,169**	**2,844**	**11**	**X**	**14**	**13**	**-**
Italy	148,387	150,408	-6,178	X	799	891	35	X	-	-	-
Other countries	346	346	-6	0	2,370	1,953	-24	0	14	13	0
2. Financial assets designated at fair value through profit and loss	**-**	**-**	**-**	**X**	**-**	**-**	**-**	**X**	**-**	**-**	**-**
3. Financial assets available for sale	**8,382,296**	**8,705,268**	**-3,818**	**168,199**	**-**	**-**	**-**	**-**	**5**	**5**	**-**
Italy	8,267,933	8,589,548	-3,818	168,266	-	-	-	-	5	5	-
United Kingdom	105,426	106,780	-	-120	-	-	-	-	-	-	-
United States	8,937	8,940	-	53	-	-	-	-	-	-	-
Total	**8,531,029**	**8,856,022**	**-10,002**	**168,199**	**3,169**	**2,844**	**11**	**-**	**19**	**18**	**-**

The situation at 31 December 2014 is shown below for comparison.

(Euro/000)

Accounting portfolios/issuers	L1				L2				L3		
	Nominal value	Book value 31.12.2014	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 31.12.2014	Valuation booked to income statement	Valuation booked to shareholders' equity	Nominal value	Book value 31.12.2014	Valuation booked to income statement
1. Financial assets held for trading	**157,582**	**157,050**	**-106**	**X**	**1,984**	**1,604**	**-50**	**X**	**42**	**44**	**1**
Italy	157,440	156,929	-104	X	144	157	5	X	-	-	-
Other countries	142	121	-2	0	1,840	1,447	-55	0	42	44	1
2. Financial assets designated at fair value through profit and loss	**-**	**-**	**-**	**X**	**-**	**-**	**-**	**X**	**-**	**-**	**-**
3. Financial assets available for sale	**8,307,818**	**8,771,442**	**18,384**	**365,105**	**-**	**-**	**-**	**-**	**5**	**5**	**-**
Italy	8,299,581	8,763,268	18,384	365,117	-	-	-	-	5	5	-
United States	8,237	8,174	-	-12	-	-	-	-	-	-	-
Total	**8,465,400**	**8,928,492**	**18,278**	**365,105**	**1,984**	**1,604**	**-50**	**-**	**47**	**49**	**1**

The following table shows these values restated by issuer:

Breakdown by issuer	Nominal value	Book value 30.6.2015	Valuation booked to income statement	Valuation booked to shareholders' equity
Italy	**8,417,124**	**8,740,847**	**–9,961**	**168,266**
Financial assets available for sale	8,267,938	8,589,553	–3,818	168,266
– of which maturing in 2015	*70,005*	*70,268*	–	*338*
– of which maturing from 2016 to 2017	*2,191,181*	*2,249,769*	*–43*	*57,619*
– of which maturing from 2018 to 2021	*4,622,752*	*4,876,224*	*–1,970*	*154,888*
– of which maturing beyond 2021	*1,384,000*	*1,393,292*	*–1,805*	*–44,579*
Financial assets held for trading	149,186	151,299	–6,143	X
Argentina	**1,733**	**1,298**	**–24**	**–**
Financial assets held for trading	1,733	1,298	–24	X
Austria	**916**	**931**	**–**	**–**
Financial assets held for trading	916	931	–	X
Ireland	**47**	**48**	**–6**	**–**
Financial assets held for trading	47	48	–6	X
Portugal	**27**	**29**	**–**	**–**
Financial assets held for trading	27	29	–	X
United States	**8,940**	**8,943**	**–**	**53**
Financial assets available for sale	8,937	8,940	–	53
Maturing in 2019	8,937	8,940	–	53
Financial assets held for trading	3	3	–	X
Greece	**3**	**2**	**–**	**–**
Financial assets held for trading	3	2	–	X
United Kingdom	**105,426**	**106,780**	**–**	**–120**
Financial assets available for sale	105,426	106,780	–	–120
Maturing in 2018	105,426	106,780	–	–120
Other countries	**1**	**1**	**–**	**–**
Financial assets held for trading	1	1	–	X
Total	**8,534,217**	**8,858,884**	**–9,991**	**168,199**

In addition to these exposures, asset item 70 "Loans to customers" includes exposures to the Italian Government and to Italian local public entities for 302 million Euro.
At 31 July 2015, the potential net gains on the "available-for-sale" government bond portfolio total 318 million euro (versus 168 million euro at 30 June 2015).

The situation at 31 December 2014 is shown below for comparison.

Breakdown by issuer	**Nominal value**	**Book value 31.12.2014**	**Valuation booked to income statement**	**Valuation booked to shareholders' equity**
Italy	**8,457,170**	**8,920,359**	**18,285**	**365,117**
Financial assets available for sale	8,299,586	8,763,273	18,384	365,117
– of which maturing in 2015	*574,768*	*575,880*	*–*	*5,297*
– of which maturing from 2016 to 2017	*3,138,268*	*3,223,912*	*–*	*87,560*
– of which maturing from 2018 to 2021	*4,251,550*	*4,568,677*	*11,566*	*238,793*
– of which maturing beyond 2021	*335,000*	*394,804*	*6,818*	*33,467*
Financial assets held for trading	157,584	157,086	–99	X
Argentina	**1,280**	**862**	**–57**	**–**
Financial assets held for trading	1,280	862	–57	X
Austria	**696**	**703**	**5**	**–**
Financial assets held for trading	696	703	5	X
United States	**8,237**	**8,174**	**–**	**–**
Financial assets available for sale	8,237	8,174	–	–
Maturing in 2019	8,237	8,174	–	–
Other countries	**48**	**47**	**–4**	**–**
Financial assets held for trading	48	47	–4	X
Total	**8,467,431**	**8,930,145**	**18,229**	**365,105**

In addition to these exposures, asset item 70 “Loans to customers” includes exposures to the Italian Government and to Italian local public entities for 309 million euro.

A.5 Information on the so-called "day one profit/loss"

IAS 39 requires a financial instrument to be initially recorded at its fair value, which is normally the transaction price; in other words, at the cost or amount paid for financial assets or the amount received for financial liabilities. On initial recognition, the fair value of a financial instrument does not always coincide with the price paid or received; this difference is defined as a "day-one profit/loss". If there is a difference between these values, the fair value of the instrument has to be accounted for rather than the transaction price, but only if the fair value is calculated from other observable market transactions on the same instrument or if it is determined by the use of valuation techniques, whose inputs originate from information derived from observable markets. In such cases the difference between the transaction price and the fair value on initial recognition is immediately charged to income. This criterion applies to the instruments that fall into one of the classes that require the booking of the instrument at fair value through profit and loss: fair value option and trading book.
With regard to these categories we specify as follows:

1. Instruments quoted on an active market. In this case, the concept of "day-one profit" is not usually applied since on initial recognition in the financial statements the fair value of a financial instrument which falls within Level 1 of the fair value hierarchy coincides with the transaction price.

2. Instruments not quoted on an active market. In this case, classification of the financial instrument in Levels 2 or 3 of the fair value hierarchy leads to a different accounting treatment of the difference between fair value and the transaction price.

In the case of Level 2, initial recognition, in many cases, sees fair value substantially coincide with the transaction price. Any differences between price and fair value go through the income statement on the first remeasurement of the financial instrument.

In the case of Level 3, the presence of model risk and/or input not directly observable in the market significantly influence the outcome of the assessment, to be compared with the transaction price. In this case the difference, if positive, is amortised over the residual life of the financial instrument ("day-one profit") or of the holding period, if this is thought to be lower; if this difference is negative, it is charged directly to income for prudence sake ("day-one loss").

Subsequent to initial recognition of the fair value, mark to model valuations are made using the same methodology and the same input sources as were used when we calculated the fair value on day one.
Subsequent changes in fair value after day one will therefore be linked to the trend in the related risk factors to which the instrument is exposed (interest rates, equity prices, exchange rates, etc.) and booked directly to the income statement.

At the date of this half-yearly report, there are no significant amounts in the income statement that are in suspense.

Part B – Information on the balance sheet – Assets

Section 2 – Financial assets held for trading
Line item 20

This line item includes financial assets (debt securities, equities, mutual funds, derivatives), classified in the trading portfolio, including expired and deteriorated derivatives.
The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

2.1 Financial assets held for trading: breakdown by product

Line items/Amounts	Level 1	Level 2	Level 3	Total 30.06.2015	Level 1	Level 2	Level 3	Total 31.12.2014
A. Cash assets								
1. Debt securities	**297,372**	**212,703**	**355**	**510,430**	**236,102**	**157,047**	**805**	**393,954**
1.1 Structured securities	4,447	108,272	279	112,998	3,605	93,600	697	97,902
1.2 Other debt securities	292,925	104,431	76	397,432	232,497	63,447	108	296,052
2. Equities	**96,044**	**1**	**10**	**96,055**	**112,691**	**1**	**8**	**112,700**
3. Mutual funds	**35**	**–**	**–**	**35**	**–**	**–**	**–**	**–**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Repurchase agreements	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total A	**393,451**	**212,704**	**365**	**606,520**	**348,793**	**157,048**	**813**	**506,654**
B. Derivatives								
1. Financial derivatives:	**172,874**	**956,573**	**88,977**	**1,218,424**	**148,805**	**1,184,549**	**81,510**	**1,414,864**
1.1 trading	172,874	950,830	88,977	1,212,681	148,805	1,180,209	80,886	1,409,900
1.2 linked to the fair value option	–	5,743	–	5,743	–	4,340	624	4,964
1.3 other	–	–	–	–	–	–	–	–
2. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 trading	–	–	–	–	–	–	–	–
2.2 linked to the fair value option	–	–	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–	–	–
Total B	**172,874**	**956,573**	**88,977**	**1,218,424**	**148,805**	**1,184,549**	**81,510**	**1,414,864**
Total (A+B)	**566,325**	**1,169,277**	**89,342**	**1,824,944**	**497,598**	**1,341,597**	**82,323**	**1,921,518**

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A “Accounting Policies”.

Line item “B.1.2 – Derivatives linked to the fair value option”, includes the fair value of derivatives related to the instruments for which the fair value option has been adopted. These derivatives are mainly to hedge the risks inherent in the issue of bonds for which the Group has taken advantage of the fair value option according to IAS 39, paragraph 9. Such risks arise from possible fluctuations in interest rates and the presence of options that are implicit in the structured securities issued.

Subordinated financial assets

A. Cash assets	Level 1	Level 2	Level 3	30.06.2015	Level 1	Level 2	Level 3	31.12.2014
1.2 Debt securities – Other	**9,839**	**3,866**	**–**	**13,705**	**13,634**	**1,450**	**–**	**15,084**
– Issued by banks	9,409	2,955	–	12,364	12,256	1,450	–	13,706
– Issued by finance-sector companies	361	911	–	1,272	1,366	–	–	1,366
– Issued by insurance companies	69	–	–	69	12	–	–	12
– Issued by other companies	–	–	–	–	–	–	–	–
Total	**9,839**	**3,866**	**–**	**13,705**	**13,634**	**1,450**	**–**	**15,084**

Section 3 – Financial assets designated at fair value through profit and loss Line item 30

This line item includes all cash financial assets (debt securities, equities, mutual funds) designated at fair value, with the results following the valuation booked to the income statement, on the basis of the "fair value option" recognised by IAS 39.
The following instruments are classified in this category:

- debt securities with embedded derivatives;
- debt securities not classified as financial assets held for trading and whose cash flows have been hedged;
- open-ended funds (including hedge funds), for which regular valuations are available from independent sources and which, not being held for short-term trading, form part of a duly documented investment strategy, designed to achieve an overall return based on the change in the fair value of the instrument itself, with regular detailed reports on their performance provided to management.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

3.1 Financial assets designated at fair value through profit and loss: breakdown by product

Line items/Amounts	Level 1	Level 2	Level 3	Total 30.06.2015	Level 1	Level 2	Level 3	Total 31.12.2014
1. Debt securities	**7,793**	**19,925**	**53,692**	**81,410**	**7,692**	**75,118**	**11,621**	**94,431**
1.1 Structured securities	–	19,925	20,200	40,125	–	41,864	11,621	53,485
1.2 Other debt securities	7,793	–	33,492	41,285	7,692	33,254	–	40,946
2. Equities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Mutual funds	**–**	**–**	**–**	**–**	**3,018**	**–**	**–**	**3,018**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–	–	–
Total	**7,793**	**19,925**	**53,692**	**81,410**	**10,710**	**75,118**	**11,621**	**97,449**
Cost	**4,817**	**18,866**	**52,966**	**76,649**	**7,320**	**69,389**	**12,373**	**89,082**

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".
The amounts reported as "cost" correspond to the purchase cost of financial assets held at the balance sheet date.
The remainder of the structured securities classified in level 3 includes, among other things, a Credit Link Note for 3.675 million euro (3.248 million euro at 31.12.14) held by the Parent Company.

Subordinated financial assets

At the balance sheet date, the portfolio of assets designated at fair includes subordinated securities issued by insurance companies of 11.680 million.

Section 4 – Financial assets available for sale
Line item 40

This line item includes all the financial assets (debt securities, equities, etc) classified in the "available for sale" portfolio. Equities essentially include interests in companies which, in accordance with international accounting standards, are no longer defined as equity investments (i.e. investments in associates and companies subject to joint control).

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

4.1 Financial assets available for sale: breakdown by product

Line items/Amounts	Level 1	Level 2	Level 3	Total 30.06.2015	Level 1	Level 2	Level 3	Total 31.12.2014
1. Debt securities	**8,806,506**	**83,715**	**113,372**	**9,003,593**	**8,855,568**	**83,836**	**111,811**	**9,051,215**
1.1 Structured securities	–	56,679	112,367	169,046	–	56,736	110,803	167,539
1.2 Other debt securities	8,806,506	27,036	1,005	8,834,547	8,855,568	27,100	1,008	8,883,676
2. Equities	**44,904**	**100,000**	**346,682**	**491,586**	**36,227**	**–**	**438,241**	**474,468**
2.1 Valued at fair value	44,904	100,000	344,906	489,810	36,227	–	436,466	472,693
2.2 Valued at cost	–	–	1,776	1,776	–	–	1,775	1,775
3. Mutual funds	**1,975**	**–**	**135,056**	**137,031**	**1,035**	**26,870**	**116,684**	**144,589**
4. Loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**8,853,385**	**183,715**	**595,110**	**9,632,210**	**8,892,830**	**110,706**	**666,736**	**9,670,272**

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".

In accordance with the provisions of IAS 39 on the derecognition of financial assets, line item "1.2 Other debt securities" also includes debt securities as part of repurchase agreements made on securities portfolio for 5,460.191 million euro (5,392.593 million euro at 31.12.2014).

Line item 2. Equities includes equity interests that do not qualify as subsidiaries, associates or joint ventures.
The following table shows the composition of securities carried at fair value, as well as those valued at cost, which have been maintained at their initial book value as it is not possible to determine a reliable fair value, as required by IFRS 7 § 30.

Breakdown of line item 2.1. Equities carried at fair value		**Level 1**	**Level 2**	**Level 3**	**30.06.2015**	**Level 1**	**Level 2**	**Level 3**	**31.12.2014**
Banks		–	100,000	202,765	302,765	–	–	304,753	304,753
Financial institutions and other companies		44,904	–	142,141	187,045	36,227	–	131,713	167,940
Total		**44,904**	**100,000**	**344,906**	**489,810**	**36,227**	**–**	**436,466**	**472,693**

Breakdown of line item 2.2. Equities valued at cost	**% held**	**Level 1**	**Level 2**	**Level 3**	**30.06.2015**	**Level 1**	**Level 2**	**Level 3**	**31.12.2014**
Visconti S.r.l.	10.34	–	–	1,137	1,137	–	–	1,137	1,137
Other equities	n.a.	–	–	639	639	–	–	638	638
Total		**–**	**–**	**1,776**	**1,776**	**–**	**–**	**1,775**	**1,775**

The following table shows financial assets with a subordination clause.

Subordinated financial assets

	Level 1	**Level 2**	**Level 3**	**30.06.2015**	**Level 1**	**Level 2**	**Level 3**	**31.12.2014**
1. Debt securities								
1.2 Other debt securities								
Issued by banks	24,686	18,790	–	43,476	24,520	18,813	–	43,333
Total	**24,686**	**18,790**	**–**	**43,476**	**24,520**	**18,813**	**–**	**43,333**

Section 6 – Due from banks
Line item 60

This line item reports unquoted financial assets (Level 2 and Level 3) due from banks (overdrafts, security deposits, debt securities, etc) that have been classified in the loans and receivables portfolio. They include operating receivables connected with the provision of financial services.

The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

6.1 Due from banks: breakdown by product

Type of transaction/Amounts	30.06.2015				31.12.2014			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**301,571**			**301,571**	**80,688**	**–**	**–**	**80,688**
1. Restricted deposits	–	X	X	X	–	X	X	X
2. Compulsory reserve	301,516	X	X	X	80,682	X	X	X
3. Reverse repurchase agreements	–	X	X	X	–	X	X	X
4. Other	55	X	X	X	6	X	X	X
B. Due from banks	**861,160**	**–**	**4,438**	**859,499**	**904,089**	**–**	**–**	**906,594**
1. Loans	857,194	–	–	859,499	900,427	–	–	902,036
1.1 Current accounts and unrestricted deposits	363,301	X	X	X	455,453	X	X	X
1.2 Restricted deposits	141,946	X	X	X	150,181	X	X	X
1.3 Other loans:	351,947	–	–	–	294,793	–	–	–
– Repurchase agreements	17,912	X	X	X	388	X	X	X
– Finance leases	–	X	X	X	–	X	X	X
– Other	334,035	X	X	X	294,405	X	X	X
2. Debt securities	3,966	–	4,438	–	3,662	–	–	4,558
2.1 Structured securities	–	X	X	X	–	X	X	X
2.2 Other debt securities	3,966	X	X	X	3,662	X	X	X
Total	**1,162,731**	**–**	**4,438**	**1,161,070**	**984,777**	**–**	**–**	**987,282**

See Part A – Accounting Policies for an explanation of the criteria used to determine fair value.

Subordinated financial assets

There are no loans to banks with subordination clause at the balance sheet date, as at the end of the previous year.

Impaired assets

Type of transaction/Amounts	30.06.2015	31.12.2014
B.1.2. Restricted deposits	500	461
B.1.3 Other loans: other	–	–
Total	**500**	**461**

Section 7 – Loans to customers
Line item 70

This line item shows unquoted financial instruments (Level 2 and Level 3) due from customers (loans, lease transactions, factoring transactions, debt securities, etc.) allocated to "loans and receivables".
The underlying technical forms also include assets sold that do not satisfy the requirements of IAS 39 to be eliminated from the financial statements ("sold but not eliminated") and impaired assets.

7.1 Loans to customers: breakdown by product

Type of transaction/ Amounts	30.06.2015						31.12.2014					
	Book value			Fair Value			Book value			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	29,687,121	–	3,654,128	–	–	35,580,990	28,365,977	–	3,571,668	–	–	34,768,415
1. Current accounts	3,413,288	–	653,116	X	X	X	3,468,453	–	704,190	X	X	X
2. Reverse repurchase agreements	91,788	–	–	X	X	X	64,875	–	–	X	X	X
3. Mortgage loans	16,157,544	–	1,753,334	X	X	X	15,773,904	–	1,703,436	X	X	X
4. Credit cards, personal loans and salary assignments	1,502,573	–	99,505	X	X	X	1,566,559	–	95,494	X	X	X
5. Finance leases	211,891	–	65,687	X	X	X	218,713	–	69,950	X	X	X
6. Factoring	–	–	–	X	X	X	–	–	–	X	X	X
7. Other loans	8,310,037	–	1,082,486	X	X	X	7,273,473	–	998,598	X	X	X
Debt securities	118,021	–	23,759	–	92,630	47,374	114,965	–	26,233	–	97,095	43,724
8. Structured securities	15,733	–	–	X	X	X	15,513	–	–	X	X	X
9. Other debt securities	102,288	–	23,759	X	X	X	99,452	–	26,233	X	X	X
Total	**29,805,142**	**–**	**3,677,887**	**–**	**92,630**	**35,628,364**	**28,480,942**	**–**	**3,597,901**	**–**	**97,095**	**34,812,139**

See Part A – Accounting Policies for an explanation of the criteria used to determine fair value.

Current account balances due from customers include transactions "in transit" or "in suspense" relating to such accounts; these balances are not affected by non-cash debits and credits relating to bill and document collection services.

"Other loans" mostly relate to advances on bills, documents and similar instruments subject to collection, other amounts not settled via current accounts, receivables from post offices and the Cassa Depositi e Prestiti, derivative transaction margin changes at clearing houses, bills and documents discounted without recourse and operating loans associated with the provision of financial services (those associated with the payment of supplies of goods and non-financial services are shown under "Other assets").

Discounted bills are reported at their face value, less any deferred income; they also include those sent for collection by the Bank's own branches or others.

This also includes lease contracts that involve transfer of the risks, with BPM as lessor, relating to assets under construction and those waiting to be leased.

The "Impaire" column includes bad loans, unlikely to pay and overdue positions, net of value adjustments, as defined by the Bank of Italy. Details of these exposures are given in Part E of the notes – asset quality.

Subordinated financial assets

Type of transaction/Amounts	30.06.2015	31.12.2014
7. Other funding: subordinated loans granted to insurance companies	37,923	37,999
8.2 Other debt securities	6,586	6,523
Total	**44,509**	**44,522**

Subordinated financial assets versus insurance companies at 30.06.2015 refer to loans granted by the Parent Bank to Bipiemme Vita S.p.A., with the following characteristics:

a) original amount of 8 million euro with unspecified maturity – interest rate 12-month Euribor + 250 bps – payment date 27/6/2003;
b) original amount of 8 million euro, granted on 31/3/2011 with a 5-year duration – interest rate 5-year MID SWAP + 270 bps,
c) original amount of 26.05 million euro, granted on 21/3/2012 with a 10-year duration – interest rate 12-month Euribor.

"Other debt securities" relate for 1.973 million euro to convertible loans issued by Pitagora, an associated company: these loans were partially subscribed at the end of December 2011 and in February 2012 and partially at the end of December 2013; reimbursement of the securities is subject to repayment of the loans received from the issuer; the residual amount of 4.613 million relates to PHARMA Finance securities originating from third party securitisations and which are subordinated by their terms to superior classes.

The line item 3. "Mortgage loans" includes the balances, at the respective dates, of the following portfolio of securitised loans:

	Performing	Impaired	30.06.2015	Performing	Impaired	31.12.2014
• **BPM Securitisation 2 S.r.l.:**						
- carried out in 2006 for 2,011.3 million Euro	319,069	37,600	356,669	352,886	37,802	390,688
• **Covered Bond S.r.l.:**						
- carried out in 2008 for 1,218 million euro, in 2009 for 1,305 million Euro, in 2010 for 1,616 million Euro, in 2011 for 639 million Euro, in 2013 for 1,426 million Euro and in 2014 for 1,294 million Euro.	4,980,514	102,138	5,082,652	5,243,189	95,246	5,338,435
• **BPM Securitisation 3 S.r.l.:**						
- securitisation of commercial mortgage backed securities (CMBS) carried out in the third quarter of 2014 for 864 million euro (*)	609,457	4,163	613,620	723,938	2,243	726,181
Total	**5,909,040**	**143,901**	**6,052,941**	**6,320,013**	**135,291**	**6,455,304**

(*) the Bank has subscribed all of the securities issued by the special purpose vehicle.

For details of the above transactions, see the following sections of Part E of these Explanatory notes "Information on risks and related hedging policies":

1 – Credit risk
- "C.1 Securitisation transactions"
- "C.3 Covered bond transactions"

3 – Liquidity risk
- Self-securitisations

Section 8 – Hedging derivatives
Line item 80

This line item reports financial derivatives used for hedging purposes, which have a positive fair value at the balance sheet date.

8.1 Hedging derivatives: breakdown by type of hedge and level

	FV 30.06.2015					FV 31.12.2014				
	L1	L2	L3	Total	NV	L1	L2	L3	Total	NV
A) Financial derivatives	**–**	**161,972**	**7**	**161,979**	**2,748,945**	**–**	**178,460**	**–**	**178,460**	**2,248,945**
1) Fair value	–	161,972	7	161,979	2,748,945	–	178,460	–	178,460	2,248,945
2) Cash flows	–	–	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B) Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**161,972**	**7**	**161,979**	**2,748,945**	**–**	**178,460**	**–**	**178,460**	**2,248,945**

Key: NV = Notional value L1 = Level 1 L2 = Level 2 L3 = Level 3

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".

The table presents the positive book value (fair value) of hedging derivative contracts, including the amount accruing at the balance sheet date, for hedges made through hedge accounting. This instrument is used to manage accounting hedges of financial instruments recognised in balance sheet items that do not envisage their measurement at fair value through profit and loss.

The hedging of financial liabilities represented by securities are normally handled through the fair value option. The fair value option was adopted for structured debt securities and fixed-rate securities issued by Group banks, whose risk of changes in fair value has been hedged with derivatives; derivatives used as part of the "fair value option" are classified in the trading book.

With regard to the objectives and strategies underlying hedge transactions, please refer to the information provided in Part E – Information on risks and related hedging policies – Section 2 – Market risks.

8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge (book value)

Type of transaction/Amounts	Fair Value						Cash flows		Foreign investments
	Specific hedging					Macro-hedging	Specific hedging	Macro-hedging	
	interest rate risk	exchange rate risk	credit risk	price risk	several risks				
1. Financial assets available for sale	691	–	–	9	–	x	–	x	x
2. Receivables	–	–	–	x	–	x	–	x	x
3. Investments held to maturity	x	–	–	x	–	x	–	x	x
4. Portfolio	x	x	x	x	x	–	x	–	x
5. Other transactions	–	–	–	–	–	x	–	x	–
Total assets	**691**	**–**	**–**	**9**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	159,949	–	–	x	–	x	–	x	x
2. Portfolio	x	x	x	x	x	1,330	x	–	–
Total liabilities	**159,949**	**–**	**–**	**–**	**–**	**1,330**	**–**	**–**	–
1. Expected transactions	x	x	x	x	x	x	–	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	–	x	–	–

This table reports the positive fair value of hedging derivatives, according to the asset or liability hedged and the type of hedge taken out.

As regards the breakdown by hedged portfolio, as part of financial liabilities, the amount relates:

- for 81.584 million, to the positive value of financial derivatives (for a total notional value of 458 million) entered into to hedge the interest rate of "Banca Popolare di Milano subordinated (Lower Tier 2) bond loan, fixed rate 7.125%", booked to "Securities issued" on the liabilities side of the balance sheet;
- for 78.365 million, to the positive value of financial derivatives (based on the notional value of the securities issued for 1.791 billion) stipulated by BPM Covered Bond (the SPV) with external counterparties to hedge against interest-rate risk the interest payable on the fixed-rate covered bonds issued by the Parent Bank; the fixed-rate coupons of the covered bonds get transformed into floating-rate coupons at Euribor plus a spread.

Section 9 – Fair value change of financial assets in hedged portfolios
Line item 9

This item includes the positive balance of fair value changes in the assets covered by macrohedges against interest rate risk.

9.1 Fair value adjustment of hedged assets: breakdown by hedged portfolio

Fair value adjustment of hedged assets/Amounts	30.06.2015	31.12.2014
1. Positive adjustment	**14,544**	**20,107**
1.1 of specific portfolios:	14,544	20,107
a) loans	13,566	17,801
b) financial assets available for sale	978	2,306
1.2 overall	–	–
2. Negative adjustment	**–**	**–**
2.1 of specific portfolios:	–	–
a) loans	–	–
b) financial assets available for sale	–	–
2.2 overall	–	–
Total	**14,544**	**20,107**

The fair value adjustment of hedged assets concerns:

- a portfolio of fixed rate government securities for a nominal value of 0.250 billion (0.250 billion at 31 December 2014) recorded in "Financial assets available for sale";
- a portfolio of mortgages with a cap option, included in "loans to customers" for a nominal value of 0.150 billion.

The related hedging derivatives, which at 30 June 2015 have a negative valuation, are shown under "Hedging derivatives" on the liabilities side of the balance sheet.
Income and expenses relating to the valuation of hedging derivatives and the hedged portfolio are recognised in the income statement under "Fair value adjustments in hedge accounting".

9.2 Assets covered by macrohedges against interest rate risk

Assets hedged	30.06.2015	31.12.2014
1. Receivables	150,460	158,970
2. Financial assets available for sale	250,000	250,000
3. Portfolio	–	–
Total	**400,460**	**408,970**

The amount relating to loans consists of a hedge set up on a portion of mortgage loans of a nominal value of 150.460 million euro.

The amount attributable to the assets available for sale highlights the value of a portfolio of fixed-rate government securities hedged for interest rate risk in table 9.1 above.

Section 10 – Investments in associates and companies subject to joint control
Line item 100

This item includes investments in joint ventures (or companies subject to joint control as per IAS 31) and associates (or companies subject to significant influence as per IAS 28).

10.1 Investments: disclosures

Company name	Share capital in Euro Original currency	Registered office	Operational headquarters	Nature of holding (1)	Nature of investment		Voting rights (2)
					Holder	% held	
A Companies under joint control							
Unquoted financial institutions							
1. Calliope Finance S.r.l.	600,000	Conegliano (TV)	Conegliano (TV)	1	Banca Popolare di Milano S.c.a r.l.	50.00	
B Companies subject to significant influence							
Unquoted financial institutions							
1. SelmaBipiemme Leasing S.p.A.	41,305,000	Milan	Milan	2	Banca Popolare di Milano S.c.a r.l.	40.00	
2. Aedes Bipiemme Real Estate SGR S.p.A.	5,500,000	Milan	Milan	2	Banca Popolare di Milano S.c.a r.l.	39.00	
3. Factorit S.p.A.	85,000,002	Milan	Milan	2	Banca Popolare di Milano S.c.a r.l.	30.00	
4. Etica SGR S.p.A.	4,500,000	Milan	Milan	2	Banca Popolare di Milano S.c.a r.l.	24.44	
Quoted financial institutions							
5. Anima Holding S.p.A.	5,765,463	Milan	Milan	2	Banca Popolare di Milano S.c.a r.l.	16.85	
Unquoted insurance companies							
6. Bipiemme Vita S.p.A.	179,125,000	Milan	Milan	2	Banca Popolare di Milano S.c.a.r.l.	19.00	

Key:
(1) Type of relationship: 1. joint control 2. significant influence
(2) Voting rights at Ordinary General Meetings. Voting rights are only shown if they differ from the percentage held in the share capital.

10.2 Significant investments: book value, fair value and dividends received

Name	Book value		Fair value	Dividends received
	30.06.2015	31.12.2014		
A. Companies subject to joint control				
1. Calliope Finance S.r.l.	746	535	X	–
B. Companies subject to significant influence				
1. SelmaBipiemme Leasing S.p.A.	65,436	23,966	X	–
2. Aedes Bipiemme Real Estate SGR S.p.A.	2,687	2,898	X	390
3. Factorit S.p.A.	67,064	67,106	X	3,060
4. Etica SGR S.p.A.	1,881	1,763	X	269
5. Anima Holding S.p.A.	128,363	124,510	398,047	8,436
6. Bipiemme Vita S.p.A.	64,706	65,518	X	1,497
Total	**330,883**	**286,296**	**X**	

The fair value of investments in associates is reported only for quoted companies.

As regards the interest in Selma Bipiemme Leasing SpA, the book balance has gone from Euro 24 million at 31 December 2014 to Euro 65.4 million at 30 June 2015.

The valuation of SelmaBipiemme takes into account the put option resulting from the agreement with the other shareholders that establishes that it should be valued at the pro-rata share of Selmabipiemme's net assets as shown in its latest balance sheet. At 30 June 2015, this valuation reflects the higher value of Selmabipiemme's net assets following the company's merger with Palladio, a financial intermediary that is also part of the Mediobanca Group.
Section 10.8 below provide details of the agreement between Selma's shareholders.

10.7 Commitments relating to investments in companies subject to joint control

At the balance sheet date, there are no commitments relating to investments in companies subject to joint control.

10.8 Commitments relating to investments in companies subject to significant influence

SelmaBipiemme Leasing S.p.A.
SelmaBipiemme Leasing (hereafter "Selma") is controlled by Mediobanca.
Between BPM, Mediobanca and Compass there is a shareholder agreement which regulates their reciprocal rights and obligations in terms of the company's governance and disposal of the investment (providing for reciprocal sale and purchase options).
Call options have been taken out by Mediobanca and put options have been taken out by BPM for BPM's investment in Selma; these can be exercised in the event of cancellation or failure to renew the commercial agreement on the part of BPM, a change of control over BPM, sale of more than 50% of BPM's branch network and if there was no longer exclusive collaboration with Selma, on the one hand, and, on the other, in the event of cancellation of the commercial agreement on expiry by Selma.
These options will have to be exercised within 180 days of the event that triggers the exercise. The strike price for Mediobanca will be equal to their pro-rata share of Selma's net equity as shown in its latest financial statements; the price will discount the restructuring charges that Selma will have to pay if it loses BPM's distribution channel. The strike price for BPM will be equal to its pro-rata share of the company's economic value determined on the basis of a method laid down in the agreement.
The agreement also includes a call option for BPM to buy Mediobanca's investment in Selma, in the event that Mediobanca loses control over Selma, or if a banking or insurance group acquires control over Mediobanca. The strike price of the option, which will have to be exercised within 180 days of the event, will be equal to its pro-rata share of Selma's economic value determined on the basis of the method laid down in the agreement. In the event of the option being exercised, Mediobanca will have the right to purchase, within 180 days of the transaction, the interests held by Selma as of that date in Palladio Leasing S.p.A. and Teleleasing S.p.A. (currently in liquidation).
Following the merger of Palladio Leasing with SelmaBipiemme Leasing, as authorised by the Extraordinary Shareholders' Meeting of SelmaBipiemme Leasing on 25 May 2015, on 30 June 2015, this investment was valued taking into account the net assets of SelmaBipiemme Leasing as a result of this merger.

Factorit S.p.A.
On 29 July 2010, Banca Popolare di Milano and Banca Popolare di Sondrio ("BPS") bought 30% and 60.5% respectively of Factorit S.p.A. from Banca Italease, which has kept the other 9.5%. On the same day, BPM and BPS signed a shareholder agreement to regulate the company's governance; in particular, BPM has the right to appoint two out of the seven directors, the chairman of the Board of Statutory Auditors and an alternate statutory auditor. These agreements also provide for:
- BPM's willingness to sell a shareholding of not more than 5% of Factorit's share capital to Banca Italease, or to Banco Popolare or to another company controlled by it, at conditions to be negotiated;
- a right to sell in favour of BPM in the event that BPS decides to sell 50% of Factorit plus one share.

Anima Holding S.p.A.
In 2014 the investee was subject to a public offering, as part of which the Parent Company sold a part of its equity holding, reducing its interest from 35.29% to16.85%.
BPM and Monte Paschi Siena have entered into a shareholder agreement, which, in addition to establishing rules for the appointment of certain members of Anima Holding's Board of Directors, provides for a lock up commitment whereby the two companies may not reduce their equity interest in Anima below 9.9% prior to April 2017.
During the 1st half of 2015 Monte Paschi Siena sold its 10.32% stake in Anima Holding to Poste Italiane, which took over from MPS in the above-mentioned shareholders' agreement.
As part of this transaction, BPM is committed to sell to third parties the portion of its interest in Anima Holding that exceeds the limits set by art. 106 of Legislative Decree 58/98 within 12 months from the date of completion of the sale of the shares in Anima Holding to Poste Italiane. This commitment will automatically become ineffective if Consob considers that the signatories to the shareholders' agreement are obliged to make a takeover bid for 100% of Anima Holding.

Bipiemme Vita S.p.A.
On 8 September 2011 – following the agreements signed on 19 April 2011 by Banca Popolare di Milano and the Covéa Group ("the parties") to set up a strategic partnership in bancassurance selling life and accident insurance – the Covéa Group completed its acquisition of 81% of Bipiemme Vita S.p.A., which also holds 100% of Bipiemme Assicurazioni S.p.A.
The sale agreement provides for a mechanism, whereby the price will be increased on the achievement of certain business targets by Bipiemme Vita and Bipiemme Assicurazioni – in the period comprising the year ended 31 December 2011 up to the year ending 31 December 2020, with the potential price increase to be determined by means of an "Earn Out Vita" (up to a maximum of 11.7 million euro) and an "Earn Out Danni" (up to a maximum of 2.5 million euro). The calculation of any price adjustment will take place at the end of this period, subject to renewal of the strategic partnership with the Covéa Group.
The Sale and Purchase Agreement requires BPM to pay indemnification for any losses that Bipiemme Vita should incur as a result of any default involving:
(i) securities in the trading portfolio of Italian sovereign debt;
(ii) securities of the trading portfolio of bank bonds;
(iii) securities of the investment portfolio of Greek sovereign debt (for which default also includes the restructuring of debt assuming a recovery rate of 79%).

The indemnification obligation also extends to any loss recognised when, in the event of exceptional future liquidity needs on the part of Bipiemme Vita due to extraordinary redemptions of insurance contracts outstanding at 31 August 2011, Bipiemme Vita should have to sell the securities indicated above.
During the course of 2012, the indemnification mechanism for Greek government bonds referred to in point iii) was activated, as provided for in the contract (difference between the nominal value and the recovery rate of 79%), which led to an award to Covéa of around 7.3 million (already provided for in the 2011 financial statements). So, as things stand, no further compensation is due on such securities.
As for the obligation of compensation for the securities referred to in points i) and ii) – taking into account the redemptions/sales and the market value of the securities – there does not appear to be any need to make a provision as the risk of having to pay compensation is considered remote.
The agreements also include reciprocal options which, on the occurrence of certain extraordinary events involving one or both parties – including, by way of example, non-compliance and/or non-renewal of the partnership agreements (termination for breach of the partnership agreement or of the distribution arrangements), any change of control over the parties, liquidation or insolvency/ bankruptcy of the parties, a decision-making stalemate regarding a proposal to wind up and liquidate Bipiemme Vita and/or Bipiemme Assicurazioni, to revoke the state of liquidation or the appointment or dismissal of liquidators (a so-called "triggering event") – BPM or the Covéa Group be able, according to the party affected by the event in question, to exercise its option to acquire the other party's interest in Bipiemme Vita, or to sell its own interest to the other party. The strike price of the options is determined according to a predetermined reciprocal mechanism based on a valuation of the life and accident businesses.
For the first five years of the strategic partnership, there is provision for a penalty in favour of the Covéa Group if the option is exercised linked to certain types of triggering events originated by BPM (termination due to breach of the partnership agreement or of the distribution agreements); the amount of this penalty decreases over time from the date of signing the partnership agreements.

10.9 Significant restrictions

There are no significant restrictions that need to be disclosed in compliance with IFRS 12.

Section 12 – Property and equipment
Line item 120

12.1 Functional property and equipment: breakdown of assets carried at cost

Assets/Amounts	30.06.2015	31.12.2014
1.1 owned by company	**685,962**	**692,073**
a) land	289,457	289,067
b) buildings	313,892	319,006
c) furniture	24,833	25,436
d) electronic equipment	15,649	17,180
e) other	42,131	41,384
1.2 purchased under finance lease	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other	–	–
Total	**685,962**	**692,073**

12.2 Investment properties: breakdown of assets carried at cost

Assets/Amounts	30.06.2015				31.12.2014			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned by company	**23,202**	**–**	**–**	**36,343**	**23,632**	**–**	**–**	**36,343**
a) land	4,660	–	–	6,868	4,660	–	–	6,868
b) buildings	18,542	–	–	29,475	18,972	–	–	29,475
2. Purchased under finance lease	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–	–	–
Total	**23,202**	**–**	**–**	**36,343**	**23,632**	**–**	**–**	**36,343**

This line item reports property and equipment (buildings, plant, machinery and other tangible assets, including work of art) used in the business which are governed by IAS 16 and investment properties (land and buildings) which are governed by IAS 40.

Section 13 – Intangible assets
Line item 130

This line item reports intangible assets in accordance with IAS 38, which are all valued at cost.

13.1 Intangible assets: breakdown by type of assets

Assets/Amounts	Finite life	Indefinite life	30.06.2015	Finite life	Indefinite life	31.12.2014
A.1 Goodwill	**x**	**–**	**–**	**x**	**–**	**–**
A.1.1 Of the Group	x	–	–	x	–	–
A.1.2 Of minority interests	x	–	–	x	–	–
A.2 Other intangible assets	**115,981**	**–**	**115,981**	**108,377**	**–**	**108,377**
A.2.1 Assets valued at cost:	115,981	–	115,981	108,377	–	108,377
a) Internally generated intangible assets	416	–	416	619	–	619
b) Other assets	115,565	–	115,565	107,758	–	107,758
A.2.2 Assets carried at fair value:	–	–	–	–	–	–
a) Other intangible assets: internally generated	–	–	–	–	–	–
b) Other assets	–	–	–	–	–	–
Total	**115,981**	**–**	**115,981**	**108,377**	**–**	**108,377**

A.2 Other intangible assets

As required by paragraph 118 letter a) of IAS 38, software has all been classified under intangible assets with a finite useful life; it is being amortised over a period of between 3 and 7 years.

Line item A.2.1 b) "Other assets" with a finite life is made up as follows:

	30.06.2015	31.12.2014
Software	**115,565**	**107,758**
	115,565	**107,758**

Section 15 – Non-current assets held for sale and discontinued operations and associated liabilities – Asset line item 150 and liability line item 90

15.1 Non-current assets held for sale and discontinued operations: breakdown by type of assets

	30.06.2015	31.12.2014
A. Individual assets		
A.1 Financial assets	–	–
A.2 Investments in associates and companies subject to joint control	6,118	–
A.3 Property and equipment	–	–
A.4 Intangible assets	–	–
A.5 Other non-current assets	–	–
Total A	**6,118**	**–**
of which carried at cost	–	–
of which designated at fair value – level 1	–	–
of which designated at fair value – level 2	*6,118*	–
of which designated at fair value – level 3	–	–
B. Groups of assets (discontinued operations)		
B.1 Financial assets held for trading	–	–
B.2 Financial assets designated at fair value through profit and loss	–	–
B.3 Financial assets available for sale	–	–
B.4 Investments held to maturity	–	–
B.5 Due from banks	–	–
B.6 Loans to customers	–	–
B.7 Investments in associates and companies subject to joint control	–	–
B.8 Property and equipment	–	–
B.9 Intangible assets	–	–
B.10. Other assets	–	–
Total B	**–**	**–**
of which carried at cost	–	–
of which designated at fair value – level 1	–	–
of which designated at fair value – level 2	–	–
of which designated at fair value – level 3	–	–
C. Liabilities associated with assets held for sale	**–**	**–**
C.1 Payables	–	–
C.2 Securities	–	–
C.3 Other liabilities	–	–
Total C	**–**	**–**
of which carried at cost	–	–
of which designated at fair value – level 1	–	–
of which designated at fair value – level 2	–	–
of which designated at fair value – level 3	–	–
D. Liabilities associated with assets held for sale and discontinued operations		
D.1 Due to banks	–	–
D.2 Due to customers	–	–
D.3 Securities issued	–	–
D.4 Financial liabilities held for trading	–	–
D.5 Financial liabilities designated at fair value through profit and loss	–	–
D.6 Allowances	–	–
D.7 Other liabilities	–	–
Total D	**–**	**–**
of which carried at cost	–	–
of which designated at fair value – level 1	–	–
of which designated at fair value – level 2	–	–
of which designated at fair value – level 3	–	–

As regards the assets held for sale, at 30 June 2015 this item was composed of two investments in companies subject to significant influence which were being prepared for sale during the first half.

In details, investments in associates and companies subject to joint control reclassified under line item 150 of assets are:

- Pitagora 1936 S.p.A.: during 2nd quarter 2015, Pitagora 1936 S.p.A. and Cassa di Risparmio di Asti signed a preliminary contract for the sale of Pitagora 1936's controlling stake in Pitagora. Consequently, on 5 June 2015, BPM and the other strategic investors in Pitagora 1936 S.p.A. signed a "Sale Agreement" for the investment. The sale is subject to a condition precedent as it is expected to become effective only when once the above sale of Pitagora to Cassa di Risparmio di Asti has been completed. The agreement provides for a mechanism for determining the price based on the financial position of Pitagora 1936 SpA at the time of completion of the sale. In accordance with IFRS 5, on 30 June 2015, the investment was reclassified to assets held for sale for an amount equal to the estimated sale price, Euro 5.5 million; the difference with respect to the book value generated a writedown of Euro 1.4 million;
- Wise Venture SGR S.p.A.: an agreement has been signed for the sale of the 20% stake in Wise Venture SGR S.p.A., which will be finalized after obtaining the required approvals from the Supervisory Authority. The sale price (0.6 million) is substantially in line with the book value, so the interest has been booked as discontinued activities, without any impact on the income statement.

Section 16 – Other assets
Line item 160

This line item reports assets that are not classified elsewhere in the balance sheet. In particular, accrued income includes income not capitalised as part of the related financial assets; leasehold improvements are those not attributable to "property and equipment". It also includes receivables from the provision of non-financial goods and services.

16.1 Other assets: breakdown

	30.06.2015	31.12.2014
Accrued income	**29,046**	**4,927**
Leasehold improvements	**23,711**	**22,103**
Other activities	**447,101**	**761,327**
Items being processed	154,573	355,419
Duty-paid paper and other instruments	5,415	1,669
Cheques drawn on third-party current accounts	53,837	41,910
Advances paid to tax authorities on behalf of others	29,649	88,853
Other tax-related items	97,656	110,890
Non-interest bearing guarantee deposits on own account	2,290	3,975
Prepayments	40,669	37,950
Consolidation difference	136	2,299
Other	62,876	118,362
Total	**499,858**	**788,357**

"Leasehold improvements" include the expenses incurred on assets not related to "Property and equipment", and the depreciation charge is recognised in the income statement under "Other income and expenses".

"Items being processed" contain mainly cash receipts, ATM withdrawals, bills and payments in process and still to be charged.

"Other tax-related items" include tax credits to be reimbursed, receivables involved in acting as a tax withholding agent and other items not recognised in the balance sheet under "Tax assets".

Part B – Information on the balance sheet – Liabilities and shareholders' equity

Section 1 – Due to banks
Line item 10

This line item reports amounts due to banks in all their technical forms (deposits, current accounts, loans). They include operating payables connected with the provision of financial services.

1.1 Due to banks: breakdown by product

Type of transaction/Amounts	30.06.2015	31.12.2014
1. Due to central banks	**3,052,196**	**1,772,342**
2. Due to banks	**1,442,710**	**1,546,222**
2.1 Current accounts and unrestricted deposits	528,044	557,897
2.2 Restricted deposits	432,199	574,286
2.3 Loans	480,315	402,357
2.3.1 Repurchase agreements	305,587	211,240
2.3.2 Other	174,728	191,117
2.4. Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	2,152	11,682
Total	**4,494,906**	**3,318,564**
Fair value – level 1	**–**	**–**
Fair value – level 2	**–**	**–**
Fair value – level 3	**4,483,192**	**3,314,872**
Total fair value	**4,483,192**	**3,314,872**

See Part A – Accounting Policies for an explanation of the criteria used to determine the fair value.

The balance of “Due to central banks”, at the date of the balance sheet, is composed primarily of financing transactions with the Bank of Italy within the Eurosystem and secured by pledged securities.

Sub-item 2.3.1 “Repurchase agreements” also includes financial liabilities deriving from repurchase agreements with central banks based on own securities and on securities received as part of reverse repurchase agreements.

Section 2 – Due to customers
Line item 20

This line item reports amounts due to customers in all their technical forms (deposits, current accounts, loans), derivative transaction margin changes at clearing houses and operating payables other than those for the supply of goods and services.

2.1 Due to customers: breakdown by product

Type of transaction/Amounts	30.06.2015	31.12.2014
1. Current accounts and unrestricted deposits	20,500,733	19,054,341
2. Restricted deposits	2,624,370	3,252,031
3. Loans	5,608,032	5,359,275
3.1 Repurchase agreements	5,535,442	5,267,799
3.2 Other	72,590	91,476
4. Payables for commitments to repurchase own equity instruments	–	–
5. Other payables	43,908	37,295
Total	**28,777,043**	**27,702,942**
Fair value – level 1	**–**	**–**
Fair value – level 2	**–**	**–**
Fair value – level 3	**28,777,043**	**27,702,942**
Total fair value	**28,777,043**	**27,702,942**

See Part A – Accounting Policies for an explanation of the criteria used to determine fair value.

Sub-item 3.1 “Repurchase agreements” also includes financial liabilities deriving from repurchase agreements with customers based on own securities and on securities received as part of reverse repurchase agreements.

Line item 5. “Other payables” also comprises operating payables related to financial services received.

Section 3 – Securities issued
Line item 30

This item includes securities issued (including certificates of deposit and banker's drafts), valued at amortised cost. The amount reported is stated net of repurchased securities and also includes securities which have matured at the balance sheet date but have not yet been repaid.

The amount of these securities comprises their principal, accrued interest at the balance sheet date and, in the case of hedged securities, the effective portion of the associated hedge.

3.1 Securities issued: breakdown by product

	30.06.2015				31.12.2014			
	Book	Fair value			Book	Fair value		
	Value	Level 1	Level 2	Level 3	Value	Level 1	Level 2	Level 3
A. Securities								
1. Bonds	7,678,767	4,236,593	3,658,087	–	8,650,512	4,816,758	4,087,265	–
1.1 structured	–	–	–	–	–	–	–	–
1.2 other	7,678,767	4,236,593	3,658,087	–	8,650,512	4,816,758	4,087,265	–
2. Other securities	188,987	–	–	188,987	331,322	–	–	331,322
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	188,987	–	–	188,987	331,322	–	–	331,322
Total	**7,867,754**	**4,236,593**	**3,658,087**	**188,987**	**8,981,834**	**4,816,758**	**4,087,265**	**331,322**

The fair value column shows the theoretical market value of financial instruments at the date of preparation of the financial statements. Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".

With reference to line item 1.2 "Other bonds", the following table shows the composition of the bonds outstanding at 31/12/2014 of the issue programmes of EMTN and Covered Bonds. With reference to the latter, please read the Part E, point C.3 below on covered bond transactions.

	30.06.2015					31.12.2014				
	Amount issued	Nominal value net of repurchases	Book value	Fair Value		Amount issued	Nominal value net of repurchases	Book value	Fair Value	
				Level 1	Level 2				Level 1	Level 2
Euro Medium Term Notes Issue Programme										
• Fixed rate	1,975,000	1,944,368	2,047,987	2,090,723	–	1,975,000	1,936,183	2,098,261	2,143,406	–
Of which: subordinated	*475,000*	*447,891*	*527,186*	*522,637*	–	*475,000*	*447,991*	*554,780*	*539,134*	–
• Floating rate	–	–	–	–	–	600,000	541,425	541,512	541,215	–
Of which: subordinated	–	–	–	–	–	*600,000*	*541,425*	*541,512*	*541,215*	–
Total EMTN Bonds:	**1,975,000**	**1,944,368**	**2,047,987**	**2,090,723**	**–**	**2,575,000**	**2,477,608**	**2,639,773**	**2,684,621**	**–**
Of which: subordinated	*475,000*	*447,891*	*527,186*	*522,627*	–	*1,075,000*	*989,416*	*1,096,292*	*1,080,349*	–
Covered Bond Issues										
1. Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l. 9.10.2009/ 17.10.2016 3.5%.	1,000,000	876,965	935,782	974,838	–	1,000,000	876,965	930,747	979,940	–
2. Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l. 4.11.2010/ 16.11.2015 3.25%	1,100,000	933,380	919,150	931,907	–	1,100,000	900,330	911,836	939,324	–
3. Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l. 18.7.2011/ 18.1.2014 FR% (*)% – maturity extended to 18.1.19 (*)	1,000,000	269,700	246,852	–	246,852	1,000,000	–	–	–	–
4. Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l. 28.11.2013/ 28.5.2016 FR% (*)	650,000	170,300	157,479	–	157,479	650,000	–	–	–	–
5. "GBB" of Banca Popolare di Milano S.c.a r.l. 16.03.2015/16.3.2020 FR% callable from 16/09/2016 (*)	750,000	156,000	137,834	–	137,834	–	–	–	–	–
Total covered bonds	**4,500,000**	**2,406,345**	**2,397,097**	**1,906,745**	**542,165**	**3,750,000**	**1,777,295**	**1,842,583**	**1,919,264**	**–**

(*) The issues were all repurchased by the Company and subsequently re-issued partly in favour of institutional counterparties with an obligation for the Bank to repurchase them or use them for refinancing operations with the European Central Bank.

EMTN Bonds

The second programme, which was approved on 2 December 2003 for two billion euro, was gradually increased over time to reach the amount of 10 billion euro with a resolution of the Board of Directors of 22 April 2008. At the date of the financial statements there are four Bond Loans outstanding for a total nominal amount of 1.975 billion euro (2.575 billion euro at 31.12.2014).

The nominal value of the EMTN securities is shown net of the securities that have been repurchased for an amount of 30.632 million euro (84.697 million euro at 31.12.2014).

In 2015 the Bank repaid the "Banca Popolare di Milano (Lower Tier 2) – Floating rate 29.6.05/15" subordinated bond, with an original nominal value on issue of 600 million.

Covered bonds (guaranteed bank bonds)

The nominal value of the Guaranteed Bank Bonds shown at points 1 and 2 of the above table is stated net of securities that have been repurchased of 123.035 million and 199.620 million, respectively, of which:

- 121.935 million euro of the BPM 9.10.2009/17.10.2016 3.5% bond;
- 187.120 million euro of the BPM 4.11.2010/16.11.2015 3.25% bond;

Composition of line item "2.2 Other securities – other"

This item includes certificates of deposit subscribed by customers and bankers' drafts. In particular:

Type of Securities/Amounts	30.06.2015				31.12.2014			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Certificates of deposit subscribed by customers	101,062	–	–	101,062	249,068	–	–	249,068
Bankers' drafts	87,925	–	–	87,925	82,254	–	–	82,254
Total	**188,987**	**–**	**–**	**188,987**	**331,322**	**–**	**–**	**331,322**

Since most of these instruments are short-term or on demand, their book value is a reasonable approximation of their fair value. These financial instruments have been conventionally classified in Level 3.

3.2 Breakdown of line item 30 "Securities issued": subordinated securities

Unlisted bonds (type B.1.2) comprise the following subordinated securities. The classification indicated is the one required by the prudential regulations in force on the date of their issuance:

Bond	30.06.2015	31.12.2014	Original nominal amount issued	Bond issue price	Interest rate	Issue date/maturity	Notes
Innovative capital instruments (Tier 1):	**199,182**	**279,801**					
Preference shares – Bpm Capital Trust I – 8.393%	–	71,646	160,000	100	Floating	02.07.2001 Perpetual	1
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	199,182	208,155	300,000	98.955	Floating	25.6.2008 Perpetual	2
Hybrid capital instruments (Upper Tier 2):	**500**	**651**					
Banca Popolare di Milano subordinated bond loan (Upper Tier 2) – Floating rate – 18 June 2008/2018	500	651	17,850	100	Floating	18.6.2008/18	3
Subordinated liabilities (Lower Tier 2):	**1,237,909**	**1,815,350**					
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate – 29.6.05-15 (issued as part of the EMTN Programme)	–	541,512	600,000	99.716	Floating	29.6.2005/15	4
Banca Popolare di Milano Subordinated bond loan (Lower Tier 2) Fixed rate 4.5% 18 April 2008/2018	255,942	264,258	252,750	100	4.50%	18.4.2008/18	5
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate 20 October 2008/2018	454,781	454,800	502,050	100	Floating	20.10.2008/18	6
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Rate 7.125% - 01 March 2011/2021 (issued as part of the EMTN Programme)	527,186	554,780	475,000	99.603	7.125%	01.03.2011/21	7
Total	**1,437,591**	**2,095,802**					

1	**Preference shares – Bpm Capital Trust I – 8.393%**
Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
Interest rate:	Fixed rate 8.393% until 2 July 2011; floating rate (Euribor +4.70%) starting from 2 July 2011
Quotation:	Luxembourg Stock Exchange (*)
Redemption:	After approval by the ECB – the security was fully repaid on 2 April 2015.

2	**Perpetual Subordinated Fixed/Floating Rate Notes – 9%**
Issue price:	The bonds were issued below par, at a price of 98.955% of the nominal value
Interest rate:	Fixed rate of 9% until 25 June 2018; Floating rate (3-month Euribor + spread of 6.18%) from 25 June 2018
Quotation:	Luxembourg Stock Exchange (*)
Early redemption clause:	These securities may be redeemed early starting from 25 June 2018, subject to authorisation from the Bank of Italy.
Early redemption:	The notes have been issued with the clauses required at the time by the Bank of Italy for inclusion in Tier 1 capital; this means that in the event the Bank goes into liquidation, the holders of such shares have priority over ordinary shareholders, but are subordinated to all other creditors.
Other information:	There is also provision for: ■ optional suspension of interest payments if the Bank does not have distributable earnings and/or has not paid dividends for the last year ended prior to the payment date of the interest; ■ obligatory suspension of interest payments in the case of a "capital deficiency event", (which takes place when the total capital ratio falls below the minimum level required by the Supervisory Authority); ■ a "loss absorption" clause, whereby reimbursement of the notes is suspended if a Capital Deficiency Event takes place. Any undistributed interest may not be accumulated. 16 December 2009 was the closing date of the Public Purchase Offer (acceptance period 7 December – 16 December 2009), which obtained 34.92% acceptance for a nominal value of the securities accepting the offer of 104,750,000 euro. The repurchase price (ex-coupon) was 98%. At the date of preparation of the financial statements the nominal value of the securities issued declined to Euro 195,250,000.

3	**Subordinated bond of Banca Popolare di Milano (Upper Tier 2) – Floating rate – 18 June 2008/2018**
Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
Interest rate:	Floating rate (EONIA rate +0.75%)
Quotation:	Not quoted
Early redemption:	Early redemption of the Subordinated Bonds is not foreseen
Subordination clause:	The subordinated bonds consist of "hybrid capital instruments" as per the supervisory regulations in force at the issue date. The Bond is issued with an Upper Tier II subordination clause, which means that in the event of the Bank being liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
Repurchases:	The Group has repurchased a total nominal amount of 17,350 thousand Euro.

4	Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Floating rate 29 June 2005/2015
Issue price:	The Subordinated Bonds were issued below par, at a price of 99.716% of the nominal value.
Interest rate:	Floating rate (3-month Euribor + 0.45% until June 2010, 3-month Euribor + 1.05% beyond that date).
Quotation:	Luxembourg Stock Exchange (*)
Redemption:	The security has matured and was repaid entirely on 29 June 2015

5	Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 4.50% 18 April 2008/2018
Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
Interest rate:	Fixed interest rate of 4.50% gross per year
Quotation:	Not quoted
Early redemption:	Early redemption of the Subordinated Bonds is not foreseen
Subordination clause:	The subordinated bonds consist of BPM "tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
Repurchases:	The Group has repurchased a total nominal amount of 6,162 thousand euro.

6	Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Floating rate 20 October 2008/2018
Issue price:	The Subordinated Bonds were issued at par, at a price of 100% of their nominal value
Interest rate:	Floating rate (3-month Euribor 365 +0.60% until 20 October 2013, 3-month Euribor +1.50% after that date).
Quotation:	Not quoted
Early redemption:	After authorisation from the Bank of Italy, on 20 October 2013, on the date that the securities went ex-coupon, the Issuer went ahead with early redemption of the entire Subordinated Bond, at a price of 100% of the nominal value.
Subordination clause:	The subordinated bonds consist of BPM "tier II subordinated liabilities" as per the supervisory regulations in force at the issue date. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
Repurchases:	The Group has repurchased a total nominal amount of 48,750 thousand euro.

7	Subordinated bond of Banca Popolare di Milano (Lower Tier 2) – Fixed rate 7.125% 1 March 2011/2021
Issue price:	The Subordinated Bonds are issued below par, at a price of 99.603% of the nominal value.
Interest rate:	Fixed interest rate of 7.125% gross per year
Quotation:	Luxembourg Stock Exchange (*)
Early redemption:	Not foreseen
Subordination clause:	The Subordinated Bonds consist of "Tier 2 subordinated liabilities" of BPM, classified as such based on supervisory regulations in force at the time of issue. This means that if the Bank is liquidated, bondholders will only be reimbursed after all non-subordinated creditors have been satisfied, except for those with an equal or higher level of subordination compared with the Subordinated Bonds.
Repurchases:	The Group has repurchased a total nominal amount of 27,109 thousand Euro.

(*) Subordinated securities listed on the Luxembourg Stock Exchange have been classified as unlisted for IAS/IFRS purposes since their trading volumes are not such as to satisfy the definition of an active market, as explained in section A.3 of the Accounting Policies on "Fair value disclosures".

3.3 Breakdown of line item 30 "Securities issued": securities with specific hedges

	30.06.2015	31.12.2014
1 Securities with specific fair value hedges:	**2,382,118**	**2,397,363**
a) interest rate risk	2,382,118	2,397,363
b) exchange risk	–	–
c) various risks	–	–
2 Securities with specific cash flow hedges:	**–**	**–**
a) interest rate risk	–	–
b) exchange risk	–	–
c) other	–	–

The table shows the bonds issued classified among the outstanding securities that have specific fair value hedges for interest rate risk at the year end.

The securities that have specific fair value hedges are as follows:

Loans with specific hedges	**30.06.2015**	**31.12.2014**
Guaranteed Bank Bonds of Banca Popolare di Milano S.c.a r.l.	1,854,932	1,842,583
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Rate 7.125% – 01 March 2011/2021 (issued as part of the EMTN Programme)	527,186	554,780
Total	**2,382,118**	**2,397,363**

As reported in Section 5.1 of the income statement, the net result of measuring hedging contracts and the underlying securities in issue generated a negative amount of 1.105 million (positive amount of 4.132 million at 30.06.2014), which has been recorded in the income statement line item 90 – "Fair value adjustments in hedge accounting".

Section 4 – Financial liabilities held for trading
Line item 40

This item includes debt securities and equities which make up "short positions" for trading and derivative financial instruments other than those formally designated as hedging instruments.

4.1 Financial liabilities held for trading: breakdown by product

Type of transaction/ Amounts	30.06.2015						31.12.2014					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
A. Cash liabilities												
1. Due to banks	5,473	21,235	214	–	**21,449**	–	3,740	4,489	175	–	**4,664**	–
2. Due to customers	24,501	33,902	64	–	**33,966**	–	145,620	29,176	100	–	**29,276**	–
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	**29,974**	**55,137**	**278**	**–**	**55,415**	**–**	**149,360**	**33,665**	**275**	**–**	**33,940**	**–**
B. Derivatives												
1. Financial derivatives	x	146,174	1,053,014	72,231	**1,271,419**	x	x	122,453	1,243,382	63,670	**1,429,505**	x
1.1 Trading	x	146,174	1,051,752	71,819	**1,269,745**	x	x	122,453	1,239,458	62,802	**1,424,713**	x
1.2 Linked to the fair value option	x	–	1,262	412	**1,674**	x	x	–	3,924	868	**4,792**	x
1.3 Other	x	–	–	–	**–**	x	x	–	–	–	**–**	x
2. Credit derivatives	x	–	–	–	**–**	x	x	–	–	–	**–**	x
2.1 Trading	x	–	–	–	**–**	x	x	–	–	–	**–**	x
2.2 Linked to the fair value option	x	–	–	–	**–**	x	x	–	–	–	**–**	x
2.3 Other	x	–	–	–	**–**	x	x	–	–	–	**–**	x
Total B	**x**	**146,174**	**1,053,014**	**72,231**	**1,271,419**	**x**	**x**	**122,453**	**1,243,382**	**63,670**	**1,429,505**	**x**
Total A+B	**x**	**201,311**	**1,053,292**	**72,231**	**1,326,834**	**x**	**x**	**156,118**	**1,243,657**	**63,670**	**1,463,445**	**x**

Key:
NV = Nominal or notional value FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date.
L.1 = Level 1 L.2 = Level 2 L.3 = Level 3

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".

Line item "A. Cash liabilities" includes short positions of Banca Akros amounting to 55.415 million, of which 25.959 million related to debt securities and 29.456 million related to equity securities.

Line item "B.1.2 – Derivatives linked to the fair value option", includes the fair value of derivatives related to the instruments for which the fair value option has been adopted. These derivatives hedge the risks involved mainly in the issue of bonds for which the Group has used the fair value option in accordance with IAS 39, paragraph 9. Such risks arise from possible fluctuations in interest rates and the presence of options that are implicit in the structured securities issued.

4.2 Breakdown of line item 40 "Financial liabilities held for trading”: subordinated liabilities

At the balance sheet date, there are subordinated liabilities to banks of 396 thousand euro (1,168 thousand euro at 31.12.2014).

Section 5 – Financial liabilities designated at fair value through profit and loss Line item 50

This line item reports securities issued designated at fair value with changes in fair value through profit and loss under the option allowed by IAS 39. (“fair value option”).

5.1 Financial liabilities designated at fair value through profit and loss: breakdown by product

Type of transaction/ Amounts	30.06.2015						31.12.2014					
	NV	FV				FV*	NV	FV				FV*
		L1	L2	L3	Total			L1	L2	L3	Total	
1. Due to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Structured	–	–	–	–	**–**	x	–	–	–	–	**–**	x
1.2 Other	–	–	–	–	**–**	x	–	–	–	–	**–**	x
2. Due to customers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Structured	–	–	–	–	**–**	x	–	–	–	–	**–**	x
2.2 Other	–	–	–	–	**–**	x	–	–	–	–	**–**	x
3. Debt securities	**153,238**	**–**	**157,702**	**–**	**157,702**	**158,680**	**148,914**	**–**	**152,116**	**–**	**152,116**	**153,656**
3.1 Structured	153,238	–	157,702	–	**157,702**	x	148,914	–	152,116	–	**152,116**	x
3.2 Other	–	–	–	–	**–**	x	–	–	–	–	**–**	x
Total	**153,238**	**–**	**157,702**	**–**	**157,702**	**158,680**	**148,914**	**–**	**152,116**	**–**	**152,116**	**153,656**

Key:
NV = Nominal or notional value FV = Fair value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date.
L1 = Level 1 L2 = Level 2 L3 = Level 3

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A “Accounting Policies”.

Financial liabilities designated at fair value through profit and loss include financial liabilities represented by structured, fixed-rate bonds, which have been classified at fair value and are hedged by derivatives. This hedging concerns both the risk of changes in interest rates and the risk arising from the presence of embedded options. The fair value option is used to eliminate or significantly reduce accounting mismatches, as an alternative to Hedge Accounting. Otherwise, the derivatives would still be carried at fair value, while the bonds would be recognized at amortised cost.
Derivatives used as part of the “fair value option” are classified in the trading book.
As regards the use of the credit spread on own issues aimed at retail customers, these issues are expected – from both a contractual and a commercial point of view – to be reimbursed at their natural maturity; it follows that when measuring these instruments at fair value, the credit standing has been valued in line with this hypothesis, also taking into account the recommendations contained in IFRS 13.

In the income statement, positive or negative differentials or margins on related financial derivatives paid or accrued up to the balance sheet date, are recorded as interest income and expense, whereas valuation gains and losses are recognized under line item 110. “Profits (losses) on financial assets/liabilities designated at fair value”, with a presentation that is consistent with that adopted for the funding instruments for which the fair value option was adopted.

Purpose of using the fair value option and the financial liabilities concerned

Type of transaction/Amounts	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed on the basis of the fair value	30.06.2015	Natural hedges	Structured financial instruments	Portfolios of financial liabilities managed on the basis of the fair value	31.12.2014
1. Due to banks	–	–	–	–	–	–	–	–
1.1. Structured	–	–	–	–	–	–	–	–
1.2 Other	–	–	–	–	–	–	–	–
2. . Due to customers	–	–	–		–	–	–	
2.1 Structured	–	–	–	–	–	–	–	–
2.2 Other	–	–	–	–	–	–	–	–
3. Debt securities	–	157,702	–	157,702	–	152,116	–	152,116
3.1 Structured	–	157,702	–	157,702	–	152,116	–	152,116
3.2 Other	–	–	–	–	–	–	–	–
Total	**–**	**157,702**	**–**	**157,702**	**–**	**152,116**	**–**	**152,116**

The table provides details of table 5.1 above and shows the carrying amount (fair value) of the liabilities for which the fair value option was adopted, distinguishing the method of use.

Section 6 – Hedging derivatives
Line item 60

This line item reports financial derivatives used for hedging purposes, which have a negative fair value at the balance sheet date.

6.1 Hedging derivatives: breakdown by type of hedge and level

	30.06.2015					31.12.2014				
	Fair Value				NV	Fair Value				NV
	L1	L2	L3	Total		L1	L2	L3	Total	
A. Financial derivatives	**–**	**44,092**	**–**	**44,092**	**1,145,572**	**–**	**58,751**	**–**	**58,751**	**1,578,668**
1) Fair value	–	38,718	–	38,718	1,045,572	–	51,885	–	51,885	1,478,668
2) Cash flows	–	5,374	–	5,374	100,000	–	6,866	–	6,866	100,000
3) Foreign investments	–	–	–	–	–	–	–	–	–	–
B. Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–	–	–
2) Cash flows	–	–	–	–	–	–	–	–	–	–
Total	**–**	**44,092**	**–**	**44,092**	**1,145,572**	**–**	**58,751**	**–**	**58,751**	**1,578,668**

Key: NV = Notional value L1 = Level 1 L2 = Level 2 L3 = Level 3

Regarding the criteria used for determining fair value and for the classification of financial instruments in the three levels of the fair value hierarchy, please refer to Part A "Accounting Policies".

The table shows the negative carrying amount (fair value) of the derivative hedging contracts for the hedges made through hedge accounting. This instrument is used to manage accounting hedges of financial instruments recognised in balance sheet items that do not envisage their measurement at fair value through profit and loss.
The hedging of financial liabilities represented by securities are normally handled through the fair value option. The fair value option was adopted for structured debt securities and fixed-rate securities issued by Group banks, whose risk of changes in fair value has been hedged with derivatives; derivatives used as part of the "fair value option" are classified in the trading book.
With regard to the objectives and strategies underlying hedge you should refer to the information provided in Part E – Information on risks and related hedging policies – Section 2 – Market Risk.

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Several risks				
1. Financial assets available for sale	22,568	–	–	–	–	x	5,374	x	x
2. Receivables	–	–	–	x	–	x	–	x	x
3. Investments held to maturity	x	–	–	x	–	x	–	x	x
4. Portfolio	x	x	x	x	x	16,150	x	–	x
5. Other transactions	–	–	–	–	–	x	–	x	–
Total assets	**22,568**	**–**	**–**	**–**	**–**	**16,150**	**5,374**	**–**	**–**
1. Financial liabilities	–	–	–	x	–	x	–	x	x
2. Portfolio	x	x	x	x	x	–	x	–	x
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	x	x	x	x	x	x	–	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	–	x	–	–

The table shows the negative fair values of the hedging derivatives, broken down by asset or liability hedged and by the type of hedge. In particular, as regards assets, generic and specific fair value hedging was used to hedge against the risk of changes in interest rates on mortgages and bonds classified as "available for sale" in order to immunize them from possible adverse changes in interest rates.

Specific fair value hedge
The amount indicated at item "1. Financial assets available for sale" relates to the negative fair value of financial derivatives:
- to hedge interest rate risk for a total notional amount of 645 million (755 million at 31.12.2014), taken out to hedge a debt security issued by an issuing bank of a nominal value of 50 million (50 million at 31.12.2014) and fixed rate government securities of 595 million (705 million at 31.12.2014);
- to hedge the price risk of forward sales of government securities of 0 million (314.8 million at 31.12.2014).

Generic fair value hedge
The amount indicated in item 4. "Portfolio" relates to the negative fair value of derivatives taken out by the Parent Company to cover the interest rate risk of a portfolio of fixed-rate government bonds included in "Financial assets available for sale" of a notional amount of 0.25 billion (0.25 billion at 31.12.2014) and to derivatives taken out by Webank to hedge the interest rate on mortgages of a notional amount of 0.150 billion (0.159 billion at 31.12.2014).

Cash flow hedge
The amount shown in item "1. Financial assets available for sale" relates to the negative fair value of financial derivatives with a notional amount of 100 million (100 million at 31.12.2014), stipulated to hedge cash flows of a debt security issued by a bank for a nominal value of 100 million (100 million at 31.12.2014).

The prospective and retrospective tests performed during the first six months of 2015 in accordance with the rules laid down in IAS 39 have confirmed the effectiveness of the hedges.
For more information on the financial assets and liabilities covered, please refer to the detailed tables presented in this part (Part B) of the Explanatory Notes, in the sections relating to balance sheet items in which there are items being hedged.

Section 7 – Fair value change of financial liabilities in hedged portfolios
Line item 70

This item includes the negative balance of fair value changes in the liabilities covered by macrohedges against interest rate risk.

7.1 Fair value adjustment of hedged liabilities

Fair value adjustment of hedged liabilities/Members of the Group	30.06.2015	31.12.2014
1. Positive adjustment of financial liabilities	14,809	16,084
2. Negative adjustment of financial liabilities	–	–
Total	**14,809**	**16,084**

This item relates to the fair value adjustment made to “core deposits”:

- of Euro 13,455 thousand related to liabilities for which a generic fair value hedge was arranged in 2010 using derivatives. During 2011, the hedges were closed and the amount reported at 30 June 2015, as at 31 December 2014, represents the residual value of the effective portion of the hedge on the date of revocation, which will be released to income on a pro-rata basis up to the original maturity of the hedging transactions (latest envisaged maturity is March 2020);
- Euro 1,354 thousand related to new generic hedges made at the end of June 2015 for a nominal value of Euro 410 in million.

Section 10 – Other liabilities
Line item 100

This item shows liabilities that are not classifiable elsewhere on the liabilities side of the balance sheet.

10.1 Other liabilities: breakdown

	30.06.2015	31.12.2014
Payables for the deterioration in:	**54,127**	**66,808**
Guarantees given	54,127	66,808
Accrued liabilities	**681**	**225**
Other liabilities	**1,476,588**	**1,269,759**
Guarantee deposits received from third parties	15,265	6,859
Amounts payable to tax authorities on behalf of others	88,270	342,336
Amounts payable to tax authorities on own account	6,950	6,071
Adjustments for illiquid items concerning the portfolio	429,311	154,890
Amounts available to customers	183,421	136,297
Items being processed	512,243	368,644
Due to suppliers	121,582	141,464
Due to social security authorities	36,279	37,672
Personnel expenses	48,855	45,476
Deferred income	1,876	1,870
Consolidation difference	–	–
Other	32,536	28,180
Total	**1,531,396**	**1,336,792**

Section 12 – Allowances for risks and charges
Line item 120

12.1 Allowances for risks and charges: breakdown

Line items/Elements	30.06.2015	31.12.2014
1. Post-employment benefit obligations	**88,093**	**92,568**
2. Other allowances for risks and charges	**252,885**	**289,677**
2.1 Legal disputes	61,213	72,141
2.2 Personnel expenses	158,837	184,800
2.3 Other	32,835	32,736
Total	**340,978**	**382,245**

Line item 2.1 "Other allowances for risks and charges – legal disputes" includes, among other things, the provision relating to the "Convertendo 2009-2013 6.75%" bond. As of 30 June, taking into account any payments already made in favour of those entitled to them, the allowance amounts to 22.3 million (26.1 million at 31.12.2014).
Line item 2.2 "Other allowances for risks and charges – personnel expenses" includes the costs relating to employees entitled to the "Solidarity Fund" who joined in 2009 and 2012. These allowances amount to 146.712 million for the 2012 Solidarity Fund (169.774 million at 31.12.2014) and 1.145 million for the 2009 Solidarity Fund (2.775 million at 31.12.2014).

Update concerning the main tax disputes

Set out below is an update on ongoing legal disputes.

2005 – Former Bipiemme Immobili
Following a tax audit on 2005 at the former Bipiemme Immobili S.p.A., which the Bank absorbed in 2007, assessments were notified on 9 December 2010 claiming higher IRES of 230 thousand euro, IRAP for 29 thousand euro and VAT for 93 thousand euro, plus fines. On 24 May 2012, the Provincial Tax Commission of Milan upheld the appeal relating to VAT and rejected that regarding IRES and IRAP. The Bank appealed against this decision. Given that the Tax Authorities have not challenged the decision of the Provincial Tax Commission, the part relating to VAT has become final.
The Milan Regional Tax Commission, with judgement no. 2911/28/14 filed on 29/05/2014, upheld, to a large extent, the appeal relating to IRES and IRAP, confirming the first-level court ruling.
The Tax Authorities have appealed against this decision to the Supreme Court.

2008 – Registration tax
During 2010 three payment requests were received for registration tax on the purchase of branches disposed of by UniCredit S.p.A. in 2008. The notices of liquidation dispute the application of different rates for calculating registration tax.
These documents claim taxes for a total of 4,061 thousand euro. Appeals have duly been filed to obtain the cancellation of these claims.
On 16 May 2011 the Provincial Tax Commission of Milan rejected the appeal concerning the disputed rates. The Bank appealed against this decision and the appeal was upheld in June 2013, setting aside the judgement of first instance and remitting the case to the Milan Provincial Tax Commission. The Milan Provincial Tax Commission upheld the appeal with a judgement dated 25/9/2014 filed on 16/1/2015.
On 20 April 2012 the other two appeals concerning disputed rates were upheld and the Tax Authorities appealed.
For both of the disputes, the Regional Tax Commission dismissed the Tax Authorities' appeal with judgements dated 5 February 2014 and 17 April 2014.
The Tax Authorities have appealed to the Supreme Court against one of these judgements and BPM will defend itself in court.

2009-2010 – Substitute tax on loans executed abroad

All of the disputes relating to the alleged failure to apply the flat-rate substitute tax as per arts. 15 and et seq. of Presidential Decree 601/1973 on several medium-long term loans contracted abroad, as mentioned in previous financial statements, ended with cancellation of the assessments which had been notified on the basis of an erroneous assumption regarding applicability of the tax.

2010 – Registration tax payable on the sale of the custodian bank business

On 25 June 2012 an assessment was received contesting the amount of registration tax payable on the sale of the custodian bank business to BNP Paribas on 29 June 2010. The latter, as a principal, was also notified of the same assessment. The assessment assumes a different value of the business sold and claims additional registration tax is payable of 0.4 million euro plus interest.

BPM, together with the assignee BNP Paribas (principal), filed an appeal to challenge the tax claims. The appeal was upheld by the Milan Provincial Tax Commission with judgement no. 1255/47/2015, filed on 11/2/2015.

2010 – Former WeBank S.p.A.

In 2013, an inspection by the Tax Authorities, relating to the 2010 tax year, concluded with the notification of a report that disputed taxation (IRES, IRAP and VAT) amounting to some Euro 300,000. On 25 October 2013 WeBank filed a tax settlement proposal to close the dispute. The settlement process is still underway.

2012 – Former Banca di Legnano – inspection by Tax Authorities

It should be noted that on 2 February 2015 the Tax Authorities commenced an inspection of the 2012 tax year of the merged entity Banca di Legnano.

Section 15 – Group shareholders' equity
Items 140, 160, 170, 180, 190, 200 and 220

This section explains the liability accounts shown in line items 140, 160, 170, 180, 190, 200, and 220.

15.1 "Share capital" and "Treasury shares": breakdown

		30.06.2015	31.12.2014
Share capital	**Euro**	**3,365,439,319,02**	**3,365,439,319,02**
No. of ordinary shares		**4,391,784,467**	**4,391,784,467**
Of which no. of treasury shares		**1,395,574**	**1,395,574**

Share capital: at the date of the financial statements the share capital of the Bank is fully subscribed and paid in and amounts to **3,365,439,319.02** and consists of **4,391,784,467** ordinary shares with implicit par value, given by the ratio between the total amount of the share capital and the number of outstanding shares, of 0.766 euro; the shares have no restrictions or privileges, and each share has the same rights in terms of dividends and repayment of capital.

Treasury shares: at the date of the financial statements there are 1,395,574 shares in portfolio.

15.2 Share capital – Number of shares held by the Parent Company: changes during the year

Line items/Types	Ordinary	Other
A. Shares in issue at the beginning of the year	**4,391,784,467**	**–**
– entirely freed up	4,391,784,467	–
– not entirely freed up	–	–
A.1 Treasury shares (–)	–1,395,574	
A.2 Shares in issue: opening balance	**4,390,388,893**	**–**
B. Increases	**54,001**	**–**
B.1 New share issues	–	–
– for payment:	–	–
- of business combinations	–	–
- on conversion of bonds	–	–
- on exercise of warrants	–	–
- other	–	–
– bonus issues:	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sale of treasury shares	54,001	–
B.3 Other increases	–	–
C. Decreases	**54,001**	**–**
C.1 Cancellation	–	–
C.2 Purchase of treasury shares	54,001	–
C.3 Disposal of businesses	–	–
C.4 Other decreases	–	–
D. Shares outstanding: closing balance	**4,390,388,893**	**–**
D.1 Treasury shares (+)	1,395,574	–
D.2 Shares in issue at the end of the period	4,391,784,467	–
– entirely freed up	4,391,784,467	–
– not entirely freed up	–	–

Line item A.1 / D.1 Treasury shares. The number of treasury shares remained unchanged during the half-year and is 1,395,574.
On 23 June 2015, having received the required authorisation from the European Central Bank, the Management Board approved a programme to purchase treasury shares to be allocated to employees, in accordance with the resolution of the Bank's General

Meeting of members of 11 April 2015, with the aim of i) implementing the provisions of art. 60 of the Articles of Association, which provide for the distribution in shares, to all current employees, with the exception of those who hold senior positions, for an amount equal to 5% of gross profit for the year 2014 and to ii) establish a stock of shares to implement the Bank's remuneration policies and, in particular, to carry out the plan to allocate BPM ordinary shares to so-called "key personnel", as approved by the Ordinary General Meeting of Members held on 11 April 2015 pursuant to art. 114-bis of Legislative Decree 58/98 and art. 84-bis of the Issuers' Regulation.

As part of this programme, in the period 24 June 2015 to 27 July 2015, the Bank bought 16,821,746 of its own shares, of which, on 27 July 2015, 16,688,831 were granted to employees in accordance with art. 60 of the Articles of Association mentioned above.

As a result of these transactions, BPM currently holds 1,528,489 of its own shares.

Line item D.2 Shares in issue at the end of the period. This is the number of Banca Popolare di Milano shares outstanding at 30.06.2015, a total of 4,391,784,467 (including 1,395,574 treasury shares), whose "implicit" value is 0.766 euro per share, taking into account the fact that the share capital amounts to Euro 3,365,439,319.02.

15.3 Share capital : other information

The Parent Company's share capital is variable and is represented by shares without an express nominal value, in accordance with the resolution of the general meeting held on 25 June 2011.
The Management Board can buy or reimburse shares of the Parent Company according to current regulations, within the limits of distributable earnings and unrestricted reserves in the latest approved financial statements, allocated for this purpose by the Members in General Meeting.
Following the resolution passed by the General Meeting of 11 April 2015, the provision for the purchase of treasury shares amounts to Euro 25,000,000 and is available for Euro 21,987,886.25, having been adjusted by the value of the 1,395,574 treasury shares in portfolio on the reporting date (Euro 859,098.62) and the commitments for the purchase of treasury shares under the programme mentioned above, which was still to be settled at 30 June 2014 (Euro 2,153,015.13).
The shares, as governed by the Articles of Association, act as a guarantee for the Bank for any member's obligations towards the Bank.
No shareholder's interest may exceed 0.50% of the share capital. As soon as it becomes aware that this limit has been exceeded, the Parent Company serves formal notice of the breach on the shareholder concerned. The excess shares must be sold within a year of such notice; after this deadline, the related rights pertaining to these shares are acquired by the Bank until their disposal. This limit does not apply to mutual investment funds; the relevant limits in such cases are those imposed by the rules of the fund concerned.
The shares cannot be split. In the event that the shares are owned jointly, the rights of the joint owners have to be exercised by a common representative.
Dividends not claimed within five years from the date they become payable fall are absorbed by the Company.

15.4 Reserves: other information

Valuation reserves:

Financial assets available for sale: this includes the unrealised post-tax gains and losses arising on financial assets classified as "available for sale", as defined by IAS 39. Gains and losses are transferred from the fair value reserve to income when the financial asset is sold or if it becomes impaired.

Actuarial gains (losses) on defined-benefit pension plans: this includes actuarial gains and losses, deriving from the change of certain assumptions formulated in prior periods.

Share of valuation reserves connected with investments carried at equity: this includes portions of valuation reserves of companies consolidated using the equity method.

Special revaluation laws: this line item includes the reserve created on first-time adoption of IAS/IFRS as a result of valuing property and equipment at their "deemed cost", as allowed by the "IAS decree".

Cash flow hedges: this includes the unrealised post-tax gains and losses arising on cash flow hedges.

15.5 Equity instruments: breakdown and changes during the year

The Bipiemme Group has not issued equity instruments.

Section 16 – Minority interests
Line item 210

16.1 Details of line item 210 "minority interests"

Company name	30.06.2015	31.12.2014
Investments in consolidated companies with significant minority interests		
1. Banca Akros SpA	5,905	6,185
2. Banca Popolare di Mantova SpA	13,109	13,215
Other investments	**24**	**24**
Total	**19,038**	**19,424**

16.2 Equity instruments: breakdown and changes during the year

No equity instruments have been issued by consolidated companies with minority interests.

16.3 Minority interests: breakdown

Line items/Amounts	30.06.2015	31.12.2014
1. Share capital	2,354	2,359
2. Share premium reserve	11,921	11,982
3. Reserves	4,707	4,353
4. Treasury shares	–	–
5. Valuation reserves	–113	90
6. Equity instruments	–	–
7. Net income (loss) pertaining to minority interests	169	640
Total	**19,038**	**19,424**

16.4 Valuation reserves: breakdown

Line items/Elements	30.06.2015	31.12.2014
1. Financial assets available for sale	–66	151
2. Property and equipment	–	–
3. Intangible assets	–	–
4. Hedging of foreign investments	–	–
5. Cash flow hedges	–	–
6. Foreign exchange differences	–	–
7. Non-current assets held for sale	–	–
8. Actuarial gains (losses) on defined-benefit pension plans	–47	–61
9. Share of valuation reserves connected with investments carried at equity	–	–
10. Special revaluation laws	–	–
Total	**–113**	**90**

Other information

1. Guarantees given and commitments

Transactions	30.06.2015	31.12.2014
1) Financial guarantees:	263,399	310,158
a) Banks	60,398	60,407
b) Customers	203,001	249,751
2) Commercial guarantees:	2,978,233	2,968,731
a) Banks	81,509	77,818
b) Customers	2,896,724	2,890,913
3) Irrevocable commitments to grant finance	5,502,489	4,482,370
a) Banks	1,219,446	732,028
i) certain to be called on	248,520	43,278
ii) not certain to be called on	970,926	688,750
b) Customers	4,283,043	3,750,342
i) certain to be called on	281,290	312,648
ii) not certain to be called on	4,001,753	3,437,694
4) Commitments underlying credit derivatives: sale of protection	3,903	3,553
5) Assets pledged in guarantee for third-party obligations	128,303	72,413
6) Other commitments	159,185	106,632
Total	**9,035,512**	**7,943,857**

The amount of "guarantees given" is stated at nominal value net of any drawdowns and any adjustments.
"Financial guarantees given – banks" also include the commitments undertaken versus the Interbank Deposit Guarantee Fund.
The "irrevocable commitments to grant finance" are stated on the basis of the commitment given less the sums already disbursed and any adjustments. They exclude commitments arising from derivative contracts.
The "irrevocable commitments to grant finance" which are certain to be called on include forward and spot purchases of securities awaiting settlement and loans and deposits to be made on a specified future date.
"Commitments underlying credit derivatives: sales of protection" refer to the notional amount of such commitments, less the sums already disbursed and any adjustments.
"Assets pledged in guarantee for third-party obligations" include an amount of 128.303 million euro (72.413 million euro at 31.12.2014) relating to contribution quotas to the Default Fund paid into the Cassa di Compensazione e Garanzia for MTS repo operations.

Guaranteed funding transactions

In accordance with the requirements of the Bank of Italy communicated on 16 February 2011 and 10 February 2012, assets not reported in the financial statements in compliance with IAS 39, which the Group has established as a guarantee of its own liabilities and commitments, are shown below.

As part of the refinancing operations with the European Central Bank, the following is a list of the BPM bonds repurchased and provided as collateral for transactions involving advances received from central banks (OMA – Open Market Operations):

- Covered Bonds "BPM CB 18.07.2011-18.01.2014 Floating rate with maturity extended to 18.1.2019" for a nominal value of 0.73 billion (1 billion at 31.12.2014);
- Covered Bonds "BPM CB 25.05.2013-28.05.2016 Floating rate" for a nominal value of 0.48 billion (0.65 billion at 31.12.2014);
- Covered Bonds "BPM CB 16.03.2015-16.03.2020 FR% 1A and 2A", for a nominal value of 0.30 billion;
- Covered Bonds "BPM 9.10.2009-17.10.2016 3.5%" with a nominal value of 1 million and "BPM 4.11.2010-16.11.2015 3.25%" with a nominal value of 12.5 million.

In addition, the following have been provided as collateral:

- "BPM Securitisation 15.01.06/43 Floating rate" bonds, arising from the securitisation carried out by the Parent Company in 2006, for a residual nominal value of 83.2 million euro (93.62 million euro at 31.12.2014);
- "BPM Securitisation 3 20.01.14/57 Floating rate A" bonds with a residual nominal value of 374 million (573 million at 31.12.2014);
- securities arising from lending repurchase agreements or securities lending of a nominal value of 95.87 million (107 million at 31.12.2014).

8. Securities lending transactions

Securities lending transactions are not significant at consolidated level and, accordingly, the related disclosures have been omitted.

9. Disclosures concerning joint arrangements

The Group is not party to any joint arrangements.

Part C – Information on the consolidated income statement

Section 1 – Interest
Line items 10 and 20

1.1 Interest and similar income: breakdown

Description/Technical forms	Debt securities	Loans	Other transactions	1st half 2015	1st half 2014
1. Financial assets held for trading	6,329	–	129	6,458	3,993
2. Financial assets designated at fair value through profit and loss	3,395	–	–	3,395	5,151
3. Financial assets available for sale	88,998	–	–	88,998	104,829
4. Investments held to maturity	–	–	–	–	–
5. Due from banks	93	2,425	–	2,518	3,250
6. Loans to customers	3,869	461,222	–	465,091	526,925
7. Hedging derivatives	–	–	23,499	23,499	21,072
8. Other assets	–	–	3,105	3,105	1,883
Total	**102,684**	**463,647**	**26,733**	**593,064**	**667,103**

In line item "1. Financial assets held for trading: other transactions" is shown the net balance of the differentials on derivative contracts that are connected operationally with financial assets and liabilities designated at fair value (under the fair value option) for 0.129 million (1.003 million recorded as interest expense in "5. Financial liabilities held for trading: other transactions" in the first half of 2014).
Line items 5 and 6 "Due from banks" and "Loans to customers" show, in the "Debt securities" column, interest income on own securities not quoted on active markets, classified in these portfolios. The "Loans" column also includes interest income accrued on repurchase agreements used for lending purposes.

Interest, other than that reported in line item 130. "Writebacks", accrued during the year on "impaired" positions, totals 16.890 million. This interest, calculated on financial assets valued at amortised cost according to the effective interest rate method, are reported in the various columns according to the technical form that gave rise to the interest. Any past due interest provided for in the contract is only recognised in the income statement when actually collected.

1.2 Interest and similar income: differentials on hedging transactions

Line items	1st half 2015	1st half 2014
A. Positive differentials on hedging transactions	42,758	42,613
B. Negative differentials on hedging transactions	(19,259)	(21,541)
C. Balance (A–B)	**23,499**	**21,072**

The following table shows the breakdown of the differential balance, positive and negative, accrued on "hedging derivatives", reported in sub-item 7. "Hedging derivatives".

1.4 Interest and similar expense: breakdown

Line item/Technical forms	Payables	Securities	Other transactions	1st half 2015	1st half 2014
1. Due to central banks	(1,301)	x	–	(1,301)	(4,765)
2. Due to banks	(12,175)	x	–	(12,175)	(14,151)
3. Due to customers	(37,913)	x	–	(37,913)	(86,913)
4. Securities issued	x	(137,763)	–	(137,763)	(150,940)
5. Financial liabilities held for trading	(471)	–	(121)	(592)	(1,637)
6. Financial liabilities designated at fair value through profit and loss	–	(434)	–	(434)	(1,447)
7. Other liabilities and provisions	x	x	(6)	(6)	(4)
8. Hedging derivatives	x	x	–	–	–
Total	**(51,860)**	**(138,197)**	**(127)**	**(190,184)**	**(259,857)**

Line items 2. and 3. "Due to banks/customers" in the "Payables" column include the interest related to amounts due for repurchase agreements on own securities and charges relating to amounts due for repurchase agreements on securities whose availability was obtained through reverse repurchase agreements.

Line item 4. "Securities issued" shows the interest expense accrued on bonds and certificates of deposit valued at amortised cost during the year.

Line item 5. "Financial liabilities held for trading", in the "Other transactions" column, shows a net negative balance of 0.121 million (0.344 million in the first half of 2014) which relates to differentials and positive/negative margins on derivatives operationally linked to financial assets and liabilities classified in the trading book and which accrue interest. These are multiflow derivatives (interest rate swaps) connected to fixed rate debt securities classified as held for trading.

Line item 6. "Financial liabilities designated at fair value through profit and loss" includes interest expense accrued on structured and fixed-rate bonds issued, hedged by derivative contracts.

In line item 8. "Hedging derivatives", the "Other transactions" column shows a zero balance, as the difference between the positive and negative differentials related to derivatives classified as hedges according to the hedge accounting rules is positive. Consequently, this balance is shown in the table 1.1 "Interest and similar income: breakdown".

Section 2 – Commission
Line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	1st half 2015	1st half 2014
a) guarantees given	**17,054**	**17,357**
b) credit derivatives	**–**	**–**
c) management, dealing and advisory services:	**173,435**	**142,931**
1. trading of financial instruments	13,518	11,605
2. currency trading	2,682	2,190
3. portfolio management	3,131	2,842
3.1 individual	3,131	2,842
3.2 collective	–	–
4. custody and administration of securities	5,543	5,912
5. custodian bank	–	9
6. placement of securities	99,303	77,639
7. receipt and transmission of instructions	14,089	14,903
8. advisory services	2,883	690
8.1 on investments	40	75
8.2 on financial structure	2,843	615
9. distribution of third-party services	32,286	27,141
9.1 portfolio management	2,093	2,298
9.1.1 individual	2,078	2,278
9.1.2 collective	15	20
9.2 insurance products	28,930	21,719
9.3 other products	1,263	3,124
d) collection and payment services	**46,687**	**48,800**
e) servicing for securitisation transactions	**–**	**–**
f) factoring services	**–**	**–**
g) tax collection services	**–**	**–**
h) management of multilateral trading systems	**–**	**–**
i) management of current accounts	**29,094**	**32,764**
j) other services	**77,733**	**74,913**
Total	**344,003**	**316,765**

Line item j) "Other services" includes: net fee and commission income on loans granted of 60.456 million (57.759 million at 30.06.2014), on the use of safe deposit boxes of 1.142 million (1.177 million at 30.06.2014), fee and commission income on securities lending of 0.564 million (0.365 at 30.06.2014) and the recharge of expenses for other banking services of 15.571 million (15.612 million at 30.06.2014).

2.2 Fee and commission expense: breakdown

Services/Amounts	1st half 2015	1st half 2014
a) guarantees received	**(1,598)**	**(7,036)**
b) credit derivatives	**–**	**–**
c) management and dealing services	**(10,038)**	**(8,231)**
1. trading of financial instruments	(5,913)	(4,708)
2. currency trading	–	(2)
3. portfolio management:	(630)	(582)
3.1 own	(630)	(582)
3.2 mandated by third parties	–	–
4. custody and administration of securities	(1,371)	(1,171)
5. placement of financial instruments	(1,327)	(1,249)
6. door-to-door sales of financial instruments, financial products and services	(797)	(519)
d) collection and payment services	**(15,481)**	**(16,050)**
e) other services	**(10,133)**	**(9,087)**
Total	**(37,250)**	**(40,404)**

Line item e) "Other services" includes, among other things, brokerage commissions and order processing fees.

Section 3 – Dividend and similar income
Line item 70

3.1 Dividend and similar income: breakdown

Line items/Income	Dividends	Income from mutual funds	1st half 2015	Dividends	Income from mutual funds	1st half 2014
A. Financial assets held for trading	3,474	2	3,476	2,404	–	2,404
B. Financial assets available for sale	7,457	1,033	8,490	10,052	18	10,070
C. Financial assets designated at fair value through profit and loss	–	–	–	–	–	–
D. Investments in associates and companies subject to joint control	–	x	–	–	x	–
Total	**10,931**	**1,035**	**11,966**	**12,456**	**18**	**12,474**

Section 4 – Profits (losses) on trading
Line item 80

4.1 Profits (losses) on trading: breakdown

Transactions/Element of income	Unrealised profits (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B) – (C+ D)] 1st half 2015
1. Financial assets held for trading	**8,093**	**28,408**	**(34,159)**	**(6,861)**	**(4,519)**
1.1 Debt securities	2,517	10,752	(16,423)	(4,881)	(8,035)
1.2 Equities	1,396	16,251	(14,295)	(1,969)	1,383
1.3 Mutual funds	–	4	–	(11)	(7)
1.4 Loans	–	–	–	–	–
1.5 Other	4,180	1,401	(3,441)	–	2,140
2. Financial liabilities held for trading	**1,168**	**608**	**(294)**	**(3,033)**	**(1,551)**
2.1 Debt securities	–	–	–	–	–
2.2 Payables	1,168	608	(294)	(3,033)	(1,551)
2.3 Other	–	–	–	–	–
3. Other financial assets and liabilities: foreign exchange differences	**x**	**x**	**x**	**x**	**15,996**
4. Derivatives	**403,326**	**418,424**	**(406,038)**	**(408,984)**	**430**
4.1 Financial derivatives:	403,326	418,424	(406,038)	(408,984)	430
– On debt securities and interest rates	294,757	239,079	(328,332)	(202,502)	3,002
– On equities and stock indices	107,297	175,099	(76,478)	(202,315)	3,603
– On currency and gold	x	x	x	x	(6,298)
– Other	1,272	4,246	(1,228)	(4,167)	123
4.2 Credit derivatives	–	–	–	–	–
Total	**412,587**	**447,440**	**(440,491)**	**(418,878)**	**10,356**

The table shows the profits or losses attributable to the portfolio of financial assets and liabilities held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted, with the valuation results being shown in Section 7 – "Profits (losses) on financial assets and liabilities designated at fair value – Line item 110".

1. Financial assets held for trading: line item "1.5 Other" includes the profits and losses from trading in currency, gold and other precious metals.

3. Other financial assets and liabilities: foreign exchange differences: this sub-item includes the positive or negative balance of changes in the value of financial assets and liabilities in foreign currency, other than those designated at fair value , those subject to fair value hedging (exchange risk or fair value) or cash flow hedging (exchange risk), as well as changes in the value of hedging derivatives.

4. Derivatives: positive and negative differentials and margins are reported in the "trading profits" and "trading losses" columns respectively.

Section 5 – Fair value adjustments in hedge accounting
Line item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Element of income/Amounts	1st half 2015	1st half 2014
A. Income relating to:		
A.1 Derivatives with fair value hedges	15,820	21,617
A.2 Financial assets with fair value hedges	21	27,045
A.3 Financial liabilities with fair value hedges	31,875	8,905
A.4 Cash flow hedges	–	–
A.5 Foreign currency assets and liabilities	–	–
Total income from hedging activities (A)	**47,716**	**57,567**
B. Charges relating to:		
B.1 Derivatives with fair value hedges	(33,001)	(35,987)
B.2 Financial assets with fair value hedges	(14,416)	(869)
B.3 Financial liabilities with fair value hedges	(1,354)	(19,681)
B.4 Cash flow hedges	–	–
B.5 Foreign currency assets and liabilities	–	–
Total charges from hedging activities (B)	**(48,771)**	**(56,537)**
C. Fair value adjustments in hedge accounting (A–B)	**(1,055)**	**1,030**

The table shows the net result of the fair value adjustments in hedge accounting. It therefore shows the realised income items booked to the income statement and arising from valuation of hedged assets and liabilities and the related derivative contracts, including any exchange differences. For information on hedging derivatives, whose income and expenses must be entered on lines A.1 and B.1 of this table, please refer to Section 8 "Hedging derivatives – Line item 80" in assets and Section 6 "Hedging derivatives – Line item 60" of liabilities in Part B of these explanatory notes.

For more information on hedged financial assets and liabilities, please refer to the detailed tables set out in Part B of these explanatory notes, in the sections relating to balance sheet items in which there are items being hedged.

The table below shows the details of net income items.

Fair value adjustments in hedge accounting: details of income items

Line items/Amounts	Income	Expenses	1st half 2015 Net result	Income	Expenses	1st half 2014 Net result
1 Derivatives for fair value hedges:						
– Interest rate risk	10,819	(33,001)	**(22,182)**	21,617	(29,164)	**(7,547)**
– Exchange rate risk	–	–	**–**	–	–	–
– Credit risk	–	–	**–**	–	–	–
– Price risk	5,001	–	**5,001**	–	(6,823)	**(6,823)**
– Several risks	–	–	**–**	–	–	–
2 Financial assets with fair value hedges:						
– Specific hedges	–	(8,840)	**(8,840)**	20,111	(124)	**19,987**
– Generic hedges	21	(5,576)	**(5,555)**	6,934	(745)	**6,189**
3 Financial liabilities with fair value hedges:						
– Specific hedges	31,875	–	**31,875**	8,905	(19,681)	**(10,776)**
– Generic hedges	–	(1,354)	**(1,354)**	–	–	–
4 Financial derivatives for cash flow hedges:						
– Expected transactions	–	–	**–**	–	–	–
– Foreign investments	–	–	**–**	–	–	–
– Exchange rate risk	–	–	**–**	–	–	–
5 Foreign currency assets and liabilities:						
– Assets in foreign currency	–	–	**–**	–	–	–
– Liabilities in foreign currency	–	–	**–**	–	–	–
Total	**47,716**	**(48,771)**	**(1,055)**	**57,567**	**(56,537)**	**1,030**

The breakdown of the net result of fair value adjustments in hedge accounting with regard to their underlying positions is shown below.

Description	1st half 2015 Net result	1st half 2014 Net result
Assets:		
– Debt securities available for sale	1,198	(415)
– Equities available for sale	–	(2,580)
– Due from banks	–	–
– Loans to customers	(1,092)	(107)
Liabilities		
– Bonds in circulation	(1,105)	4,132
– Due to customers	(56)	–
Net result of fair value adjustments in hedge accounting	**(1,055)**	**1,030**

Section 6 – Profits (losses) on disposal/repurchase
Line item 100

6.1 Profits (losses) on disposal/repurchase: breakdown

Line item/Element of income	1st half 2015			1st half 2014		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Due from banks	–	–	–	–	–	–
2. Loans to customers	940	(1,510)	(570)	–	(49)	(49)
3. Financial assets available for sale	76,798	(2,010)	74,788	110,410	(83)	110,327
3.1 Debt securities	75,796	(2,007)	73,789	110,306	–	110,306
3.2 Equities	7	(2)	5	104	(83)	21
3.3 Mutual funds	995	(1)	994	–	–	–
3.4 Loans	–	–	–	–	–	–
4. Investments held to maturity	–	–	–	–	–	–
Total assets	**77,738**	**(3,520)**	**74,218**	**110,410**	**(132)**	**110,278**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	23	(13,008)	(12,985)	–	–	–
Total liabilities	**23**	**(13,008)**	**(12,985)**	**–**	**–**	**–**
Total	**77,761**	**(16,528)**	**61,233**	**110,410**	**(132)**	**110,278**

The table shows the result of selling financial assets other than those held for trading and those designated at fair value, and the result of repurchasing own financial liabilities.

Breakdown of "Financial assets: Due from banks and Loans to customers"

Line items/Amounts	1st half 2015			1st half 2014		
	Profits	Losses	Net result	Profits	Losses	Net result
1. Due from banks:						
Loans	–	–	–	–	–	–
Debt securities	–	–	–	–	–	–
2. Loans to customers:						
Loans	940	(1,510)	(570)	–	(49)	(49)
Debt securities	–	–	–	–	–	–
Total	**940**	**(1,510)**	**(570)**	**–**	**(49)**	**(49)**

Section 7 – Profits (losses) on financial assets and liabilities designated at fair value Line item 110

7.1 Profits (losses) on financial assets and liabilities designated at fair value: breakdown

Transactions/Element of income	Unrealised gains (A)	Profits on disposal (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B)–(C+D)]	
					1st half 2015	1st half 2014
1. Financial assets	**746**	**38**	**(2,381)**	**(1,426)**	**(3,023)**	**7,812**
1.1 Debt securities	746	–	(2,381)	(1,426)	(3,061)	7,364
1.2 Equities	–	–	–	–	–	–
1.3 Mutual funds	–	38	–	–	38	448
1.4 Finanziamenti	–	–	–	–	–	–
2. Passività finanziarie	**384**	**–**	**(2,266)**	**–**	**(1,882)**	**(1,064)**
2.1 Debt securities	384	–	(2,266)	–	(1,882)	(1,064)
2.2 Due to banks	–	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–	–
3. Financial assets and liabilities: foreign exchange differences	**x**	**x**	**x**	**x**	**–**	**–**
4. Credit and financial derivatives	**2,002**	**69**	**(581)**	**–**	**1,490**	**4,287**
Total	**3,132**	**107**	**(5,228)**	**(1,426)**	**(3,415)**	**11,035**

This item includes capital gains and losses arising from the measurement at fair value of financial assets and liabilities classified in fair value option portfolios and their hedging derivatives.

Debt liabilities include the net result of bonds for which we made use of the fair value option, in the same way as the result of the derivatives hedging them. In this case, the use of the fair value option addresses the need to reduce the accounting mismatch that would otherwise result from measuring the financial liabilities issued at amortised cost and the related hedging derivatives at fair value. For further details, reference should be made to section 5 of liabilities with regard to “Financial liabilities designated at fair value through profit and loss”.

Section 8 – Net losses/recoveries on impairment of loans
Line item 130

8.1 Net losses/recoveries on impairment of loans: breakdown

Transactions/ Element of income	Adjustments (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B	1st half 2015	1st half 2014
A. Due from banks									
– Loans	–	(209)	(540)	–	207	–	41	(501)	(439)
– Debt securities	–	–	–	–	–	–	–	–	–
B. Loans to customers									
Impaired loans purchased									
– Loans	–	–	x	–	–	x	x	–	–
– Debt securities	–	–	x	–	–	x	x	–	–
Other receivables									
– Loans	(8,741)	(279,180)	(8,375)	25,366	73,965	–	17,063	(179,902)	(192,600)
– Debt securities	–	–	–	–	–	–	–	–	–
C. Total	**(8,741)**	**(279,389)**	**(8,915)**	**25,366**	**74,172**	**–**	**17,104**	**(180,403)**	**(193,039)**

Key: A = for interest B = Other writebacks

This item includes adjustments and writebacks to cover impairment of the financial instruments allocated to the "loans to customers" and "due from banks" portfolios. In particular, the "Write-offs" column shows the losses booked on final cancellation of the loans, while the "Other" column includes specific write-downs on impaired loans subject to analytical assessment. The portfolio adjustments are quantified on the performing financial instruments.
As part of the specific writebacks, column A mainly shows the writebacks represented by the release of interest on impaired loans measured at amortised cost.

8.2 Net losses/recoveries on impairment of financial assets available for sale: breakdown

Transactions/ Element of income	Adjustments (1)		Write-backs (2)		1st half 2015	1st half 2014
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	–	(6,253)	–	–	(6,253)	–
B. Equities	(7)	(1,908)	x	x	(1,915)	(8,283)
C. Mutual funds	–	(660)	x	–	(660)	(3,909)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**(7)**	**(8,821)**	**–**	**–**	**(8,828)**	**(12,192)**

Key: A = for interest B = Other writebacks

8.3 Net losses/recoveries on impairment of investments held to maturity: breakdown

At the date of the financial statements there are no financial assets held to maturity.

8.4 Net losses/recoveries on impairment of other financial activities: breakdown

Transactions/ Element of income	Adjustments (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B	1st half 2015	1st half 2014
A. Guarantee given	–	(2,988)	(293)	–	14,673	116	1,126	**12,634**	**(5,902)**
B. Credit derivatives	–	–	–	–	–	–	–	**–**	**–**
C. Commitments to disburse funds	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. Total	**–**	**(2,988)**	**(293)**	**–**	**14,673**	**116**	**1,126**	**12,634**	**(5,902)**

Key: A = for interest B = Other writebacks

This line item shows the adjustments/writebacks made on guarantees given in conjunction with the expected loss in the event of their enforcement.

The adjustments, in the "Other" column, relate to provisions made on specific positions of guarantees given, while the portfolio adjustments are calculated by the same method adopted for collective writedowns. This item includes the provision on the portion attributable to the commitment taken by the Interbank Guarantee Fund for the rescue interventions that have been approved.

Section 11 – Administrative expenses
Line item 180

11.1 Personnel expenses: breakdown

In addition to personnel expenses, these costs include:

- the cost of employees seconded to other companies (and the related recharges);
- costs for non-standard employment contracts (e.g. temporary and contract workers);
- reimbursement of cost of employees of other companies seconded to group companies;
- remuneration payable to the members of the Management Board and the Supervisory Board of the Parent Company and to the directors and the statutory auditors of the other Group companies (including the costs incurred for civil liability insurance policies);
- costs associated with share-based payments;
- provisions made, with contra-entry to "other liabilities", for productivity bonuses relating to the year, but paid the following year.

Type of expense/Amounts	1st half 2015	1st half 2014
1) Employees	**(301,217)**	**(317,946)**
a) wages and salaries	(202,457)	(208,980)
b) social security charges	(59,316)	(64,374)
c) termination indemnities	(10,327)	(11,158)
d) pension costs	–	–
e) charge to employee termination indemnities	(1,115)	(1,807)
f) charge to provision for post employment benefits:	(2,580)	(3,774)
– defined contribution	–	–
– defined benefit	(2,580)	(3,774)
g) payments to external supplementary pension funds:	(4,642)	(4,797)
– defined contribution	(4,642)	(4,797)
– defined benefit	–	–
h) costs associated with share-based payments	(9,364)	(14,209)
i) other staff benefits	(11,416)	(8,847)
2) Other personnel	**–**	**(294)**
3) Directors and Statutory Auditors	**(2,148)**	**(2,240)**
4) Retired personnel	**–**	**–**
Total	**(303,365)**	**(320,480)**

With reference to these types of expenses, we would point out the following:

Line item "c) employee termination indemnities" comprises, in addition to the persons who left during the year, also the termination indemnities paid directly to INPS and to pension funds.

Sub-item "g) payments to external supplementary pension funds – defined contribution" comprises the contribution paid to external retirement benefit plans.

Sub-item "h) costs associated with share-based payments" refers to the portion reserved to employees of the Parent Company, except for those who hold top management positions, in compliance with art. 60 based on the Articles of Association approved by the Extraordinary General Meeting of Members held on 22 October 2011. This portion is equal to 5% of the pre-tax profit of the Parent Company (i.e. "income before tax from continuing operations") calculated prior to the amount to be determined, unless the general meeting decides not to distribute dividends on the net income for the year. This amount is paid in the form of shares, which will be subject to a three-year retention period before the assignee can dispose of them. The reference value of the shares is the average of the Stock Exchange prices posted on the 30 days prior to their assignment.
That said, note that – based on the results of the Parent Company at 30 June 2015 – "income from continuing operations before taxes" (that is, income prior to the impact of the above), prior to the computation of amounts to be allocated to employees, came

to Euro 187,288,449. Accordingly, given what is laid down in the Articles of Association, the amount payable to employees was Euro 9,364,422 (14,209,343 at 30 June 2014).
After deducting these amounts, income from continuing operations before taxes comes to Euro 177,924,027, as shown in line item 250 of BPM's separate income statement.

Sub-item i) "other staff benefits" is illustrated in paragraph 11.4 of this Section

The line item "3) Directors and Statutory Auditors" includes the following remuneration:
- 0.646 million to members of the Management Board of the Parent Company;
- 1.1 million to members of the Supervisory Board of the Parent Company;
- 0.327 million to members of the Boards of Directors of subsidiaries;
- 0.075 million to members of the Boards of Statutory Auditors of subsidiaries.

11.2 Average number of employees by level

Line items	1st half 2015	1st half 2014
Employees	**7,213**	**7,285**
a) managers	150	156
b) officials	2,704	2,750
– of which: 3rd and 4th level	1,439	1,463
c) other employees	4,359	4,379
Other personnel	**10**	**25**
Consultants and temps	10	25
Total	**7,223**	**7,310**

The average number is calculated as the weighted average number of employees where the weighting is given by the number of months worked during the year. Part-time employees are conventionally considered at 50%.

11.3 Number of employees by category

Line items	1st half 2015	1st half 2014
Employees	**7,763**	**7,788**
a) managers	146	151
b) officials	2,746	2,823
– of which: 3rd and 4th level	1,430	1,486
c) other employees	4,871	4,814
Other personnel	**7**	**27**
Consultants and temps	7	27
Total	**7,770**	**7,815**

The number of employees includes 1,116 part-timers (1,064 at 30.06.2014), with an incidence of 14.4% of total personnel in service at the balance sheet date.

Changes in the number of employees are shown in the "Human resources" chapter of the report on operations, to which you are referred.

11.4 Other staff benefits

"Other staff benefits" include an expense of 2.18 million relating to the Solidarity Fund agreement signed by the Group's banks and the trade unions in December 2012 (8.491 million at 30 June 2014).

Lastly, this item includes contributions towards the running of staff canteens, the cost of subsidised-rate loans given to employees and the cost of staff severance incentives.

11.5 Other administrative expense: breakdown

Type of service/Amounts	1st half 2015	1st half 2014
IT expenses	**(36,209)**	**(36,787)**
Maintenance and rent of hardware and software and data transmission	(29,933)	(31,541)
Services rendered by Group companies	–	–
ATM running costs	(736)	(675)
Outsourced IT services	(5,540)	(4,571)
Expenses for buildings and furniture	**(22,943)**	**(24,486)**
Property leases	**(17,609)**	**(18,997)**
Property leases	(17,227)	(18,678)
Office machine lease charges	(382)	(319)
Other expenses	**(5,334)**	**(5,489)**
Maintenance	(2,917)	(3,183)
Cleaning	(2,417)	(2,306)
Purchases of assets and non-professional services	**(26,179)**	**(27,989)**
Telephone and postage	(5,358)	(6,012)
Sub-contract work	(5,089)	(5,508)
Security and cash counting services	(3,682)	(3,983)
Electricity, heating and water	(6,363)	(6,512)
Transport	(3,399)	(3,498)
Stationery and printing	(1,488)	(1,952)
Removals and porterage	(396)	(253)
Subscriptions to newspapers and magazines	(404)	(271)
Purchases of professional services	**(21,526)**	**(18,260)**
Professional fees	(14,659)	(11,955)
Legal expenses and company information	(6,740)	(6,164)
Directors' and statutory auditors' fees	(127)	(141)
Insurance premiums	**(1,907)**	**(1,910)**
Advertising expenses	**(10,493)**	**(7,264)**
Indirect taxes and duties	**(54,108)**	**(54,245)**
Other	**(17,152)**	**(5,660)**
Charity	(474)	(740)
Membership fees and fees mandatory by law	(14,366)	(2,093)
Other	(2,312)	(2,827)
Total	**(190,517)**	**(176,601)**

"Indirect taxes and duties" include indirect taxes (stamp duty and flat-rate tax) recharged to customers of 45.633 million (41.792 million at 30 June 2014). In the reclassified income statement, as indicated in the notes thereto, this amount has been reversed from both "other administrative expenses" and "other operating charges/income". "Membership fees and fees mandatory by law" include 12.4 million of estimated charges for the whole of 2015 relating to the Deposit Guarantee Fund and Europe's Single Resolution Mechanism (SRM).

Section 12 – Net provisions for risks and charges
Line item 190

12.1 Net provisions for risks and charges: breakdown

	1st half 2015	1st half 2014
Provisions	**(8,829)**	**(10,782)**
Legal disputes	**(7,313)**	**(6,741)**
Other risks and charges	**(1,516)**	**(4,041)**
– Provision for recovery procedures	(1,059)	(1,055)
– Provision for tax disputes	–	–
– Provision for other future charges	(457)	(2,986)
Reallocations	**9,921**	**15,527**
Legal disputes	**8,605**	**10,111**
Other risks and charges	**1,316**	**5,416**
– Provision for recovery procedures	–	94
– Provision for tax disputes	–	3,000
– Provision for other future charges	1,316	2,322
Total	**1,092**	**4,745**

Net provisions for risks and charges concern the risk related to ongoing legal disputes, and others, to cover any loss that might arise in connection with contractual disputes of a commercial nature; they also include changes in provisions during the year as the timing of expected liabilities comes nearer, to reflect the financial component related to the time value of money.

Section 13 – Net adjustments to/recoveries on property and equipment
Line item 200

This line item includes the depreciation charge on property and other fixed assets.

13.1 Net adjustments/writebacks to property and equipment: breakdown

Asset/Element of income	Depreciation (A)	Impairment adjustments (B)	Write-backs (C)	Net result (A+B+C)	
				1st half 2015	1st half 2014
A. Property and equipment					
A.1 Owned by company	(17,175)	–	–	(17,175)	(22,635)
– used in the business	(16,746)	–	–	(16,746)	(22,173)
– for investment	(429)	–	–	(429)	(462)
A.2 Purchased under finance lease	–	–	–	–	–
– used in the business	–	–	–	–	–
– for investment	–	–	–	–	–
Total	**(17,175)**	**–**	**–**	**(17,175)**	**(22,635)**

The Parent Company revised the useful life of its buildings during the course of 2014.
This revision took place with the support of a valuation performed by an independent expert, who provided an estimate of the fair value of each property, leading, as a consequence, to an updated residual useful life.
As a result of this exercise, the useful life of the properties owned by the Parent Company has been determined to be between 15 and 30 years.

Section 14 – Net adjustments/writebacks to intangible assets
Line item 210

14.1 Net adjustments/writebacks to intangible assets: breakdown

Asset/Element of income	Depreciation (A)	Impairment adjustments (B)	Recoveries (C)	Net result (A+B+C)	
				1st half 2015	1st half 2014
A. Intangible assets					
A.1 Owned by company	(13,737)	–	–	(13,737)	(12,629)
– Internally generated	(98)	–	–	(98)	(205)
– Other	(13,639)	–	–	(13,639)	(12,424)
A.2 Purchased under finance lease	–	–	–	–	–
Total	**(13,737)**	**–**	**–**	**(13,737)**	**(12,629)**

Section 15 – Other operating charges/income
Line item 220

15.1 Other operating charges: breakdown

Element of income/Amount	1st half 2015	1st half 2014
Leasehold improvements booked to "Other assets"	(2,212)	(2,280)
Other operating charges	(4,550)	(4,496)
Total	**(6,762)**	**(6,776)**

15.2 Other operating income: breakdown

Element of income/Amount	1st half 2015	1st half 2014
Tax recoveries	45,633	41,792
Rental and leasing income	3,565	4,068
Income and IT services rendered to:	–	15
Group companies	–	–
Third parties	–	15
Recharge of costs	22,833	22,730
On deposits and overdrafts	14,336	15,078
Other	8,497	7,652
Other income	2,142	1,747
Total	**74,173**	**70,352**

	1st half 2015	1st half 2014
Total other operating charges/income (line item 220)	**67,411**	**63,576**

"Tax recoveries" are mainly the stamp duty on current accounts and securities deposits and the flat-rate tax on medium-term loans.

Section 16 – Profits (losses) on investments in associates and companies subject to joint control Line item 240

16.1 Profits (losses) on investments in associates and companies subject to joint control: breakdown

Element of income/Sectors	1st half 2015	1st half 2014
1) Jointly controlled entities		
A. Income	**211**	**315**
1. Revaluations	211	315
2. Profits on disposal	–	–
3. Writebacks	–	–
4. Other income		–
B. Charges	**–**	**–**
1. Writedowns	–	–
2. Impairment charges	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Net result	**211**	**315**
2) Companies subject to significant influence		
A. Income	**57,721**	**117,776**
1. Revaluations	57,721	13,302
2. Profits on disposal	–	104,474
3. Writebacks	–	–
4. Other income	–	–
B. Charges	**(1,398)**	**(1,672)**
1. Writedowns	(1,398)	(1,672)
2. Impairment charges	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Net result	**56,323**	**116,104**
Total	**56,534**	**116,419**

The "revaluations" and "writedowns" lines show adjustments to investments in jointly controlled entities and companies subject to significant influence, to align them with the corresponding portion of the investees' net equity at the balance sheet date, inclusive of the result for the year attributable to the Group.

Total net income attributable to the Group from investments carried at equity value amounted to 56.534 million. This amount is mainly attributable to BPM's share of the results of SelmaBipiemme Leasing, Anima Holding and Factorit. In particular, the result of SelmaBipiemme Leasing takes into account the positive effect of the increase in shareholders' equity following the absorption of Palladio Leasing.

The gain on sale in the first half of 2014 resulted from the sale of BPM's 18.44% stake in Anima Holding.

Section 18 – Goodwill impairment
Line item 260

18.1 Goodwill impairment: breakdown

The total value of goodwill was written down to zero in the first half of 2012.

Section 19 – Profits (losses) on disposal of investments
Line item 270

19.1 Profits (losses) on disposal of investments: breakdown

Element of income/Amount	1st half 2015	1st half 2014
A. Buildings	**–**	**–**
– Profits on disposal	–	–
– Losses on disposal	–	–
B. Other assets	**2**	**–**
– Profits on disposal	2	–
– Losses on disposal	–	–
Net result	**2**	**–**

Section 22 – Net income (loss) pertaining to minority interests
Line item 330

22.1 Breakdown of line item 330 "Net income (loss) pertaining to minority interests"

Net income (loss) pertaining to minority interests relates to the following consolidated companies:

Company	1st half 2015	1st half 2014
Net income (loss) from continuing operations pertaining to minority interests		
• Banca Popolare Mantova	(39)	12
• Banca Akros	208	297
Total	**169**	**309**

Section 24 – Earnings per share

The new international accounting standards (IAS 33) stress the importance of the “profit per share” ratio – commonly known as “EPS – earnings per share”, making its disclosure compulsory, in two versions:

- “Basic EPS”, calculated by dividing the net income attributable to the holders of the ordinary shares of the Parent Company by the weighted average number of ordinary shares outstanding during the period;
- “Diluted EPS”, calculated by dividing the net income by the weighted average number of ordinary shares outstanding during the period as adjusted for the dilutive effect of all potential shares, i.e. those financial instruments and/or contracts which give their owners the right to obtain ordinary shares.

The profit (or loss) from continuing operations during the year and the profit (or loss) from discontinued operations are shown separately.

24.1 Average number of diluted ordinary shares

The average number of ordinary shares used as the denominator in the calculation of **basic EPS** (4,390,388,893) was determined taking into account the number of ordinary shares outstanding during the period, adjusted by the number of treasury shares held. At 30 June 2015, there are no outstanding instruments that could have a dilutive effect on earnings per share; consequently, the basic and diluted EPS shown below are the same.
Basic and diluted EPS are therefore as follows:

Net income per share pertaining to the Group

(in Euro)	1st half 2015	1st half 2014
Basic EPS from continuing operations	0.035	0.055
Basic EPS from discontinued operations	–	–
Basic EPS	0.035	0.055
Diluted EPS from continuing operations	0.035	0.055
Diluted EPS from discontinued operations	–	–
Diluted EPS	0.035	0.055

Part E - Information on risks and related hedging policies

Section 1 – Risks of the Banking Group

Unless indicated otherwise, the information contained in Section 1 "Risks of the Banking Group" only refers to the banking group. The figures are shown prior to elimination of intercompany transactions with other consolidated companies not included in the Banking Group and conventionally also include assets and liabilities of banking, financial and near-banking joint ventures in proportion to the interest held.

Within Bipiemme Group there are: two companies (Bpm Securitisation 2 Srl and Bpm Securitisation 3 Srl) that are consolidated line-by-line but which are not part of the Banking Group, given that they are special purpose vehicles for securitisations and in which no equity interests are held; one jointly controlled company (Calliope Finance Srl), which, in the consolidated financial statements, is measured using the equity method.

Please note that the figures contained in the other sections of these notes (in part B and C) include the figures of companies which are not part of the Banking Group and exclude the figures relating to the joint ventures.

Introduction

The Risk management process

The process by which the Bipiemme Group manages the risks to which it is or might be exposed is based on the so-called Risk Appetite Framework (RAF), the instrument through which the corporate bodies approve the Group's mission in terms of risk, through a comprehensive and structured approach that has implications for governance and for the processes of integrated risk management and widespread impacts on almost all business functions.
The RAF is a framework that defines – in line with the maximum acceptable risk, the business model and the strategic plan – the risk appetite, the risk limits and objectives, the thresholds of tolerance, the risk governing policies and the processes needed to define and implement them In this context, the long-term vision of the desired risk profile was made explicit and the area of risk within which the Group intends to operate was defined.
The RAF can be set up both in terms of metrics and limits and in terms of quality guidelines. In 2014 the Bank completed the Risk Governance project with the objective of rendering the RAF fully effective via:

- operational application of the overall framework by defining KPI/metrics in greater detail;
- the definition and formalisation of key processes;
- identification of the approaches to oversight and compliance with the limits, as well as the actions of escalation in the event that the risk profile established by the Corporate Bodies is exceeded.

The definition of risk appetite is a useful management tool that, in addition to allowing practical application of the Supervisory Authority's instructions, also makes it possible:

- to strengthen the ability to govern and manage business risks;
- to support the strategic process;
- to facilitate the development and dissemination at all levels of an integrated risk culture;
- to develop a rapid and effective system of monitoring and reporting the risk profile;
- to guide escalation actions and lay the foundations for the Recovery Plan.

The RAF has to be integrated with key business processes in line with the New Minimum Capital Requirements for Banks: *"Banks ensure consistency and timely compliance between the business model, strategic plan, risk appetite framework, ICAAP, budget, corporate organisation and the internal control system"*.

With full declension of the Risk Appetite framework in the first half of 2015, the activities that involve discussing and agreeing the RAF with the Supervisory Authorities (the European Central Bank's Joint Supervisory Team), which has verified the overall structure and operational tools, as well as its consistency with the business model, strategic plan, ICAAP, budget and the overall system of internal controls.

As regards the Corporate Bodies' role and responsibilities and in accordance with the Supervisory Regulations, the Management Board of the Parent Company is responsible for making strategic decisions concerning risk management and control at Group level, with a view to achieving an integrated and coherent risk management policy that, at the same time, takes into account the type of operations and associated risk profile of each Bipiemme Group company, with the aim of preserving the Group's sound and prudent management.
In November 2014 BPM's Management Board set up a Risk Committee, which was set up as a sub-committee of the former, in compliance with the Bank of Italy Circular no. 285, with functions of strategic supervision of risk and of the internal control system; the Board Committee works alongside the Group Risks Committee, set up by the Bipiemme Group in 2013 to support the corporate bodies in achieving integrated management of risks. The latter meets at least once a month and has the task of supervising the integrated management of all business risks to which the individual members of the Group and the Group as a whole are exposed to.
The tasks assigned thereto, among other, are:
- to discuss and share the Risk Appetite Framework, proposing to the Management Board - through the Managing Director – for its approval, the quantitative measures on which the RAF is based, as well as the various thresholds such as Risk Capacity (internal or regulatory constraint), Tolerance (maximum deviation allowed), Trigger (budget target), Target (objective of the Business Plan) and Profile (risk actually taken at a given point in time). It is informed by Risk Management on the opinions provided for more significant transactions;
- to approve the risk limit in accordance with the risk appetite defined by the Strategic Supervisory Body and propose to the Managing Director, in the event that the tolerance limit is exceeded, the management/operational actions required to bring the risk back down to the target level (so-called contingency and recovery actions);
- to ensure that the risk management process is consistent with the risk appetite and risk governance policies, taking into account any changes in the internal and external conditions in which the Group operates;
- to define the criteria to be followed and activities to be carried out to maintain control over risk management and its adequacy on an ongoing basis;
- to define and/or request, as appropriate, measures to be taken to eliminate any weaknesses observed in the risk management processes;
- to monitor on a continuing basis the evolution of business risks and compliance with the limits on the various types of risk that can be taken;
- to facilitate the development and implementation of specific indicators able to detect anomalies and inefficiencies in the risk measurement and control models;
- to facilitate the development and dissemination at all levels of an integrated risk culture in relation to the various types of risk, extended to the whole of the Bipiemme Group.

The monitoring and control of risk is delegated to the Risk Management function of the Parent Company, which has the task of monitoring risk at Group level, ensuring the development and continuous improvement of methodologies and models used in their measurement. The Risk Management function also coordinates the formulation and implementation of the RAF and related risk governance policies through an adequate risk management process, defined as the identification, measurement or assessment, monitoring, prevention, mitigation and communication of the risks to which the Group is or could be exposed.
In the case of market risks, the Parent Company's Risk Management function also makes use of the work performed by the equivalent function at Banca Akros.
For these purposes, the Parent Company:
- ensures that the same methods, measurement criteria and control tools are used throughout the Group and that they are suitable for the type and size of the risks being assumed;
- makes sure that the corporate bodies of the subsidiary companies are involved in the decisions made concerning risk management procedures and policies;
- performs the periodic assessment of the Group Risk Profile as part of the Risk Management reporting (actual risk assumed by the Group, measured at a given point in time) and compares it with the threshold values laid down in the RAF.

The Bank's internal control system (ICS) reflects an articulated, systemic vision, which sets out the general principles that are designed to ensure the correct and effective management of the systems to be checked for risks, defining, in particular, how they function and the guidelines for the monitoring and coordination of the Group companies' control activities.
More specifically, the 15th update of the Bank of Italy's Circular no. 263 defines the internal control system as a set of rules, functions, structures, resources, processes and procedures designed to ensure the achievement of the following goals in accordance with sound and prudent management:

- checks on the implementation of corporate strategies and policies;
- mitigation of risk within the limits laid down in the RAF;
- protection of the value of assets and protection against losses;
- effectiveness and efficiency of business processes;
- reliability and security of corporate information and IT procedures;
- prevention of the risk that the Group may be involved, even unwittingly, in unlawful activities (with particular reference to those related to money laundering, usury and the financing of terrorism);
- compliance of operations with the law and regulatory provisions, as well as with internal policies, regulations and procedures.

As part of a more general process of value creation for the Group, the correct functioning, formalisation and updating of the Organisational Model for the ICS are also essential conditions for the maintenance of this process, given that the methods for carrying out business processes always have to be suitably aligned with the processes of governance and control.
This Model constitutes a point of reference for a common, standard approach on the part of the entire Group, which presumes widespread knowledge of its contents, complete awareness of the underlying assumptions and common acceptance of the values on which it is based.
The Parent Company also favours the development of a suitable risk corporate culture also based on customer assistance, providing them with adequate information also regarding complaints and matters that need reporting. This represents, above all, a means of protection for customers, while also supplementing the Group's own ICS.

Based on the relevant generally accepted principles, on the Supervisory Regulations of the Bank of Italy and on the Code of Conduct of Borsa Italiana S.p.A., it is possible to affirm that the ICS consists of a set of rules, procedures and organisational structures that, through a suitable process of identification, permits:

- the measurement, management and monitoring of risks to which the Group is or might be exposed;
- the company to be run in a healthy, correct and consistent way in line with objectives set by the governing bodies;
- the safeguarding of the company's assets, the efficiency and effectiveness of its operations, the reliability of the financial reporting process and compliance with all laws and regulations.

The adequacy, efficacy and effective functioning of the System of Internal Control are assessed, according to their respective areas of competence, by:

- the Management Board of the Parent Company, which is responsible for risk management and internal controls in accordance with art. 39, paragraph 2.d of the Articles of Association, without prejudice to the powers and duties of the Supervisory Board;
- the Managing Director of the Parent Company, who has been assigned the power to promote integrated risk management (art. 45, paragraph 2.m, of the Articles of Association);
- the Supervisory Board of the Parent Company, which is responsible for the assessment of the level of efficiency and adequacy of the internal control system, with particular regard to risk control, the internal audit function and the accounting and reporting system; it also checks that the Parent Company properly performs its strategic and management control activities over the other Group companies (art. 51.e of the Articles of Association);
- the Parent Company's Internal Control and Audit Committee is the means by which the Supervisory Board carries out its control functions and the Committee has to respond to it with up-to-date and timely information;
- the Parent Company's Internal Auditing Department, which carries out audit work, the Compliance Department, which checks compliance with the Bank's policies, and the Risk Management Department, which is responsible at Group level for the monitoring of risk and the implementation of processes to ensure risk management.

As regards the principal risks to which the Group is exposed, for credit, and concentration risk, the Parent Company ensures that a Group lending and credit management policy is defined and adopted, that “significant exposures” are monitored centrally and that the overall quality of the loan and commitment portfolio is kept under control. The Parent Company is also responsible for setting up and maintaining the internal rating system, which is currently used in various processes: granting/renewing credit, monitoring and measurement of credit risk, calculating portfolio adjustments, measuring risk-adjusted performance, defining risk-adjusted pricing for new lending operations.

In matters of financial risks (market risk, counterparty risk, liquidity risk, interest rate risk on the banking book), the Parent Company's Management Board identifies and authorises the Group companies that can assume and manage its own financial risks in compliance with the limits established by the Parent Company.

With reference to market risk, the limit system for the various types of portfolio is organised as follows:
- company macro-limits, i.e. the maximum exposure that can be assumed by the companies authorised to take on financial risks;
- directional limits, meaning the allocation of company limits to individual portfolios, to be defined in specific Regulations for Financial Operations for each company.

The Group's Finance Committee ensures the coordination of the Group's policies for investing in financial assets, as well as the implementation of the liquidity policy and the monitoring and management of exposure to interest rate risk on the banking book.
In particular, the Committee performs the following tasks:
- monitoring the Group's operational and structural liquidity – by checking exposure to short-term liquidity gaps, the exposure on the interbank market, cash flow and the pricing of intragroup liquidity – and the definition of guidelines for managing liquidity;
- approving new banking book investments, within the limits established by the Management Board of the Parent Company on proposal of the Risk Committee;
- monitoring the activity of the Asset & Liability Management (ALM) function and defining corrective policies to balance the exposure of the banking book to interest rate risk for the Group as a whole and for the individual companies

As regards operational risk, the Parent Company has responsibility for setting up the system of operational risk management and control, this being understood as a structured series of processes, functions and resources for the identification, measurement, valuation and control of operational risk.
The Parent Company's Risk Management Department supervises activities in the field of Operational Risk and coordinates the Operational Risk Managers of the various Group banks.

Through the Risk Management function, the Parent Company ensures the measurement, monitoring and management of the capital requirements for each type of risk, while through the Planning function it ensures the monitoring and quantification of the Group's capital resources to comply with the regulatory obligations of the First and Second Pillar of Basel 2.
In particular, centralised control over the Group's capital adequacy, which involves comparing the amount of available capital with the capital requirements deriving from the risks to which the Group is exposed, on an actual and prospective basis, in conditions of normality and of stress, is carried out through the Internal Capital Adequacy Assessment Process, as required by the "Minimum Capital Requirements for Banks" (Circular 285/2013).
The Parent Company also performs continuous measurement, monitoring and management of the consolidated capital ratios, defining their target levels in the medium term in line with the evolution of regulatory requirements.

As regards the Second Pillar, in April 2015, all the information on the management and quantification of risks and capital absorption, based on the actual position at 31 December 2014 and on the prospective position at 31 December 2015, was collected and summarised by the Planning Function and embodied in a document entitled "ICAAP report". This also contains information on unquantifiable risks (for example, reputational risk, liquidity risk and business risk etc.) and on details of organisational controls put in place by the Group to monitor and mitigate them. The 2014-2015 ICAAP report, which was submitted to the Parent Company's strategic and control functions, then it was approved by the Corporate Bodies and subsequently sent to the Bank of Italy in compliance with supervisory regulations

1.1. Credit risk

Qualitative information

1. General aspects

The policies for managing and controlling the quality of the loan book and the associated risks are based on rules of sound and prudent management.
They are implemented through the processes of disbursing, managing and monitoring credit for which specific activities are required and special instruments made available for controlling the risk that varies according to the circumstances of the market and business sector and type of individual borrower.
The Parent Company BPM grants credit to households and businesses in its territory in order to meet their needs and to help them achieve sustainable growth, with the goal of increasing profitable long-term relationships, encouraging development and the arrival of new customers, in compliance with objectives of proper management of the risk/return profile. As a local bank, the Parent Company gives preference to development activities geared to small and medium-sized Italian companies.
The loan portfolio is closely monitored on a ongoing basis in order to rapidly identify any symptoms of imbalance and to take corrective action to prevent any deterioration.

2. Credit risk management policies

2.1 Organisational aspects

At each company in the Group, the lending activity is supervised by a specific function dedicated to credit disbursement and control by means of well identified and suitably empowered structures. All of the structures involved are called upon to grant and manage credit, as well as to control credit risk, making use of appropriate procedures, of which the internal rating system is an integral part, to set up the dossier, determine credit-worthiness and, more generally, to follow the relationship over time.
The credit "chain" for the commercial banks offers the possibility that in the presence of low risk (in rating terms) and for amounts that form part of the duties foreseen in the current Credit Line Regulations, proposals can be decided locally by the Commercial Network. If the risk is classed as "medium" or "high" – and, in any case, as may be required by parameters laid down by the aforementioned regulations – the "Credit and Loans Function", which is a structure dedicated to the detailed analysis of a counterparty's credit-worthiness, takes over. This function comprises specialists who, by virtue of their greater experience, carry out the necessary reviews for analysing the proposed loan and deciding accordingly or who prepare a report for presentation to the Bank's management boards and committees, in accordance with the power established by the Credit Line Regulations.
Ratings can only be changed by "raters" specifically appointed for this purpose, who do not have any power of approval for loans. Any change that upgrades or downgrades the rating developed by the model is limited to within a certain range, it has to be motivated and usually has to be attributable to particular circumstances that have not be adequately reflected by the statistical models or in the presence of events involving particularly high risk.

2.2 Management, measurement and control systems

For the assessment of the credit standing of performing counterparties, the Bipiemme Group uses an internal rating system (IRS) which has been developed internally. From a quantitative point of view, the Bank has implemented statistical models for calculating the ratings to be given to counterparties split into four customer macrosegments based on turnover (or equivalent) and/or size of credit line: Individuals, Small Businesses, SMEs and Corporates.
The internal rating system is used in the following processes:

- the assessment of credit-worthiness carried out when granting and renewing a line of credit;
- monitoring of existing risk;
- the definition of lending policies;
- reporting to management;
- collective writedown of loans in the balance sheet;
- risk-adjusted pricing;
- analytical management reporting;
- control over capital adequacy (ICAAP process);
- measurement of value.

All of the credit processes use the counterparty rating as a decision-making "driver" and are considered in function of the specific nature of the various customer segments in order to optimise use of the resources involved in managing and monitoring credit, as well as to achieve a reasonable balance between commercial aggressiveness and effective credit management.
During the credit granting stage, whether as a first-time credit facility or for the renewal/review of a revocable line of credit, the rating is one of the key elements in defining which body has decision-making power: with the completion of the proposal according to the outcome of the customer assessment and the amount/category of risk of the loan being proposed, the system automatically assigns the decision-making level required for approval. It also has an influence on how the automatic renewal mechanism is applied to revocable positions.
Usually, subject to changes in the lending rules, the assignment to a particular decision-making body takes place as follows:

- with a rating in the "low risk" area, the decision can be taken at a local level, providing the amounts are below the assigned limits; otherwise, the decision is passed to a higher level in accordance with the current Credit Line Regulations;
- with a rating classified as "medium or high risk", even for amounts that fall within approved local limits, the decision is taken by the Credit and Loans Function/Credit and Loans Committee for amounts that fall within their approved limits and at the conditions laid down in the regulations;
- in the case of an override request, after the assignment of a definitive rating by the responsible function, which has no decision-making powers, the system updates the results of the applicant's assessment and then determines which function should be responsible for the approval thereof.

The credit granting process: corporate, SME and Small Business segments

In the process of granting of credit to counterparties within the "Businesses" segments (Corporates, SMEs and Small Businesses) as defined on the basis of size thresholds in the annual process of segmentation, a central role was given to the use of ratings, with the aim of providing users with all relevant information on the relationship:

- details of all of the elements that led to the definitive rating;
- the visibility of the historical rating for the last 12 months;
- details of the reasons for exclusion from the rating calculation (financial statements too remote in time, qualitative questionnaire expired, etc.).

In addition to applying common rules over the granting of credit (e.g. external negative deeds control, internal risk situations, etc.), the rating also constitutes an essential element in assessing a customer, so it is not allowed to go ahead with a preliminary investigation if any of the elements needed to calculate the rating is missing, both for the applicant and for any guarantors.
Moreover, during the course of the preliminary investigation, it is possible for the relationship manager to ask for a change in or "override" of the applicant's rating or that of any guarantors, providing the request is substantiated and supported by adequate documentation.
Such requests are evaluated by specialist raters in the Credit and Loans Function, who do not have decision-making power in the lending process; the evaluation and assignment of the definitive rating is entirely up to the raters, who can refuse or accept the change.

The decision to provide an override function exclusively for these segments depends on the desire to take into account information contributed by sector experts to integrate the automatic rating with non-standard data of a qualitative nature.
For Small Business customers alone, there is automatic renewal of consecutive lines of credit in order to lessen the burden of administrative duties on the sales network.
For consecutive lines of credit of a customer in the Small Business segment to be automatically renewed, however, certain requirements relating to the portfoliation and limited risk of the positions on an ongoing basis have to be satisfied. In any case, Small Business positions already under automatic renewal in the previous period are excluded from automatic renewal.

The credit granting process: Individuals segment

As regards the Individuals Segment, the process of granting credit differs during the investigatory phases depending on the product that the customer has requested (overdraft, mortgage, personal loan, special purpose loan).
The dossier includes not only the acceptance rating, but also the so-called "performance rating", if one has been carried out, the analysis of the rating on the financial system assigned by the credit reference bureau, as well as the application of common rules over the granting of credit, differentiating according to the specific needs of each type of credit facility (e.g. external negative deeds control, internal risk situations, limits on the ratio between repayments and income, the presence of residual debt on the building, limits on the "loan to value" , the maximum age of the applicant, etc.).
The process also provides access to "black list" databases according to the requirements of the applicable anti-money laundering regulations.
The process of renewal/review of the credit line granted to individuals provides for the use of the performance rating system as a support in determining:
- automatic renewal (without any change in existing credit lines);
- risk analysis during the preliminary investigation.

Credit monitoring process

Control over the credit risk in individual performing exposures is guaranteed by a monitoring process that systematically examines internal and external events and information to identify any signs of a deterioration in the relationship, proposing suitable changes to the rating.
Performance control is therefore reflected in the rating level, providing a single approach to measuring credit risk.
The entire process is characterised by:
- a high level of operating automation;
- centralised management of control policies;
- the transparency and traceability of the decisions taken by the operators assigned to control functions;
- the interaction between these control functions and the commercial network on internal rating matters, making sure that integrity is maintained.

As part of this process, it is also possible to change a rating, a faculty that is assigned to a specific function that monitors the loan portfolio, but without the power to authorise loans. Rating changes can take place on the initiative of this structure when risk situations clearly arise without having been flagged by the performance control systems, or to update a rating when information has not been processed in the right way by the automatic rating systems; in such situations, these are called "monitoring interventions". Rating changes can also be requested by the managers of the relationship as part of the processes of confirmation or revision of credit lines, which are then assessed by the monitoring structure. It can only intervene for companies and has to stay within a specific variation range. Such changes are called "override" in the strictest sense.
Closely related to credit risk is concentration risk, which results from particularly high exposures to counterparties or groups of connected counterparties, or that belong to the same economic sector, engaged in the same activity, or that reside or do business in the same geographical area.

The Group uses therefore a system of limits on loan exposures for specific purposes, essentially to avoid excessive concentration of risk with a single customer or group of related customers in relation to the free capital. This limit system is defined and updated periodically.

Stress tests are carried out on the loan portfolio to assess the resilience of credit exposures in periods of potential economic weakness and the impact on the Group's overall capital adequacy. In this context, BPM gives preference to scenario analyses instead of sensitivity analyses as they are closer to reality. We have therefore chosen a set of economic and financial variables whose movements have a significant impact on all of the risks to which the Group is exposed.

2.3 Credit risk mitigation techniques

The Bipiemme Group requests guarantees against credit risk on a selective basis according to the customer's credit rating. In this case, granting the loan depends on obtaining the guarantee. Guarantees are either secured, particularly by mortgages and securities, or unsecured.
In the case of mortgages, the value of the registration is equal to:

- one and a half times the amount of funding granted for any length of time to individuals (twice in case of taking on a mortgage on the subdivision of a building loan);
- twice the amount of funding granted for any length of time to companies.

In order to ensure effective acquisition and management of guarantees, the Group has defined the general requisites to be submitted to control with regard to property guarantees, financial pledges (cash and cash equivalents) and personal guarantees.
For property mortgages, there is a specific monitoring process characterised by:

- setting up a master file of property granted as collateral for mortgage loans;
- the continuous update of databases, by means of internal control processes or by the automatic acquisition of information from specialised suppliers (e.g. the value indicated by an expert appraisal);
- the automatic revaluation of the value of the property based on price trends shown periodically by the real estate market observatory (Land Registry Office).

In the case of collateral, the valuation process follows the procedures and frequency applicable to the specific form of guarantee received.
Unsecured guarantees are obtained after assessing the adequacy of the guarantor's assets and personal credit rating, where available.
Special dedicated structures within the Credit, Risk Management and Operations Functions (Smart Center) supervise the collection, processing, administration and monitoring of guarantees.
Actions already taken by the Group in recent years, as a result of the issues reported by the Bank of Italy following their inspection in 2011, whereby capital add-ons were imposed on BPM, have led to the complete removal thereof as per the communication of the Supervisory Authority of 25 June 2014.

2.4 Impaired financial assets

Specialist units within the Credit and Loans Function have the task of managing impaired credit positions, made up of overdue and non-performing loans, and of following the recovery process.
Once an "impairment" status has been ascertained, these units take steps, together with the commercial network, to restore the position to a performing one. If this is not possible, a disengagement plan is agreed; if this fails, the positions in default are referred to a specific department for the purposes of initiating specific procedures to protect the Group's credit.
It is hereby disclosed that the Group has not been party to any purchases of impaired loans from third parties.
Lastly, due to new reporting requirements having been introduced for forborne loans, the Group took steps to implement appropriate methodologies for the correct identification thereof. These methodologies, which take account of risk factors (rating class) and evidence of continuous monitoring, such as, for example, the number of days past due, are in line with the indications provided by the EBA.
During the first half the Group also defined and published its policy guidelines relating to forborne exposures and is implementing a comprehensive and systematic process of evaluation, identification and monitoring of forborne loans, which involves various steps, and according to their duties, the commercial network, the Credit function and the Risk Management function.

Quantitative information

A. Asset quality

A.1 Impaired and performing positions: balance, impairment adjustments, change, distribution by business segment and geographical location

ITables A.1.1. and A.1.2 comprise both the figures related to companies belonging to the banking group and to other consolidated companies. At 30 June 2015, consolidated companies that do not form part of the Banking group are Bpm Securitisation 2 Srl. and Bpm Securitisation 3 Srl.

These tables only include the figures related to companies belonging to the Banking Group. These include, conventionally, a proportion of the assets and liabilities of the Group's banking, financial and instrumental joint ventures. At 30 June 2015, the only joint venture is Calliope Finance Srl.

A.1.1 Distribution of credit exposures by originating portfolio and credit quality (book value)

Portfolio/quality	Banking group					Other companies		Total
	Bad loans	Unlikely to pay	Past due	Non-impaired overdue positions	Other activities	Impaired	Other activities	
1. Financial assets held for trading	1	2,522	25	–	1,726,306	–	–	**1,728,854**
2. Financial assets available for sale	–	18,790	–	–	8,984,803	–	–	**9,003,593**
3. Investments held to maturity	–	–	–	–	–	–	–	**–**
4. Due from banks	500	–	–	–	1,056,352	–	105,879	**1,162,731**
5. Loans to customers	1,456,048	2,131,316	90,523	1,414,814	28,390,328	–	–	**33,483,029**
6. Financial assets designated at fair value through profit and loss	–	9,130	–	–	72,280	–	–	**81,410**
7. Financial assets due for disposal	–	–	–	–	–	–	–	**–**
8. Hedging derivatives	–	–	–	–	161,979	–	–	**161,979**
30.06.2015	**1,456,549**	**2,161,758**	**90,548**	**1,414,814**	**40,392,048**	**–**	**105,879**	**45,621,596**
31.12.2014	**1,344,875**	**2,122,299**	**136,048**	**1,248,324**	**39,161,273**	**–**	**183,725**	**44,196,544**

A.1.2 Distribution of credit exposures by originating portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired assets			Performing positions			Total (Net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Specific adjustments	Net exposure	
A. Banking group							
1. Financial assets held for trading	7,064	4,516	2,548	x	x	1,726,306	**1,728,854**
2. Financial assets available for sale	30,435	11,645	18,790	8,984,803	–	8,984,803	**9,003,593**
3. Investments held to maturity	–	–	–	–	–	–	**–**
4. Due from banks	11,036	10,536	500	1,058,249	1,897	1,056,352	**1,056,852**
5. Loans to customers	6,062,179	2,384,292	3,677,887	30,006,345	201,203	29,805,142	**33,483,029**
6. Financial assets designated at fair value through profit and loss	11,144	2,014	9,130	x	x	72,280	**81,410**
7. Financial assets due for disposal	–	–	–	–	–	–	**–**
8. Hedging derivatives	–	–	–	x	x	161,979	**161,979**
Total A	**6,121,858**	**2,413,003**	**3,708,855**	**x**	**203,100**	**41,806,862**	**45,515,717**
B. Other companies included in the scope of consolidation							
1. Financial assets held for trading	–	–	–	x	x	–	**–**
2. Financial assets available for sale	–	–	–	–	–	–	**–**
3. Investments held to maturity	–	–	–	–	–	–	**–**
4. Due from banks	–	–	–	105,879	–	105,879	**105,879**
5. Loans to customers	–	–	–	–	–	–	**–**
6. Financial assets designated at fair value through profit and loss	–	–	–	x	x	–	**–**
7. Financial assets due for disposal	–	–	–	–	–	–	**–**
8. Hedging derivatives	–	–	–	x	x	–	**–**
Total B	**–**	**–**	**–**	**x**	**–**	**105,879**	**105,879**
30.06.2015	**6,121,858**	**2,413,003**	**3,708,855**	**x**	**203,100**	**41,912,741**	**45,621,596**
31.12.2014	**5,881,788**	**2,278,566**	**3,603,222**	**x**	**211,289**	**40,593,322**	**44,196,544**

The following table shows the aggregate of "Loans to customers" (item 5 of the previous table, in the "net performing exposures" column), the values of loans subject to renegotiation in collective agreements and other exposures. Overdue positions for both groups are broken down by maturity.

Portfolios/ageing of past due	up to 3 months (*)	from 3 to 6 months	from 6 months to 1 year	past due for more than 1 year	Non past due	Total
Exposures subject to renegotiation under collective agreements (relating to renegotiations with customers in difficulties)	12,127	16,198	11,338	3,423	185,940	**229,026**
Exposure subject to renegotiation under collective agreements (other)	15,266	11,997	4,016	101	225,383	**256,763**
Exposure subject to renegotiation under collective agreements	**27,393**	**28,195**	**15,354**	**3,524**	**411,323**	**485,789**
Other Exposures (relating to negotiations with customers in difficulties)	23,888	7,342	28,016	2,045	343,644	**390,732**
Other Exposures (other)	990,495	198,976	58,919	30,667	27,635,361	**28,928,621**
Total other exposures	**1,014,384**	**206,318**	**86,935**	**32,712**	**27,977,172**	**29,319,353**
Total performing positions	**1,041,777**	**234,513**	**102,283**	**38,067**	**28,388,495**	**29,805,142**

(*) The balance of "Exposures up to 3 months" does not include loans with one instalment overdue by 1 day for 1,550 million euro (1,415 million Euro at 31.12.2014).

A.1.3 Banking Group – Cash loans and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	General adjustments	Net exposure
A. CASH EXPOSURES				
a) Bad loans	11,037	10,536	X	501
b) Unlikely to pay	25,043	6,253	X	18,790
c) Past due	–	–	X	–
d) Other assets	1,546,927	X	1,897	1,545,030
TOTAL A	**1,583,007**	**16,789**	**1,897**	**1,564,321**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	960	960	X	–
b) Other	1,640,578	X	25	1,640,553
TOTAL B	**1,641,538**	**960**	**25**	**1,640,553**
TOTAL A+B	**3,224,545**	**17,749**	**1,922**	**3,204,874**

A.1.4 Banking Group – Cash loans to banks: changes in gross impaired exposures

Description/Categories	Bad loans	Unlikely to pay	Past due
A. Gross exposure at the beginning of period	**10,289**	**–**	**–**
– of which: exposures sold but not eliminated	–	–	–
B. Increases	**955**	**25,043**	**–**
B.1 transfers from performing positions	–	25,043	–
B.2 transfers from other categories of impaired exposures	–	–	–
B.3 other increases	955	–	–
C. Decreases	**207**	**–**	**–**
C.1 transfers to performing positions	–	–	–
C.2 write-offs	–	–	–
C.3 collections	207	–	–
C.4 recovery through disposals	–	–	–
C.4 *bis* losses on disposal	–	–	–
C.5 transfers to other categories of impaired exposure	–	–	–
C.6 other decreases	–	–	–
D. Closing gross exposure at the end of the period	**11,037**	**25,043**	**–**
– of which: exposures sold but not eliminated	–	–	–

A.1.5 Banking Group – Cash loans to banks: changes in total adjustments

Description/Categories	Bad loans	Unlikely to pay	Past due
A. Total writedowns at the beginning of the period	**9,827**	**–**	**–**
– of which: exposures sold but not eliminated	–	–	–
B. Increases	**916**	**6,253**	**–**
B.1 adjustments	209	6,253	–
B.1 *bis* losses on disposal	–	–	–
B.2 transfers from other categories of impaired exposures	–	–	–
B.3 other increases	707	–	–
C. Decreases	**207**	**–**	**–**
C.1 writebacks	–	–	–
C.2 writebacks on collection	207	–	–
C.2 *bis* profits on disposal	–	–	–
C.3 write-offs	–	–	–
C.4 transfers to other categories of impaired exposures	–	–	–
C.5 other decreases	–	–	–
D. Total writedowns at the end of the period	**10,536**	**6,253**	**–**
– of which: exposures sold but not eliminated	–	–	–

A.1.6 Banking Group – Cash loans and off-balance sheet exposures to customers: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	General adjustments	Net exposure
A. CASH EXPOSURES				
a) Bad loans	3,231,844	1,775,796	X	1,456,048
b) Unlikely to pay	2,760,903	619,072	X	2,141,831
c) Past due	100,193	9,670	X	90,523
d) Other assets	39,163,601	X	201,203	38,962,398
TOTAL A	**45,256,541**	**2,404,538**	**201,203**	**42,650,800**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	553,919	36,073	X	517,846
b) Other	7,203,909	X	10,641	7,193,268
TOTAL B	**7,757,828**	**36,073**	**10,641**	**7,711,114**
TOTAL A+B	**53,014,369**	**2,440,611**	**211,844**	**50,361,914**

A.1.7 Banking Group – Cash loans to customers: change in gross impaired exposures

Description/Categories	Bad loans	Unlikely to pay	Past due
A. Gross exposure at the beginning of period	**3,051,730**	**2,670,106**	**148,547**
– of which: exposures sold but not eliminated	124,738	34,310	9,984
B. Increases	**277,224**	**608,429**	**246,327**
B.1 transfers from performing positions	7,161	370,990	238,649
B.2 transfers from other categories of impaired exposures	257,220	97,476	2,935
B.3 other increases	12,843	139,963	4,743
C. Decreases	**97,110**	**517,632**	**294,681**
C.1 transfers to performing positions	–	117,008	188,271
C.2 write-offs	41,979	17,190	–
C.3 collections	46,877	126,847	10,131
C.4 recovery through disposals	962	–	–
C.4 *bis* losses on disposal	1,510	–	–
C.5 transfers to other categories of impaired exposure	4,779	256,573	96,279
C.6 other decreases	1,003	14	–
D. Closing gross exposure at the end of the period	**3,231,844**	**2,760,903**	**100,193**
– of which: exposures sold but not eliminated	131,352	36,565	11,900

"Other decreases" (line C.6) relate for 322 thousand euro to the recovery of assets under finance leases for which the purchase option was not exercised.

A.1.8 Banking Group – Cash loans to customers: change in total adjustments

Description/Categories	Bad loans	Unlikely to pay	Past due
A. Total writedowns at the beginning of the period	**1,707,326**	**550,763**	**12,499**
– of which: exposures sold but not eliminated	30,559	2,554	628
B. Increases	**158,345**	**177,925**	**1,229**
B.1 adjustments	109,943	176,749	1,229
B.1 *bis* losses on disposal	1,510	–	–
B.2 transfers from other categories of impaired exposures	42,597	–	–
B.3 other increases	4,295	1,176	–
C. Decreases	**89,875**	**109,616**	**4,058**
C.1 writebacks	36,562	40,743	4,057
C.2 writebacks on collection	8,884	9,085	–
C.2 *bis* profits on disposal	940	–	–
C.3 write-offs	41,979	17,190	–
C.4 transfers to other categories of impaired exposures	–	42,597	–
C.5 other decreases	1,510	1	1
D. Total writedowns at the end of the period	**1,775,796**	**619,072**	**9,670**
– of which: exposures sold but not eliminated	31,991	3,146	780

C. Securitisation transactions

Qualitative information

Securitisation transactions of the Parent Company

In 2006 the Parent Company finalised the securitisation which involved transferring without recourse, as permitted by Law 130 of 30 April 1999, a portfolio of around 2,011.3 million euro in performing loans to BPM Securitisation 2 S.r.l. These loans refer to property and other secured loans given by the Company itself and backed by first-degree mortgages.
The BPM Securitisation 2 operation was given a rating by the main agencies: that will look after the annual monitoring for the entire duration of the operation.
The operation involved BPM Securitisation 2 S.r.l. issuing in July 2006 the following series of senior securities with limited recourse for a total of 2,015.3 million euro, with ratings of AAA, AA and BBB, listed on the Luxembourg Stock Exchange and destined for the domestic and international market, and a subordinated line of credit made available by the Parent Company:

Security	Original amount (in millions of euro)	Amount at 30 June 2015 (in millions of Euro)	Characteristics
Class A1 – Aaa/AAA	350	0	expected average weighted life of 1.57 years and credit enhancement of 5.82%, bearing interest of 3-month Euribor +6 basis points.
Class A2 – Aaa/AAA	1,574.6	279.4	expected average weighted life of 6.72 years and credit enhancement of 5.82%, bearing interest of 3-month Euribor +14 basis points.
Class B – Aa2/AA	40.3	13.8	expected average weighted life of 9.45 years and credit enhancement of 3.82%, bearing interest of 3-month Euribor +20 basis points.
Class C – Baa2/BBB	50.4	50.4	expected average weighted life of 14.25 years and credit enhancement of 1.32%, bearing interest of 3-month Euribor +70 basis points.
Total	**2,015.3**	**343.6**	

The Senior securities feature a sequential type of amortisation profile, with pro-rata amortisation being adopted upon the occurrence of certain events agreed with the rating agencies. There is also a clean-up option in the Company's favour if the residual nominal value of the securitised portfolio (expected maturity 15 July 2020) is equal to 10% or less of the portfolio's initial nominal value.
At 30 June 2015, the whole of "Class A1", 1,295.2 million euro of "Class A2" and 26.5 million euro of "Class B" were reimbursed. Moreover, the Bank bought back various tranches of Class A2 securities from 2008 to 2015 worth a total of 83.1 million euro at the balance sheet date.

For further details on this operation and its accounting treatment in the financial statements, see the information provided in the consolidated financial statements at 31 December 2014.

At the date of the financial statements the securitisation transaction is represented as follows:

Euro/000

	30.06.2015	31.12.2014
Principal balance sheet aggregates		
Loans to customers	356,669	390,688
Due from banks (cash and cash equivalents of the special purpose vehicle)	28,489	29,583
Securities issued	209,670	235,029
Economic result of the operation	**2,172**	**5,163**

Other securitisation transactions

The Group holds certain securities in its loan book that are linked to the securitisations of third-party issuers. These investments are of relatively modest amounts and constitute a residual alternative form of loan diversification.

Quantitative information

C.1 Banking group – Exposures arising from securitisation transactions broken down by quality of the underlying assets

Quality of underlying assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	**83,068**	**83,095**	**50,401**	**50,476**	**10,127**	**10,703**
a) Impaired	–	–	–	–	–	–
b) Other	83,068	83,095	50,401	50,476	10,127	10,703
B. With underlying assets of third parties:	**19,146**	**19,146**	**4,613**	**4,613**	**–**	**–**
a) Impaired	19,146	19,146	4,613	4,613	–	–
b) Other	–	–	–	–	–	–

The parts of the table relating to guarantees given and credit lines have not been shown as there is nothing to report.

Gross and net exposures shown in this table – with reference to own securitisations where the assets sold have remained in the balance sheet of the Parent Company – relate to the "retained risk" measured as the difference between the assets sold and the corresponding liabilities at the sale date (July 2006) and at the reference date of the financial statements.
As regards item A. "Own underlying assets", the amounts shown relate to the "BPM Securitisation 2" operation and are represented as follows:

- the senior exposures include the Class A2 notes issued by the special purpose vehicle and repurchased by the Parent Company from 2008 to the balance sheet date;
- mezzanine exposures include Class C notes issued by the special purpose vehicle and purchased by the Parent Company in March 2007;
- junior exposures are represented by the share held by BPM Securitisation 2 and destined to absorb the first losses.

The amount of the retained risk at the start of the transaction (July 2006) was some 26.6 million euro, that is, the amount of the securitised loans and the subordinated loan granted to the SPV, net of the debt owing to the SPV.
Consequently, the gross exposure columns for the Senior and Mezzanine tranches show the historical amount, increased by the impact of further repurchases and decreased by pool factor redemptions. The gross exposure column for the Junior tranche shows the amount of the subordinated loan granted to the SPV, reduced by the impact of periodic repayments.
The net exposure columns show gross amounts adjusted for accrued interest at the balance sheet date.

The exposures to third-party securitisations (line B. "with underlying assets of third parties") are cash related and are represented by securities issued by third-party SPVs, as detailed in table C.3.

C.2 Banking group – Exposures deriving from the main "own" securitisations broken down by type of asset securitised and by type of exposures

Type of securitised assets/ Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks
A. Completely eliminated from the financial statements	**–**	**–**	**–**	**–**	**–**	**–**
B. Partially eliminated from the financial statements	**–**	**–**	**–**	**–**	**–**	**–**
C. Not eliminated from the financial statements	**83,095**	**–**	**50,476**	**–**	**10,703**	**–**
C.1 BPM Securitisation 2 S.r.l	83,095	–	50,476	–	10,703	–
– Residential mortgage	83,095	–	50,476	–	10,703	–

The parts of the table relating to guarantees given and credit lines have not been shown as there is nothing to report.

The table shows the exposures incurred by the Group in respect of each own securitisation, also indicating the contractual forms applicable to the assets sold. The "Adjustments/writebacks" column shows any adjustments and writebacks for the year, as well as writedowns and revaluations recognised in the income statement or directly to an equity reserve.

C.3 Banking group – Exposures arising from the main securitisation transactions of "third parties" broken down by type of securitised asset and by type of exposures

Type of securitised assets/ Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks	Book value	Adjustments/ writebacks
A.1 Pharmafin 3 cl. A	19,146	–	–	–	–	–
– Receivables	–	–	–	–	–	–
A.2 Pharmafin 3 cl. B	–	–	359	–	–	–
– Receivables	–	–	–	–	–	–
A.3 Pharmafin 3 cl. C	–	–	4,254	–	–	–
– Receivables	–	–	–	–	–	–

The parts of the table relating to guarantees given and credit lines have not been shown as there is nothing to report.

The amounts in the "book value" column include accrued interest.

C.4 Banking group – Exposures arising from securitisation transactions by type of portfolio

Exposures/portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Investments held to maturity	Receivables	30.06.2015	31.12.2014
1. Cash exposures	**–**	**–**	**–**	**–**	**23,759**	**23,759**	**26,233**
– Senior	–	–	–	–	19,146	19,146	21,667
– Mezzanine	–	–	–	–	4,613	4,613	4,566
– Junior	–	–	–	–	–	–	–
2. Off–balance sheet exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Senior	–	–	–	–	–	–	–
– Mezzanine	–	–	–	–	–	–	–
– Junior	–	–	–	–	–	–	–

The table shows the exposures taken on by the Group in respect of each third-party securitisation and the portfolios in the financial statements to which these assets have been allocated.

C.5 Banking Group – Total amount of securitised assets underlying junior securities or other forms of credit support

Assets/Amounts	Traditional securitisations	Synthetic securitisations
A. Own underlying assets:	**356,669**	**–**
A.1 Completely eliminated	–	X
A.2 Partially eliminated	–	X
A.3 Not eliminated	356,669	–
1. Non-performing loans	30,692	–
2. Unlikely to pay	6,006	–
3. Overdue positions	902	–
4. Other assets	319,069	–
B. Underlying assets of third parties	–	–

Line item A.3 "Not eliminated" includes underlying assets recorded in the balance sheet, broken down by quality of credit, relating to the securitisation of performing residential mortgages using BPM Securitisation 2.

C.6 Banking group – Interests in special purpose vehicle

As at the reporting date, Bipiemme Group does not hold any interests in special purpose vehicles created for securitisations.

C.7 Banking group – Unconsolidated special purpose vehicles created for securitisations

As at the reporting date, there are no unconsolidated special purpose vehicles within Bipiemme Group.

C.8 Banking group – Servicing activities – Collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle

Servicer	Special purpose vehicle	Securitised assets (at the end of period)		Collections of receivables during the year		Percentage of securities reimbursed (at the end of period)					
						Senior		Mezzanine		Junior	
		Impaired	Performing positions	Impaired	Performing positions	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Banca Popolare di Milano	BPM Securitisation 2 S.r.l.	37,600	319,069	1,070	34,437	–	85.08%	–	0%	–	0%

C.9 Banking group – Consolidated special purpose vehicles created for securitisations

Name of special purpose vehicle	BPM SECURITISATION 2 S.R.L.
Registered office	Via Eleonora Duse 53 – 00197 Rome

There is no holding in the special purpose vehicle mentioned above. In any case, the company has been consolidated on the basis of "continuing involvement".

The following is a summary of the separate assets of the "BPM Securitisation 2" operation.

	situation 30 June 2015
A. Securitised assets	**356,985**
A.1 Receivables and loans	356,985
A.2 Securities	0
A.3 Other assets	0
B. Use of the funds derived from loan management	**28,633**
B.1 Debt securities	0
B.2 Equities	0
B.2 Cash and cash equivalents	28,489
B.4 Other loans	144
Total assets (A+B)	**385,618**
C. Securities issued	**343,645**
C.1 Securities –class A	279,407
C.2 Securities –class B	13,838
C.3 Securities –class C	50,400
D. Loans received	**0**
E. Other liabilities	**41,973**
E.1 Payables to originator	41,557
E.2 Other payables	416
TOTAL LIABILITIES (C+D+E)	**385,618**
F. Interest expense on securities issued	**480**
G. Fees and commissions charged to the operation	**154**
G.1 Servicing commissions	136
G.2 Other services	18
H. Other charges	**3,051**
H.1 Administrative expenses	52
H.2 Net adjustments to loans	1,247
H.3 Other (*)	1,752
TOTAL EXPENSES (F+G+H)	**3,685**
I. Interest generated by securitised assets	**3,359**
L. Other revenues	**326**
L.1 Write–backs on loans	189
L.2 Other	137
TOTAL REVENUES (I+L)	**3,685**

(*) the line item also includes the excess spread amount for 1,407 thousand Euro.

D. Information on structured entities (other than securitisation companies)

As at the reporting date, there are no structured entities (other than special purpose vehicles created for securitisations) in the Bipiemme Group.

E. Disposal transactions

A. Financial assets sold but not eliminated

Qualitative information

The Group's "financial assets sold but not eliminated" are of two types:

- the securitisation of loans carried out through the SPV "Bpm Securitisation 2", as described in detail in paragraph "C. Securitisation transactions";
- typical transactions concerning repurchase agreements, with which the Group's Banks obtain funding from the sale of securities owned by them.

Quantitative information

E.1 Banking group – Financial assets sold but not eliminated: book value and full value

Technical forms/ Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Investments held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	30.06.2015	31.12.2014
A. Cash assets	**213,728**	**–**	**–**	**–**	**–**	**–**	**5,246,015**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**356,669**	**–**	**–**	**5,816,412**	**5,672,329**
1. Debt securities	179,892	–	–	–	–	–	5,246,015	–	–	–	–	–	–	–	–	–	–	–	5,245,907	5,256,002
2. Equities	33,836	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	33,836	25,639
3. Mutual funds	–	–	–	–	–	–	–	–	–	X	X	X	X	X	X	X	X	X	–	–
4. Loans	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	356,669	–	–	356,669	390,688
B. Derivatives	**–**	**–**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total 30.06.2015	**213,728**	**–**	**–**	**–**	**–**	**–**	**5,246,015**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**356,669**	**–**	**–**	**5,816,412**	**X**
of which impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	***37,600***	**–**	**–**	***37,600***	***X***
Total 31.12.2014	**72,051**	**–**	**–**	**–**	**–**	**–**	**5,209,590**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**390,688**	**–**	**–**	**X**	**5,672,329**
of which impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	***37,802***	**–**	**–**	***X***	***37,802***

Key:
A = Financial assets sold and fully recognised (book value);
B = Financial assets sold and partially recognised (book value);
C = Financial assets sold and partially recognised (full value).

The table shows the book value of financial assets sold but not eliminated and fully recognised as assets in the balance sheet.
Line 1. "Debt Securities" in the "Financial assets held for trading" and "Financial assets available for sale" columns only includes securities sold as part of repurchase agreements.
With respect to MTS Repo market, the margin deposited and default fund of 512.7 million euro to guarantee collateralization are shown in the financial statements under "Loans to customers".
Line "2. Equities" under "Financial assets held for trading" includes securities used for securities lending transactions.
The amount shown in line 4. "Loans" refers to the loans involved in the "BPM Securitisation 2" securitisation without derecognition carried out by the Parent Company in 2006.
We would also point out that securities with a book value of Euro 291.8 million have been provided as collateral for repo transactions and these securities have not been included in the table, since the related amounts receivable and payable have been offset.

Against a total of 5.8 billion Euro of financial assets that have been sold but not eliminated, 5.7 billion Euro of financial liabilities have been recognised in the balance sheet with a positive difference of 0.1 billion Euro.

B. Financial assets sold and fully eliminated with recognition of continuing involvement

Qualitative information

The Group does not have any financial assets sold and fully eliminated for which it needs to recognise continuing involvement.

Quantitative information

The Group does not have any financial assets sold and fully eliminated for which it needs to recognise continuing involvement.

E.4 Banking group – covered bond transactions

Guaranteed Bank Bonds ("covered bond") issue programme

On 13 November 2007 the Board of Directors of the Parent Company BPM authorised a 10-year Programme, with annual issues of Guaranteed Bank Bonds ("covered bonds") for a maximum of 2 billion euro per year and a maximum total amount of 10 billion Euro, based on the sale of mortgage loans originated by BPM to a special purpose vehicle. Subsequently, the Programme was extended to loans originated by the former subsidiaries Banca di Legnano and WeBank, which were absorbed by BPM in 2013 and 2014, respectively.

The evolution of the Covered Bond Programme

At the date of these financial statements the Bank approved the issue of six series of guaranteed bank bonds, for a total of 5.5 billion Euro, following the assignment without recourse to the special purpose vehicle "BPM Covered Bond S.r.l." of six portfolios for a total of 7.5 billion of performing loans (the so-called "cover pool"); of these 0.9 billion euro have been assigned by the merged companies Banca di Legnano and WeBank.
In 2011, under the Programme, the first loan issued in 2008 was repaid for a nominal amount of 1 billion euro and subsequently repurchases with related cancellations for 0.3 billion euro were made, for which at the date of these financial statements, there are five series of covered bonds outstanding for a total of 4.2 billion euro.
Note that the last three issues, at a floating rate, have been fully repurchased by the Parent Company and the related securities have been used as collateral in refinancing operations with the European Central Bank and other banking institutions.
To date, it has not been necessary to top up the portfolio of receivables initially transferred from time to time.

The following are the main characteristics of the cover pools involved in the assignment and of the guaranteed bank bonds that were issued from 2008:

Type of securitised assets: residential mortgage loans
Quality of securitised assets: performing positions
Distribution by sector of the assigned debtors: 100% Individuals

Date of assignment of the Cover Pool	June 2008	June 2009	October 2010	June 2011 (b)	March/November 2013 (d)	November 2014	Total
Amount of the assets sold (in millions of Euro):	**1,218**	**1,305**	**1,616**	**639**	**1,426**	**1,294**	**7,498**
Number of mortgage loans sold	**12,229**	**11,681**	**15,504**	**5,031**	**11,633**	**13,503**	**69,581**
Type of securities issued (Covered bonds)							
Guaranteed Bank Bonds ("GBB") of Banca Popolare di Milano							
Amount issued (in millions of Euro):	**1,000 (a)**	**1,000**	**1,100**	**1,000**	**650**	**750 (e)**	**5,500**
Bond issue price (Reoffer Price)		99.558	99.451	100.00	100.00	100.00	
Issue date	9.10.2009	4.11.2010	18.7.2011	28.11.2013	16.3.2015		
Date of maturity	17.10.2016	16.11.2015	18.1.2019 (c)	28.5.2016	16.3.2020		
Interest	Fixed rate 3.5% for 7 years	Fixed rate 3.25% for 5 years	Floating rate 3-mth Euribor +100 bps	Rate floating 3-mth Euribor +135 bps	Floating rate Euribor3m +30bps		
Expected Issue Ratings in the issue period	**Moody's:** Aaa	**Moody's:** Aaa	**Moody's:** A1	**Moody's:** Baa2	**Moody's:** Baa1		
	Fitch: AAA	**Fitch:** AAA	**Fitch:** AA+	**Fitch:** BBB+	**Fitch:** BBB+		
Current Expected Issue Ratings							**Moody's:** Ba2
							Fitch: BBB+

(a) the issue was repaid at the date of maturity (15 July 2011);
(b) the June 2011 sale was in preparation for the issue made in July 2011;
(c) the issue, which had an original maturity of 18.1.2014, has been extended in December 2013;
(d) two sales of receivables have been made against the November 2013 issue: WeBank's was carried out in March 2013, whereas BPM's took place in November 2013;
(e) an issue of 600 million euro on 16.03.15 increased by a "tap" (or supplementary) issue of 150 million euro on 26.06.15.

For further details on this operation and its accounting treatment in the financial statements, see the information provided in the consolidated financial statements at 31 December 2014.

At the balance sheet date, the securitisation is represented in the financial statements of the Bipiemme Group as follows:

Euro/000

Line items	30.06.2015	31.12.2014
Principal balance sheet aggregates		
Loans to customers: Cover Pool	5,082,652	5,338,435
Due from banks: cash and cash equivalents of the special purpose vehicle	89,136	64,106
Hedging derivatives receivable: Covered Bond Swap between BPM Covered Bond and market counterparties	78,365	68,565
Securities issued: Covered Bonds issued	1,854,932	1,842,580
Economic result of the operation	**45,605**	**72,757**

Quantitative information

Total amount of securitised assets underlying junior securities or other forms of credit support

Assets/Amounts	Traditional securitisations	Synthetic securitisations
A. Own underlying assets:	**5,082,652**	**–**
A.1 Completely eliminated	–	X
A.2 Partially eliminated	–	X
A.3 Not eliminated	5,082,652	–
1. Non-performing loans	67,458	–
2. Unlikely to pay	25,843	–
3. Overdue positions	8,837	–
4. Other assets	4,980,514	–
B. Underlying assets of third parties	**–**	**–**

Servicing activities – Collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle

Servicer	Special purpose vehicle	Securitised assets (at the end of period)		Collections of receivables during the year		Percentage of securities reimbursed (at the end of period)	
						Senior	
		Impaired	Performing positions	Impaired	Performing positions	Impaired assets	Performing assets
Banca Popolare di Milano	BPM Covered Bond S.r.l.	102,138	4,980,514	1,961	310,754	–	0%

F. Banking Group – Credit risk measurement models

Running the internal rating models is the responsibility of the Parent Company's Risk Management Department, which performs the following activities:

- developing and maintaining the internal rating models and estimating the probability of default (PD) and the loss given default (LGD), which are done by the Credit Risk function;
- internal validation and analysis of the performance of rating and LGD models, which also involve analyses of backtesting and benchmarking on individual rating elements by the Validation Unit, which is separate from the Credit Risk Unit;
- producing reports for the Group's Governing Bodies.

The annual calibration and update of the internal models guarantee a continuous process of risk metrics improvement, also based on the findings of the audit work performed by the internal control functions (Validation and Internal Audit).
With particular reference to the parameters of credit risk (EAD, PD and LGD) and in line with its strategic objectives, in 2014 the Group launched a process of strengthening the System of Internal Rating (SIR) currently in use, also to adjust it to the regulatory requirements set by EU Regulation 575/2013 (CRR – Capital Requirement Regulation) and the regulations of the Bank of Italy introducing the European regulations (Circular 285/2013).
The purpose of this process is to provide the commercial network with the best methodologies and processes to manage credit, as well as to apply for authorisation to the European Central Bank for the use of SIR in the determination of capital requirements for credit risk, scheduled for early 2016.

EAD Model

The model currently in production was determined by multivariate statistical techniques covering a time horizon of five years. The major determinants in the quantification of EAD are the technical form, the level of use, the presence and type of guarantees backing the relationship and the anagraphical variables.

The estimation model of EAD is constructed in much the same way as was done for LGD, so that it can be applied to all customers at the level of individual facility.

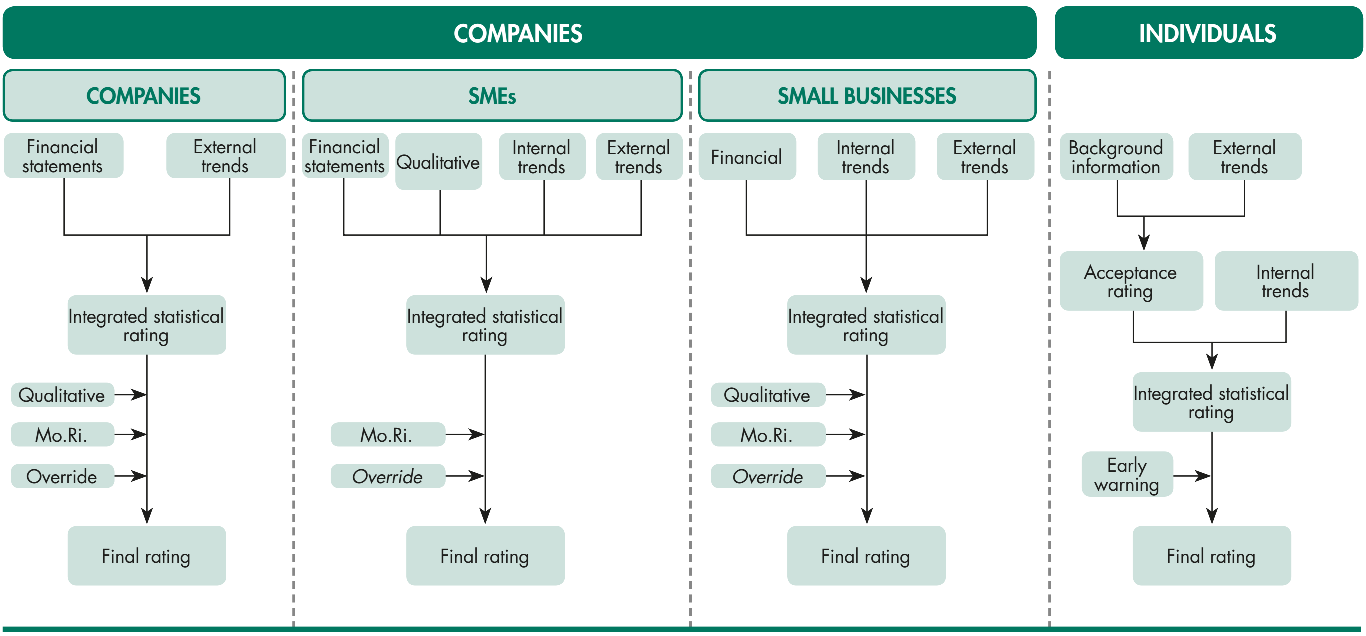
Internal estimates of EAD, which are produced monthly by the calculation engine, are used internally by the Risk Management function for benchmarking and internal analysis purposes. For operational purposes, the Group takes a very conservative line, using the full amount of credit lines granted to it (e.g. definition of credit policies, lending/renewal of credit process, including the definition of loan approval powers, definition of specific indicators of risk appetite, monitoring of undrawn margins and management reporting, etc.); it also quantifies the draw-down of off-balance lines by applying regulatory credit conversion factors (CCF) as defined by current law (e.g. collective measurement, process of assessing Pillar I and II capital adequacy, determination of risk-adjusted pricing, etc.).
For completeness, it should be noted that the LGD model described in the following paragraphs includes an element of exposure delta, which represent the change in EAD between the first time that the position is classified as default and its transfer to non-performing.

Rating models and estimating the probability of default (PD)
The internal rating models refer to four ordinary customer segments, classified according to the following parameters:

- **Individuals** (consumer households);
- **Small Businesses:** this portfolio includes all companies, partnerships, one-man firms, micro-businesses and individuals with a VAT number with a structure (turnover or total assets) of less than 5 million euro, or, in the absence of financial statement figures, those with an overall exposure (granted facilities) of less than 5 million euro;
- **SMEs:** these include counterparties with a structure (turnover or total assets) of between 5 and 50 million euro, or, in the absence of financial statement figures, those with an overall exposure (granted facilities) of between 5 and 50 million euro;
- **Companies:** this category includes large corporate firms with a structure (turnover or total assets) of more than 50 million euro (or, if outside this range, with an overall exposure (granted facilities) of more than 50 million euro).

All of the models have been developed internally on representative samples of the Bipiemme Group's customer portfolio. The models' performances are assessed quarterly on an independent basis by the Validation function by applying a series of defined statistical tests. the rating is assigned to the counterparty, quite apart from the type of credit that has been requested (so-called "counterparty rating").

More specifically, the aforementioned internal models are based on advanced statistical techniques and on a common modular framework designed to comprise and integrate all the information needed for a correct assessment of the creditworthiness of borrowing counterparties.
A summary of the structure is provided by the following chart.



The rating model for the **Individuals** segment is a system in which the following elements converge at the time that credit is granted for the first time (the counterparty acceptance phase):

- background information about the counterparty and the product;
- a summary opinion about the counterparty's credit-worthiness from an external information bureau.

During the monitoring and renewal phase for a facility or in the event of new credit being granted, further information of a quantitative and analytical nature is added (behavioural information).
Monitoring the statistical rating involves monitoring events, split into negative acts, CR risk indicators relating to the borrower (kept on the Central Risk File) and early warning signals; when they take place, the system automatically proposes a downgrade of the rating, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The monitoring system's proposed downgrading is subject to approval by a dedicated structure, which has no decision-making powers.
Ratings are expressed on a scale of nine classes, numbered from 1 (best rating) to 9 (worst rating) and each of these is assigned a probability of default (PD).

As regards the **Small Business** segment, the internal rating system consists of the following modules:

- **the financial module,** based on information acquired from financial statements and tax returns, broken down by companies, other entities with full accounting records and those with simplified accounting records;
- **the internal performance module,** designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;
- **the external performance module,** designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Central Risk File (CR).

The three modules in question form an integrated statistical rating. The following elements are added to this component:

- **the qualitative module**, based on company information gathered by means of questionnaires submitted to the commercial manager at the time that the Electronic Credit Line Dossier (ECLD) was compiled. These go to form a final rating through a process of notching (adjusted up or down according to the rating class given);
- **monitoring interventions**, split into negative acts, CR risk indicators relating to the borrower and early warning signals; when they take place, the system automatically proposes a downgrade of the rating resulting from the integration of the statistical rating and the qualitative questionnaire, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;
- **override** – a change in the rating produced by the process described up to this point, based on discretionary assessments made by the relationship managers and suitably approved by a structure with no decision-making powers, which is also involved in monitoring of the loan portfolio. An override can also take place on the initiative of this monitoring structure.

Final ratings are expressed on a scale of nine classes, numbered from 1 (best rating) to 9 (worst rating) and each of these is assigned a probability of default (PD).

For an estimate of the probability of default of counterparties in the **SME** segment, the Bipiemme Group uses a model structured with modules, suitably integrated statistically so as to produce a first-time rating or a performance rating, according to the type of information available.

The elementary modules making up the model are as follows:

- **the financial statement module,** for an assessment of the figures in the financial statements, developed by an external provider (Centrale dei Bilanci – the Central Financial Statements File) with statistical methods using system data;
- **the internal performance module,** designed to observe the credit behaviour of the counterparty versus the Group by means of aggregate information by risk category;
- **the external performance module,** designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Central Risk File (CR);
- **the qualitative module,** to assess information on the counterparty's corporate structure and the context in which it operates.

The results of these various modules are then combined by statistical techniques to produce an integrated statistical rating, to which the following elements are added:

- **monitoring interventions,** split into negative acts, CR risk indicators relating to the borrower and early warning signals; should these situations arise, the system proposes a downgrade of the statistical rating, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;
- **override** – a change in the rating produced by the process described up to this point, based on discretionary assessments made by the relationship managers and suitably approved by a structure with no decision-making powers, which is also involved in monitoring of the loan portfolio. An override can also take place on the initiative of this monitoring structure.

Final ratings are expressed on a scale of nine classes, numbered from 1 (best rating) to 9 (worst rating) and each of these is assigned a probability of default (PD).

The internal rating model for the **Companies** segment is made up of the following modules:

- **the financial statement module,** developed by an external provider (Central Financial Statements File) with statistical methods using system data;
- **the external performance module,** designed to observe the behaviour of the counterparty versus the banking system, developed on the basis of information deriving from the census of exposures kept at the Central Risk File (CR).

The results of these various modules are then combined by statistical techniques to produce an integrated statistical score.
The model also puts particular emphasis on the qualitative element based on the opinion of the relationship manager and not included in the statistical engine, all consistent with the size of the segment and the type of Business.

Various other elements can then be added on to these ratings, such as:

- **qualitative module:** a qualitative analysis of the sector strategic risk, the economic and financial risk and the internal performance risk;
- **monitoring interventions,** split into negative acts, CR risk indicators relating to the borrower and early warning signals; should these situations arise, the system proposes a downgrade of the statistical rating, based on a series of rules that assess the extent of the anomaly in relation to the value of the counterparty's rating. The proposal to downgrade by the monitoring system is subject to approval by the dedicated structure;
- **override** – a change in the rating produced by the process described up to this point, based on discretion al assessments made by the relationship managers and suitably approved by a structure with no decision-making powers, which is also involved in monitoring of the loan portfolio. An override can also take place on the initiative of this monitoring structure.

Final ratings are expressed on a scale of seven classes, numbered from 1 (best rating) to 7 (worst rating) and each of these is assigned a probability of default (PD).

LGD model

For the determination of Loss Given Default (LGD), the Bipiemme Group uses a "work-out" model, founded on the observation of the events of interest (exposure to default, expenses incurred for the recovery, recoveries, guarantees, etc.) of default positions closed in the past.
The main determinants in the quantification of Loss Given Default are: the technical form of the loan, the exposure, the existence and type of collateral provided and anagraphical-type variables.
The Loss Given Default model is constructed in such a way as to be applied to all customers at a single facility level. The personal and dimensional characteristics of the counterparties are considered genuine variables by the model.

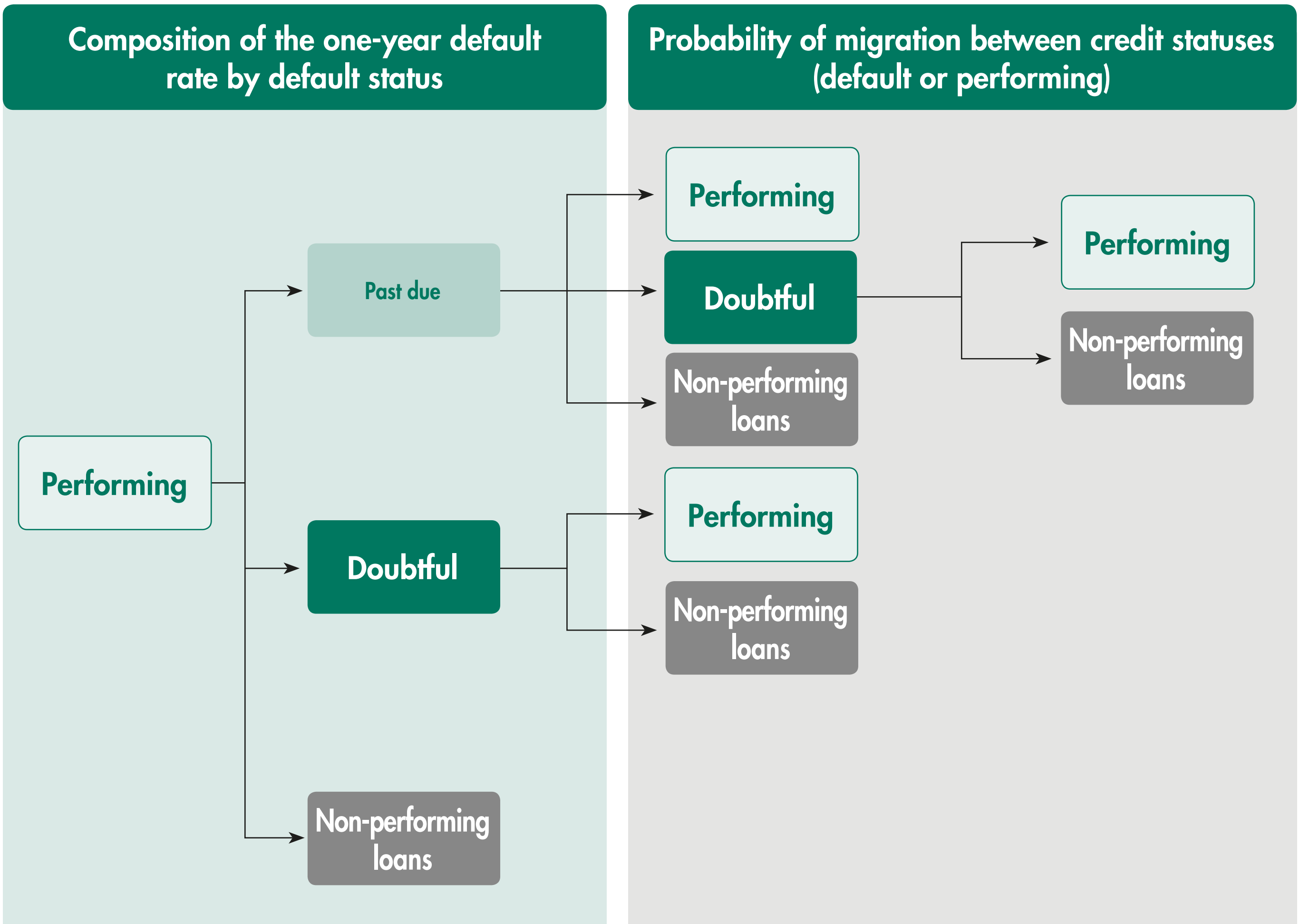
The LGD estimate runs through the following steps:

- determination of a **nominal recovery rate**, including direct and indirect costs, recognised in the case of previous non-performing counterparties. The recovery rate on non-performing positions springs from the relationship between recoveries collected by the bank, net of legal and administrative costs that may be incurred to regain possession of the sums involved, and the exposure of the customer at the time that it was considered in dispute;
- determination of the duration of recovery in order to discount the nominal recovery;
- estimate of a parameter of recalibration (the so-called "danger-rate") for the calculation of the overall LGD, in order to consider the different states of deterioration included in the default. Three aggregates are used to determine this amount:
    - the probability of transfer from performing to past-due/doubtful/non-performing;

- the probability that a counterparty is transferred from doubtful/past-due to non-performing;
- reduction, or increase, of the exposure at the time of transfer to doubtful/past-due to that of the subsequent transfer to non-performing.

Doubtful loans are now included in "unlikely to pay".

The danger rate is determined by the product of these three factors. In this way, the LGD rate for positions not in non-performing is determined by weighting the LGD on non-performing positions by the danger-rate.

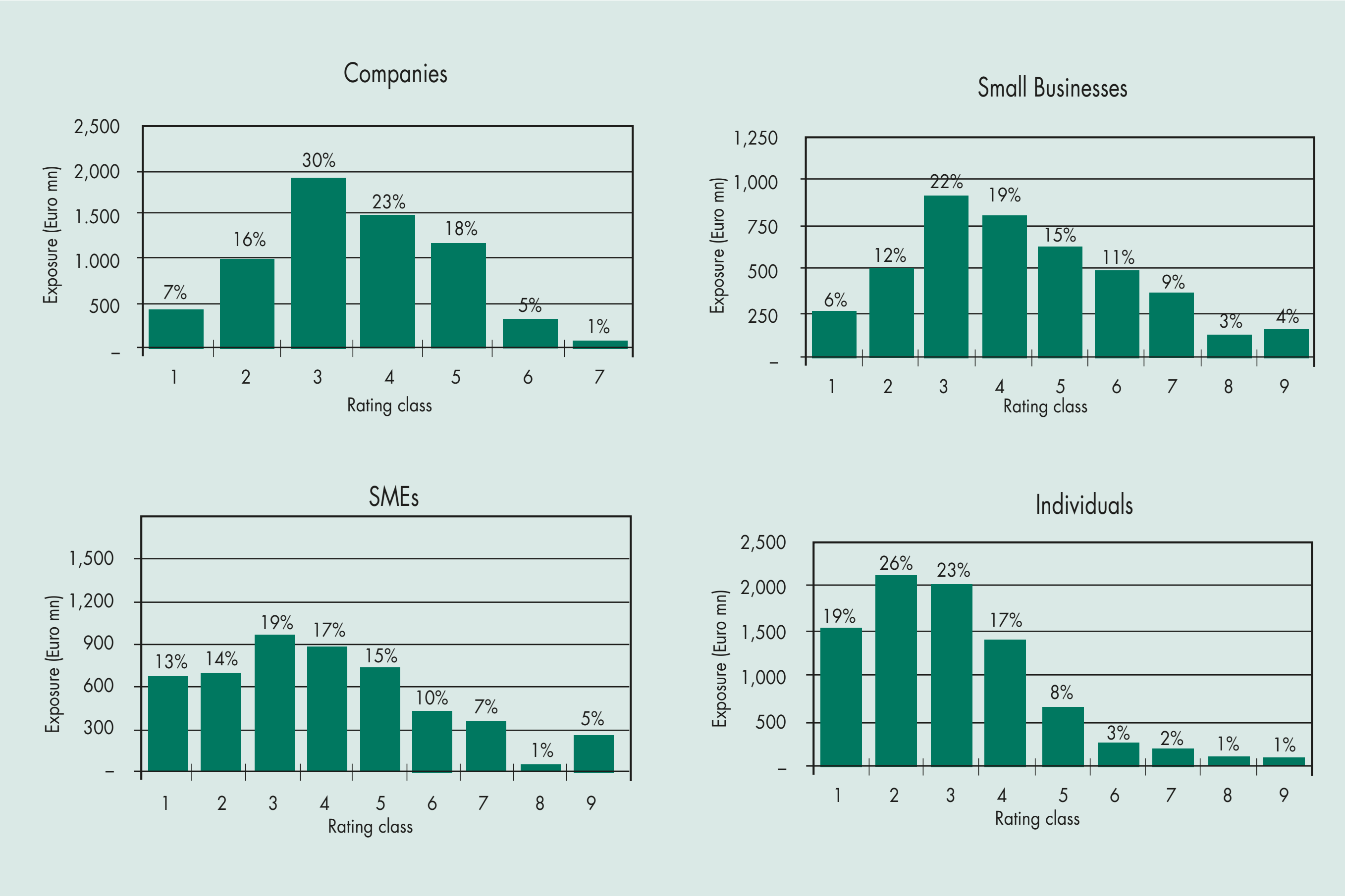


Set out below is a summary at 30 December 2015, with comparatives at 31 December 2014, of the breakdown of performing loans (prior to impairment adjustments) split between the four customer segments subjected to the internal rating models used by the Group's commercial banks (Banca Popolare di Milano and Banca Popolare di Mantova).

(Amounts in millions of Euro)

	30 -June-15		31-Dec-14	
Segment	**Amount**	**Weighting %**	**Amount**	**Weighting %**
Companies	6,389	25.0%	5,920	23.7%
SMES	5,231	20.5%	5,165	20.7%
Small Businesses	4,368	17.1%	4,376	17.5%
Individuals	9,541	37.4%	9,516	38.1%
Total	**25,529**	**100%**	**24,977**	**100%**

The following charts show the subdivision within each segment of the Group's two commercial banks of the various grades of credit quality in terms of the amounts disbursed and still outstanding at 30 June 2015. The x axis shows the rating classes by declining credit quality: the first rating classes contain the exposures to borrowers with a higher credit quality, whereas the latter classes show the exposures of a lower quality.



1.2. Banking Group – Market risk

General common aspects of the market risk management processes adopted by the Bipiemme Group

1. Organisational aspects

The role of strategic supervision is attributed for the whole of the Bipiemme Group to the Parent Company's Board of Directors. It establishes the guidelines for risk management and control for each of the companies in the Group, so as to create an integrated management policy, while at the same time taking account of the each bank's specific risk profiles and the extent to which they are interconnected.

In the field of financial risk, BPM's Board of Directors establishes the Group's propensity for risk and the related macro-limits (corporate limits), delegating to the individual Group companies to define their own policies and limits (management limits) in compliance with the general guidelines.

In the Bipiemme Group, financial assets are split between the trading portfolio and the banking book, these two portfolios being broken down as follows:

1. the **trading book** includes financial instruments held with a view to benefiting in the short term from positive changes between buy and sell prices through directional and absolute yield strategies and managing position books as market maker;
2. the **banking book** consists of:
   - positions traded for cash management purposes, by investing in government securities and/or securities of primary banking issuers, in order to have "easily negotiable assets" or those that are considered "eligible assets" for refinancing transactions with the Central Bank;
   - traded securities to be used for guarantee and/or repo transactions with customers;
   - positions that are invested long-term with a view to obtaining stable returns over time with a low level of volatility;
   - derivatives traded on behalf of customers (so-called "balanced trades") without keeping position books open;
   - treasury and forex portfolio and financial instruments traded with a view to covering the interest rate mismatch caused by the commercial banks' funding and lending activities (Asset & Liability Management – ALM).

The new Group Regulation established that Banca Akros, the Group's investment bank, is the only company of the Bipiemme Group authorised to manage the trading book.

The banking book, on the other hand, has been mainly assigned to the Parent Company and, for the rest, to Banca Popolare di Mantova.

Different types of operating limits are envisaged in line with the type of portfolio assigned. The following types of limits have been assigned to BPM and Banca Popolare di Mantova, among others:

- sensitivity of the portfolio (at fair value) to the trend in interest rates and credit spreads: a limit is set on the potential change in value of the portfolio as a result of a movement of +/–100 bps in interest rates and +/–25 bps in credit spreads;
- sensitivity of interest margin: this limit is quantified on the basis of the potential change in interest margin in the subsequent twelve months caused by a parallel shift in the rate curve of +/–100 bps;
- stop loss limits;
- quantitative limits for total portfolio exposures and concentration limits for individual issuers;
- qualitative limits on the composition of the portfolio, with issuer risk limits by type of counterparty, by type of rating and by country risk.

Banca Akros has applied the limits to specific sub-areas and individual risk factors in accordance with overall limits established by the Parent Company.

2. Risk measurement methods

2.1 Commercial banks

The portfolio managed by the commercial banks is subject to monitoring and reporting by the Parent Company's Risk Management Function.

The banks where the banking book has been allocated use systems of measuring risk that are based on interest rate sensitivity and credit spread sensitivity.
The Parent Company's Risk Management Function has developed the following risk monitoring tools using the Kondor+ application:
- interest rate sensitivity: on changes in interest rates, the system calculates the change in the net present value of the portfolio based on set rate scenarios, usually +/–100 bps, applied to the various Euribor/swap curves for each currency;
- credit spread sensitivity: as regards bonds, in addition to the sensitivity mentioned above, the change in net present value is also measured by applying a shift of +/–25bps to the Euribor/swap discount curve. As regards floating rate securities the curve with which the forward rates are estimated remains unchanged.

The Parent Company has not developed any models for analysing sensitivity to price risk; monitoring the portfolio subject to price risk does in fact take place when we analyse the performance of individual positions.

2.2 Banca Akros

As regards market risk, over the years the Bank has developed its own quantitative and organisational model (i.e. an internal model) for measuring market risk. The main indicator used to quantify risk is Value-at-Risk (VaR), calculated according to the Montecarlo simulation method. This method involves estimating the distribution of potential profits and losses by recalculating the value of the portfolio according to the various simulated risk factor scenarios generated according to the dynamics of volatility and correlation implicit in the historical trend of the factors. The estimate of the maximum potential loss is identified on the basis of a suitable percentile of the distribution. The contribution made by historical correlations gives rise to the so-called "diversification effect", according to which the economic effects of changes in individual market variables on the portfolio can, to a certain extent, offset each other, compared with the situation in which these variables are considered separately.

The main types of risks that this method identifies are:
- delta risk (price sensitivity of a financial instrument to risk factors), that is:
  - price risk, in the case of the equity market;
  - interest rate risk, in the case of fixed or floating rate positions;
  - exchange risk, in the case of the Forex market;
- gamma risk (sensitivity to the delta factor of a financial instrument to the underlying risk factors);
- vega risk (price sensitivity of a financial instrument to the volatility of risk factors);
- rho risk (price sensitivity of a financial instrument to interest rate risk);
- theta risk (price sensitivity of a financial instrument to the passage of time).

It is not permitted to assume market risk in relation to risk factors having a significant impact, for which the Bank does not have systems or models that have been checked and convalidated by the Pricing and Market Risk Control Model Validation Office.

The individual financial contracts are represented in the VaR model on a "full evaluation" basis, i.e. by a series of theoretical evaluation models implemented in the risk calculation model. The non-linear "partial revaluation" method is used in a limited number of cases [1]. The pricing models are subjected to checks to ensure that they have been formulated correctly in theory, that correct input data is used and that the numerical results obtained are reasonable. The checks carried out are documented in specific manuals.

(1) These include a small number of options, for which the non-linear partial revaluation model makes it possible to represent the payoffs of the options in a way that is reasonably complete (up to the second order, including cross gamma risks). Certain plain vanilla options with baskets of equities as their underlying are also handled using the same method of partial revaluation.

The parameters of the VaR model are:
- historical period used for estimating volatility and empirical correlations: 12 months (252 observations);
- confidence interval: 99%, unilateral;
- holding period: 1 day;
- weighting factor: 0.992.

The historical series of risk factors are updated on a daily basis. The 10-day VaR calculation is estimated by applying the scaling of the square root law, but is also done for the purpose of verifying the prudence of this approach on the capital requirement, a direct calculation of the extent of risk-taking by adopting the log yields obtained over a 10-day time frame.

Scope of the internal model

Starting with the supervisory report of June 2007, following recognition by the Bank of Italy, Banca Akros now uses its own internal model based on VaR metrics also to determine the capital requirement for the following market risks that derive from trading:
- generic and specific risk on equities;
- generic risk on debt securities;
- position risk on investments in mutual fund units (excluding investments in Hedge Funds);
- exchange risk on all assets/liabilities in the financial statements.

The calculation of the capital requirements for market risk, and for the risk factors mentioned above, is therefore carried out on the basis of the internal model ("regulatory VaR") and the results it produces for three portfolios: Fixed Income, Equity and FX.

The prudential capital requirements for the specific risk component on debt securities and credit default swap contracts (single name and index), which was not mentioned in the risks discussed previously, is calculated on the basis of the Standardised Approach. For the same reason, the credit derivative book is excluded from the internal model used for calculating minimum capital requirements.

In addition to regulatory VaR calculated under current conditions, Banca Akros has implemented a model for calculating regulatory VaR under conditions of stress (so-called stressed VaR) that was developed in 2010 and which adopts, as a scenario of greatest severity, the time period comprised between 10 March 2008 - 10 March 2009 ("Lehman" scenario). This model was subjected to testing, with a positive outcome, by the Supervisory Body and, as required by rules on capital adequacy, it has been used to compute the capital requirement for market risk as from the last quarter of 2011, as well as for management purposes.

For internal purposes, the Pricing Models Validation and Market Risk Control Office had already developed in 2010 an extension to the regulatory model to include the specific risk component of debt securities in the measurement of market risk (so-called "credit spread VaR"). This extended version of the VaR model makes it possible to quantify the contribution made by issuer risk to the expected daily stop-loss limit. The specific risk is mapped against the series of curves of the bond credit spread of the debt issuers present in the portfolio, taken from the prices of the more liquid bonds listed on active markets. A series of generic credit spread curves has also been defined, split by rating and business sector, as a proxy for those issuers to which a specific credit spread cannot be attributed. The historical series of issuer curves are updated on a daily basis. Quantification of the credit spread VaR is carried out using the same approach as for other risk factors (Montecarlo simulation of the expected scenarios), including the effects of diversification on the portfolio implicit in the historical trends in credit spreads.

In order to keep the risk perimeters of the two measurements separate (regulatory VaR, calculated on the recognised risk factors, and internal VaR, calculated on the extended perimeter which includes credit spreads), an organisational and IT procedure, which is similar and supplementary to that used for regulatory VaR, has been created. This procedure also involves mapping the positions of the risk factors represented by the risk curves of the individual issuers and preparing reports on the portfolio VaR including the credit spread factor. The report output generated by the model on this specific development reflects similar processing performed for regulatory VaR and is filed to create a historical record in the market risk repository.

Again, with respect to the measurement of issuer risk for internal purposes, the MRC Office has implemented the calculation of the Incremental Default Risk Charge (IRC), which identifies the impact on the trading portfolio of default risks (or potential losses due to the insolvency of an issuer) and of migration of rating class (that is, potential direct or indirect losses incurred by changes to the credit rating of one or more issuers). The estimation model behind the adopted IRC (Merton equity factor model in CreditManager™ methodology) is based on the use of historical rating transition matrices with reference to the rating of each issuer (obligor), while correlations between issuers are estimated by means of an ample set of indices used to map each obligor. Currently, the model is used for bonds included in the trading portfolio and it provides a daily estimate of the IRC over a liquidity time horizon of a year with a confidence interval of 99.9%.

1.2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

A. General aspects

A.1 Sources of interest rate risk

The Group's main activities giving rise to interest rate risk are:

- management of the bond and government security portfolio;
- transactions in interest rate derivatives, both on regulated markets (e.g. Euribor futures) and over the counter, mainly interest rate swaps, overnight interest swaps, forward rate agreements.

A.2 Sources of price risk and objectives and strategies underlying trading assets

A.2.1 Banca Popolare di Milano

No trading transactions have been entered into that have led to any positions exposed to price risk.

A.2.2 Banca Akros

Price risk is generated by the equities trading portfolio. The main types of financial instruments traded are: equities, options on individual shares or equity indices, both regulated and OTC, futures with underlying securities or equity indices and, on a residual basis, OTC financial instruments on mutual funds.

This activity, which mainly relates to the domestic equity market, can be split essentially into three parts:

- market making on regulated and OTC equity derivatives (single stock and index), through which the pertinent desk offers its quotations in electronic form on regulated markets (Italian Stock Exchange and Eurex) or off-market. The execution of instructions from customers and counterparties, through which it is possible take advantage of market opportunities of relative value and event as part of the dynamic management of the risks that are typical of the portfolio (delta risk, covered principally by buying and selling underlying equities, vega risk, gamma risk, rho and theta risk). The price risk taken on lies within established operating limits;
- arbitrage or "spread" strategies between regulated and OTC derivatives on equity indices or between equity indices and stocks. This activity is carried on through directional and optional trading strategies on the underlying financial instruments, within established operating limits;
- management of OTC derivatives index-linked to baskets of equities, listed international stockmarket indices (individual or in baskets) and mutual funds.

A.3 Objectives and strategies underlying trading activity

A.3.1 Banca Akros

The trading in bonds issued by banks or companies and traded on the secondary market (Eurobonds) stems from the need to meet requests from customers, who are mainly institutional. The Bank operates on the secondary market as market maker on bonds of corporate, banking and supranational issuers, mainly denominated in Euro, through multilateral trading platforms or in OTC mode.
As part of market making in bonds, of particular importance in the first half of 2015 was again the activity of Systematic Internaliser (SI) to support the liquidity of retail bond issues of the Bipiemme Group and third-party issues.
The activity consists of systematic formulation of proposals for bid/offer quotes and executing as the direct counterparty in purchase or sale orders that customers give the SI to meet the disposal and/or investment requirements of their own portfolio; the activity is carried out in compliance with the rules and procedures adopted by the Bank to oversee the trading carried out in the system .
Specific position limits on the portfolio stock, as well as VaR, regulate the degree of risk associated with this activity.

B. Management processes and methods of measuring interest rate risk and price risk

B.1 Internal processes for managing and controlling interest rate risk

Reference should be made to the section entitled "General common aspects of the market risk management processes adopted by the Bipiemme Group".

B.2 Internal management processes and methods of measuring price risk

Reference should be made to the section entitled "General common aspects of the market risk management processes adopted by the Bipiemme Group".

B.3 Methods used to analyse sensitivity to interest rate risk

B.3.1 Banca Popolare di Milano

For BPM, the main indicators used to measure exposures to interest rate risk are interest rate sensitivity and Credit spread sensitivity , which measure the change in the Fair value of the portfolio in predetermined scenarios of variances in interest rates and widening/ narrowing of credit spreads.

B.3.2. Banca Akros

For the measurement of exposures to interest rate risk, the main indicator is portfolio VaR, calculated both with regulatory parameters, to determine the maximum potential loss relating to generic risk and volatility, and in the version extended to include issuer specific credit spread VaR risk, so as to take account of credit spreads as well. Alongside this, we also use analyses of sensitivity to risk factors of rate, volatility and credit spread curves when debt securities and credit derivatives are involved, as well as stress tests on this portfolio.

B. 4 Methods used for the analysis of price risk

B.4.1 Banca Popolare di Milano

No trading transactions have been entered into that have led to any positions exposed to price risk.

B.4.2. Banca Akros

Banca Akros measures the price risk (or equity risk) of the trading portfolio through an estimate of the daily value at risk, using the methods already discussed (see "General common aspects of the market risk management processes and measurement methods adopted by the Bipiemme Group"). In particular, the VaR model used identifies both the generic component of price risk and the specific one due to the individual risk factors (equities), taking account of the non-linear dynamics caused by the portfolio of equity options (gamma factor); it also measures the element of risk due to the volatility of individual share prices, as well as the other risks involved in derivative transactions.

3. Regulatory trading book: internal models and other methodologies used for sensitivity analysis

3.1 Interest rate risk

3.1.1 Banca Popolare di Milano

The financial instruments exposed to the Parent Company's interest rate risk also include the securities in the bond portfolio classified under line items 30 "Financial assets designated at fair value through profit and loss" and 40 "Financial assets available for sale" in the balance sheet; which, even though they form part of the banking book for supervisory reporting purposes, is treated as part of the risks of the trading book as they share risk measurement systems and operational responsibility.

The bulk of the bond portfolio is composed of securities belonging to line item 40. "Financial assets available for sale", whose duration (defined as the weighted average maturity compared with the timing of the cash flow profile) at the end of June 2015 amounted to 2.94 years (2.56 years at the end of 2014).

As regards the sensitivity analysis of BPM's securities portfolio (including the related hedging swaps), understood as the change in value of the portfolio when faced by a parallel and uniform shift of the interest rate curve by one percentage point (100 bps), at the end of June 2015 a figure of –282.6 million euro was recorded in the event of a rise in interest rates, an increase over the figure recorded at the end of 2014, namely –242.7 million.

The following table shows the sensitivity trend during the course of the first half of 2015.

BPM – Sensitivity of the fair value of the securities portfolio and related hedging swaps to a change in interest rates					(in millions of Euro)
			Total securities + hedging swaps		
Change in rates	**30 June 2015**	**Average**	**Min**	**Max**	**31 December 2014**
+100 bps	–282.6	–295.3	–309.5	–282.6	–242.7
–100 bps	293.4	306.5	293.4	321.2	250.6

The sensitivity of the portfolio of interest rate derivatives (to mitigate the variability of the interest margin of the banking book) at the end of June 2015, based on a parallel shift in the rate curve of +/–100 basis points, shows a sensitivity of 14.5 million euro in the case of a rate increase and of –18.9 million euro in the case of a decrease of 100 basis points in the rate curve.

BPM – Sensitivity of the fair value of the derivatives portfolio to changes in interest rates					(in millions of Euro)
			Other derivatives		
Change in rates	**30 June 2015**	**Average**	**Min**	**Max**	**31 December 2014**
+100 bps	–14.5	23.7	–14.9	53.6	20.8
–100 bps	18.9	–7.2	–24.5	18.9	–11.5

The following table shows the trend in the overall sensitivity of the securities portfolio and related hedging swap and derivatives during the first half of 2015.

BPM – Total sensitivity of the fair value of the securities derivatives portfolio to changes in interest rates					(in millions of Euro)
Change in rates	**30 June 2015**	**Average**	**Min**	**Max**	**31 December 2014**
+100 bps	–297.2	–271.6	–313.2	–248.5	–221.8
–100 bps	312.3	299.3	285.2	328.1	239.0

The effects on the principal income statement and balance sheet aggregates of a change of +/–100 b.p. The effects on shareholders' equity are generated by debt securities classified under financial assets available for sale, shown in the balance sheet at 8.324 billion Euro.

BPM – Effect of a +/–100 change in the rate curve on:			(in millions of Euro)
Change in rates	**Net interest and other banking income**	**Shareholders' equity**	**Result for the year**
+100 bps	–15.3	–281.8	Same effect as on the interest margin, net of tax
–100 bps	19.8	292.5	

As regards credit spread sensitivity, given a 25 bps increase in credit spreads, the potential change in the value of the portfolio is around –91.7 million Euro.

The following table shows the trend during the first half of 2015 in credit spread sensitivity given changes in credit default spreads of +/–25 b.p.

BPM – Sensitivity of the portfolio with changes in credit spread					(in millions of Euro)
Widening of credit spreads	**Credit spread sensitivity**				
	30 June 2015	**Average**	**Min**	**Max**	**31 December 2014**
+25 bps	–91.7	–95.8	–100.4	–91.7	–80.0
–25 bps	92.6	96.7	92.6	101.3	80.7

BPM – Effects of a +/–25 bps change in credit spreads on:			(in millions of Euro)
Widening of credit spreads	**Net interest and other banking income**	**Shareholders' equity**	**Result for the year**
+25 bps	–0.4	–91.2	Same effect as on the interest margin, net of tax
–25 bps	0.5	92.1	

Credit spreads tended to fluctuate considerably during the first half of 2015, showing a reduction in the first quarter, followed by an upward trend in the second quarter.
The iTraxx Europe index, which shows changes in the credit default spread (i.e. the premium/cost to take on/hedge credit risk) of a basket of 125 "entities" or European issues among the more liquid at the time and with an investment grade rating (at least BBB–/Baa3 and with an outlook of at least stable), posted a closing level at the end of June 2015 of about 75 bps, which is slightly higher than the figure of 63 bps at the end of 2014.
On the other hand, the iTraxx Europe Crossover index, which is made up of non-investment grade borrowers, with ratings below BBB-/Baa3 and a negative outlook, fell by around 20 bps compared with the end of 2014 (327 bps at 30.06.2015 compared with 346 bps at 31.12.2014).

3.1.2 Banca Akros

3.1.2.1 Trend in market risk

The average daily amount of Value at Risk in the trading book according to the regulatory risk perimeter, i.e. related solely to the market risks included in the scope of the internal model recognised for supervisory purposes, measured over a time horizon ("holding period") of one day and a confidence interval of 99%, came to around 507 thousand euro during the first half of 2015 (high: 877 thousand Euro, low: 208 thousand euro). The average figure for regulatory VaR is up slightly compared with the previous year, when it stood at 478 thousand euro (+6%).

The risk metric highlighted a rising trend during the half-year, starting from the figures at the beginning of the year (around 250 thousand euro) up to the figures at the end of the period of just under 880 thousand euro (the high for the period). The increase in the risk profile of the trading book was mainly affected by the increased exposure to interest rate risk that took place during the first quarter as a result of the investments in bonds provided for in the 2015 budget. These investments, geared to securities issued by the Treasury and by major Italian banks and corporates, have therefore involved a greater use of the Bank's risk capacity, also leading to a higher proportion of interest rate risk compared with the other types of risk (equity, forex, volatility). The observed increase in regulatory VaR was also caused by the higher volatility in market factors as a result of the tensions triggered off by the Greek debt crisis, particularly in May and June. While remaining within the risk capacity and risk tolerance identified by the Group RAF, the VaR metric showed a clear increase in market risks for the trading book during the half-year, as a combined effect of an increase in the portfolio's exposures and increased intrinsic risk of the markets, reflected in the volatility of financial variables. During the last few days of the half-year, VaR regulatory showed a further increase due to the shocks caused to market variables by developments in the Greek crisis.

The main levels of regulatory VaR (average, maximum, minimum and period-end) for the first half of 2015, both for the entire trading portfolio and for the areas of risk into which it is split, are shown in the following table. The diversification effect is quantified for average and year-end VaR, given that these figures are comparable. The same table shows the number of exceptions found in relation to regulatory VaR (i.e. events in which the loss actually recorded exceeded the loss estimate calculated the previous day) both for tests carried out considering the hypothetical change in portfolio value ("hyp."), and considering the actual change ("act.").

99% – 1 Day 1st half 2015	**Fixed income**	**Equity**	**FX**	**Undiversified Trading Book**	**Diversification effect**	**Trading Book**
Ave. VaR EUR (000)	441	233	136	811	–303	**507**
Max VaR EUR (000)	735	437	357	(*)	(*)	**877**
Min VaR EUR (000)	145	115	22	(*)	(*)	**208**
Last VaR EUR (000)	735	258	260	1,253	–376	**877**
No. of hyp./act. exceptions	6/5	1/0	6/4	–	–	**3/2**

(*) The undiversified VaR and the diversification effect are quantified only for the measurement of average and last VaR and not for those of maximum and minimum VaR, as these figures refer to different days.

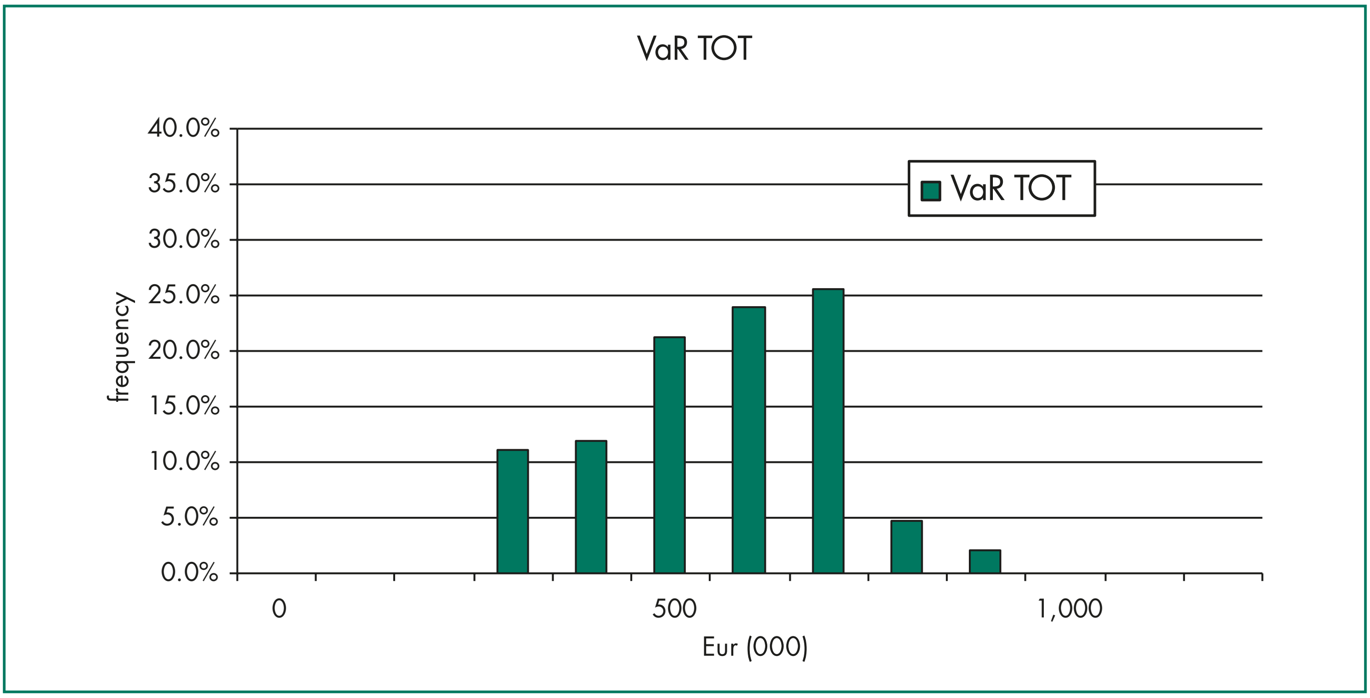
Figures of regulatory VaR for the same period in 2014 are shown below for comparison purposes:

99% – 1 Day 1st half 2014	**Fixed income**	**Equity**	**FX**	**Undiversified Trading Book**	**Diversification effect**	**Trading Book**
Ave. VaR EUR (000)	288	399	113	800	–322	**478**
Max VaR EUR (000)	647	551	205	(*)	(*)	**772**
Min VaR EUR (000)	115	291	35	(*)	(*)	**328**
Last VaR EUR (000)	473	385	109	967	–385	**582**
No. of hyp./act. exceptions	2/2	0/0	0/0	–	–	**0/0**

(*) The undiversified VaR and the diversification effect are quantified only for the measurement of average and last VaR and not for those of maximum and minimum VaR, as these figures refer to different days.

Breaking down the VaR of the entire trading book into its three macro-portfolios (Fixed Income, Equity, FX and FX derivatives), it can be seen that on average the most significant contribution to overall risk is generated by Fixed Income, with an average daily VaR of 441 thousand euro, in line with the increase in bond exposures mentioned previously. The Equity segment contributes around half (233 thousand euro), followed by the forex portfolio (FX and FX derivatives (136 thousand euro). The comparison with the previous year shows an increased importance on the part of interest rate risk (from 288 thousand in 2014 to 441 thousand in 2015) and a simultaneous reduction in equity risk (from 399 thousand in 2014 to 233 thousand in 2015), while there has been modest growth for currency risk (from 113 thousand to 136 thousand euro). The average impact of the diversification effect, measured as the relative deviation between overall regulatory VaR and the undiversified VaR for the three areas of risk, is on average –37% in 2015, slightly below the figure for the first half of 2014 (–40%).

The next graph shows the frequency distribution of the daily regulatory VaR values for the entire trading book posted during the first half of 2015. The daily values of VaR are distributed within a range of between 300 and 700 thousand Euro, within which more than 90% of the sample observations fall.



The average value of stressed regulatory VaR for the first half of 2015 came to 1,949 thousand Euro and its range variation was between 1,035 thousand and 2,661 thousand euro. Accordingly, in 2015, daily average regulatory VaR under conditions of stress was around 3.8 times that computed under ordinary conditions, which confirms the degree of severity of the chosen stress scenario ("Lehman" scenario). The comparison with the same period last year, in which the figure for stressed VaR amounted to 1.659 million euro, shows an increase (+17%), in line with the growth observed for the unstressed measurement; also slightly higher than the previous year is the relationship between VaR and stressed VaR (approximately 3.5 times in the first half of 2014, compared with the current 3.8). Stressed VaR in 2015 was always higher than the current one, in line with the assumption that, for all the risk factors considered, the historical interval adopted for the calculation of stressed VaR represented the scenario of greatest severity, also compared with current market conditions.

The metric adopted for management purposes to measure credit spread VaR in the first half of 2015 amounted to 1,005 million euro, going from a low during the period of 428 thousand Euro and a high of 1,546 thousand Euro. Compared with the previous year, when the average credit spread VaR stood at thousand Euro, there has been a significant increase due to the assumption of the implicit issuer risk in the investments in government, corporate and banking debt securities mentioned previously. The changes in VaR over time show a trend that rose steadily in the first quarter of the year, after which the figures stabilised at between 1,100 and 1,300 thousand Euro. As for regulatory VaR, also for credit spread VaR, in the last few days of the half-year, there was a further increase in the estimates of maximum expected loss because of the increased volatility of financial variables resulting from recent events related to the Greek debt crisis.

The maximum potential loss under stress conditions calculated on the basis of the internal measurement (stressed credit spread VaR), with reference to the same scenario adopted for regulatory VaR, amounted on average to 1,935 thousand Euro (high of 2,634 thousand euro, low of 1,064 thousand Euro), just under twice the current average credit spread VaR.

We remind you that credit spread VaR is used for the internal measurement of risk. For the calculation of the prudential requirement (regulatory measurement), the capital absorbed just by issuer risk is determined according to a standardised approach (so-called mixed model).

Comparison between the metrics of regulatory VaR and credit spread VaR in the first half of 2015 shows that the contribution of issuer risk, net of the diversification benefit between risk factors, amounted to 497 thousand euro. This figure, compared with the value of 507 thousand euro of the regulatory measurement, indicates that issuer risk in the first half of the year amounted to around 50% of all market risks of the trading portfolio, already considering the effects of offsetting risks. The only component of credit spread VaR due to fluctuations in the credit spread (issuer risk), before the effects of compensation amounted, on average, to 1,465 thousand Euro. So, although subject to a significant reduction due to diversification, the contribution of issuer risk to overall risk remains high and quantitatively comparable to the contribution of all the other general risks of the trading book.

Back-testing regulatory VaR on the entire trading portfolio in the first half of 2015 highlights three occasions where the maximum daily loss was exceeded, based on tests carried out in a hypothetical mode (where one considers only the variation in value due to price changes, without including the daily transactions) and two in actual mode (i.e. where one takes the actual change in value, obtained by excluding fees and accrued coupons from the operating results of the day).

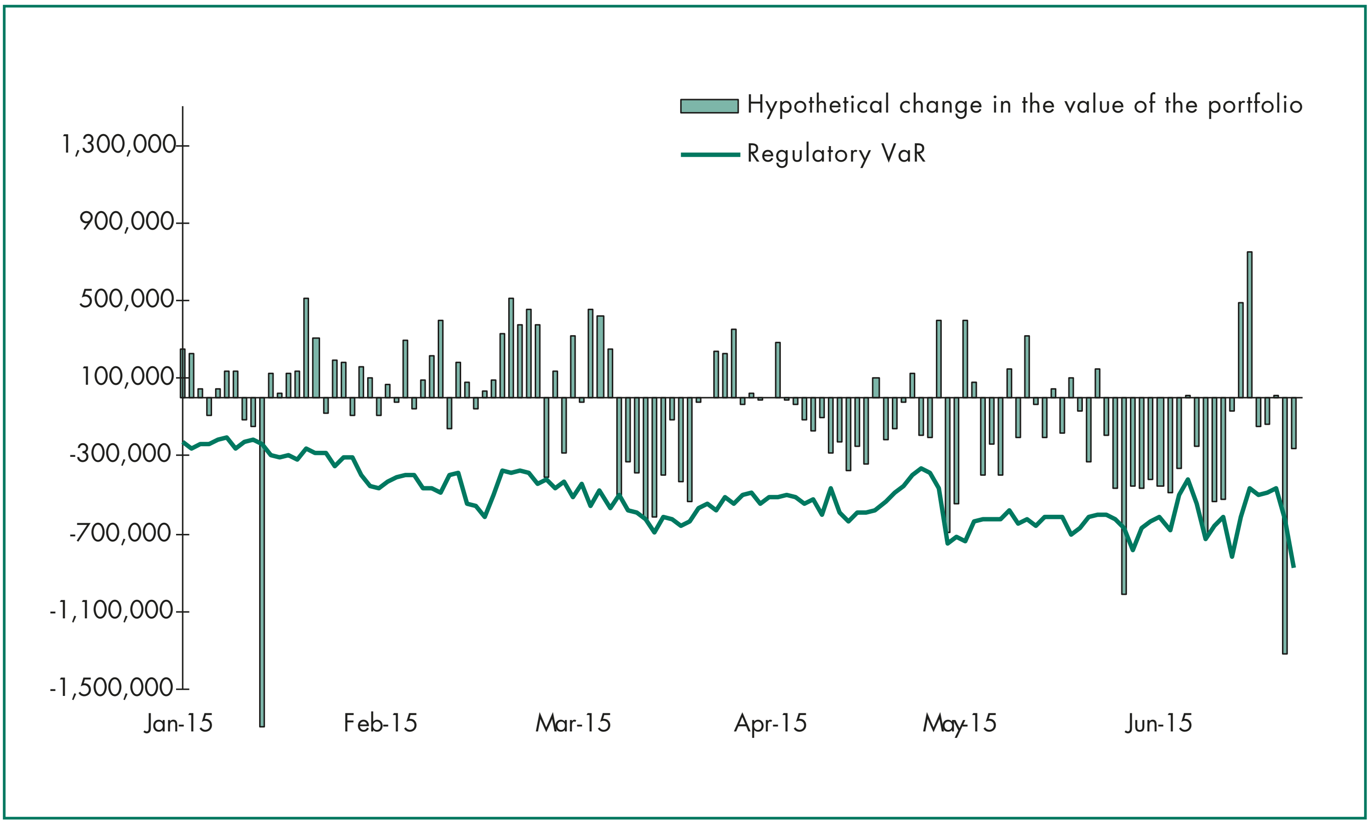
The first occasion where the maximum daily loss was exceeded was on 15 January 2015, just in hypothetical backtesting mode, and had as its sole cause the unexpected decision by the Swiss National Bank to stop supporting the 1.20 ceiling set for the Swiss franc's exchange rate against the euro, which had been in place for more than three years. Exceeding this threshold of risk only occurred in the hypothetical backtesting, which assumes no change in the portfolio positions, which means that it excludes from the comparison with VaR the impact of that day's trading, which in fact was crucial in reaching an actual result that was far lower than the theoretical one. This event has a statistical probability of close to zero if it is compared with the historical trend of the EUR/CHF risk factor over the last year, also considering longer intervals (five years), thereby falling outside the predictive capacity of VaR measurement.

Regulatory VaR was exceeded on a second occasion, both in the actual mode and in the hypothetical one, on 3 June 2015. Its main driver was a hefty shock suffered by the risk-free Euro interest rate curve that was large enough to overcome, in some cases quite significantly, the confidence interval of 99% foreseen by the VaR model on the basis of historical trends in risk factors. Sharp interest rate changes took place as a reaction to comments by the European Central Bank on recent rises in bond yields. So it was a case where the market variables that caused the exception led to the predetermined confidence level for the model being exceeded, after which one can expect violations of the VaR estimates.

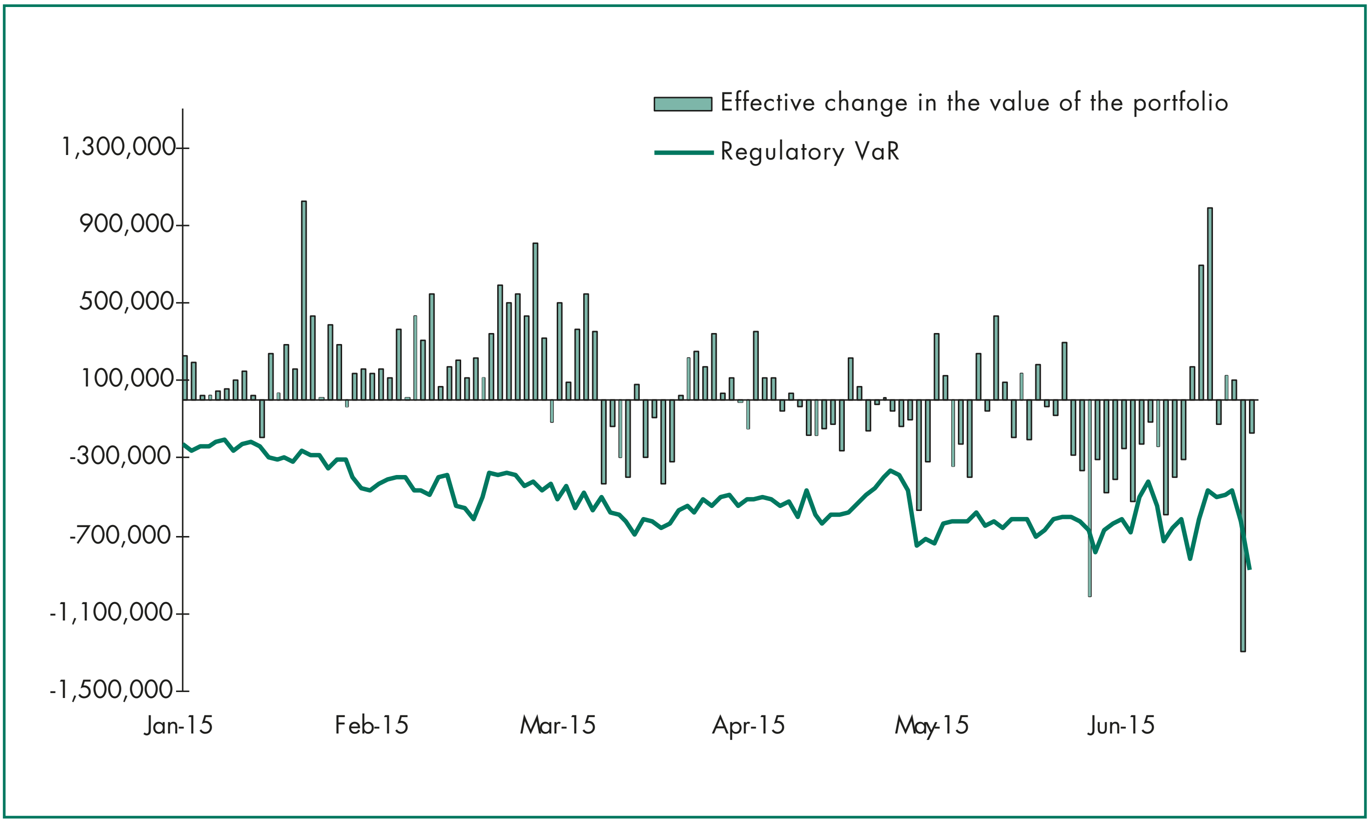
The third occasion on which VaR was exceeded was on 29 June 2015, a day characterized by a pronounced “flight to quality” following the Greek's government's unilateral interruption of negotiations with international creditors and its decision to hold a referendum on the population's willingness to accept the aid conditions being offered to finance the Greek State. This event, interpreted as a sign of fragility on the part of the single currency, led to a collapse in European stock exchanges, penalising the banking sector in particular, and sharp rises in the bond yields of peripheral countries. It was precisely the impact of an ample widening of credit spreads, which are not modelled as part of regulatory VaR, that led to the maximum expected loss being exceeded for both types of backtesting. The shock suffered by credit spreads turned out to be so large that it caused an exception also in the backtesting compared with credit spread VaR, though the difference is significantly lower than in the case of regulatory VaR.

No exceptions were observed in the first half of 2014.

The following chart gives a comparison between regulatory VaR at the end of the day and the daily changes in portfolio value of the next business day for hypothetical and actual backtesting purposes.There were three cases in which the threshold was exceeded in the hypothetical mode and two in the actual mode, as explained earlier.

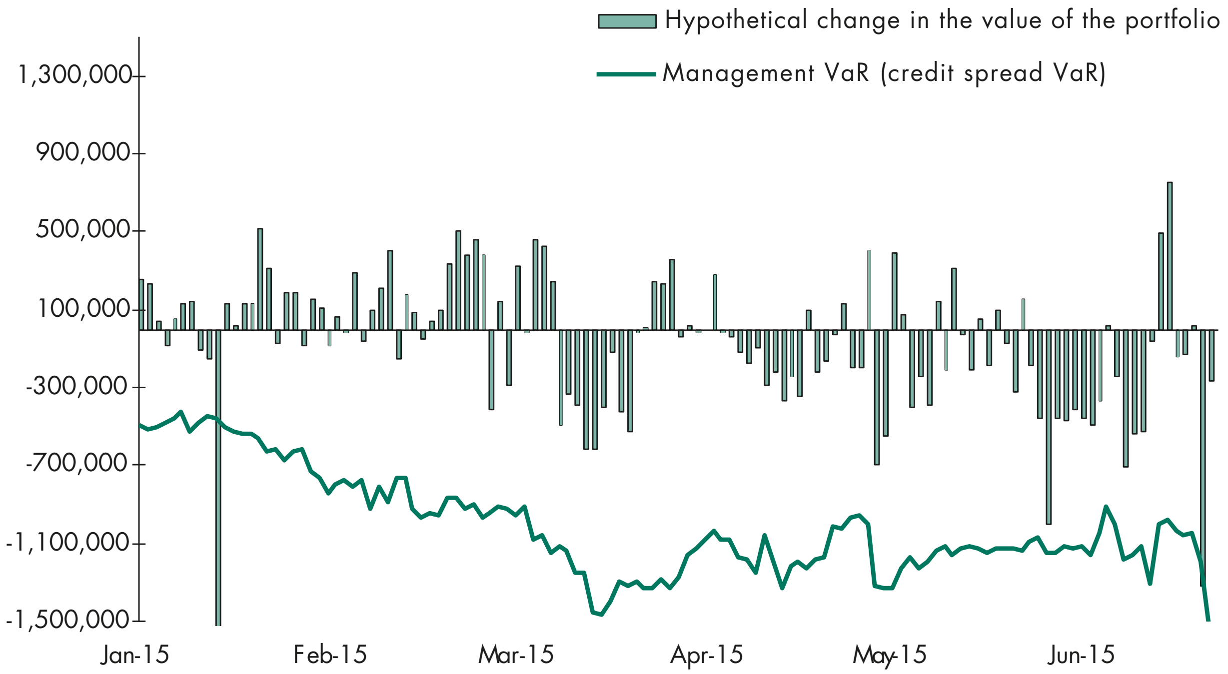


hypothetical backtesting of the trading book with respect to regulatory VaR – first half 2015

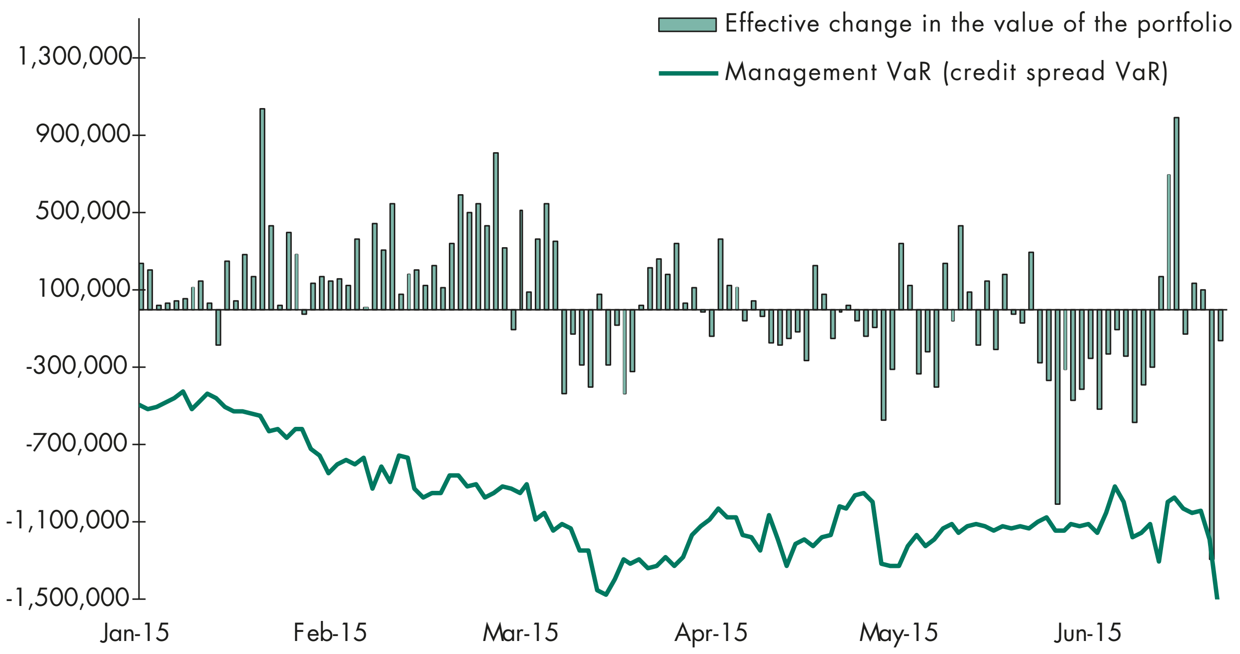


actual backtesting of the trading book with respect to regulatory VaR – first half 2015

In the case of backtesting against extended credit spread VaR (i.e. including issuer risk), it is possible to see in the following charts the two overruns previously described in the measurement of risk in the hypothetical mode and one in the actual mode.



hypothetical backtesting of the trading book with respect to internal VaR (credit spread VaR) – first half 2015



actual backtesting of the trading book with respect to internal VaR (credit spread VaR) – first half 2015

Banca Akros regularly carries out stress testing on its trading portfolio in order to determine any weaknesses in the portfolio that fall outside the possibilities of regulatory risk measurement and to ascertain the ability of the Bank's Own Funds to absorb any potential losses. The types of stress scenarios (hypothetical and specific) involve the major risk factors of the portfolio and get disrupted both jointly (historical and hypothetical scenarios) and individually (specific scenarios). In particular, sensitivity tests to credit spread VaR are performed for each issuer curve and for rating/segment curves, aggregating them by rating class, sector of activity or portfolio. The scenarios adopted foresee a deterioration in creditworthiness as a result of a widening in credit spreads of +25 and +50 basis points. To take account of possible negative impacts resulting from indebtedness, symmetrical improvement scenarios of credit spread (-25 and -50 basis points) have also been implemented. In addition to these tests, we also estimate the impacts for non-parallel changes in credit curves (deepening and flattening of the yield curve).

During the course of the first half of 2015, the most unfavourable stress scenarios results were, on average, those in which are assumed significant upward shifts in the interest rate curve , both risk-free (general risk), and risky (credit spread curves, specific risk). This is linked to the exposures to increases in yields due principally to the bonds held in the trading book. Generally speaking, the results of historical and hypothetical scenarios are less drastic.

Potential impacts on the income statement of shock scenarios on the interest rate curve and on credit spreads at 30 June 2015 are summarised in the following table, which relates to the entire trading portfolio. In particular, due to the effect of an assumed parallel widening of the credit spread curve of +25 and +50 basis points, the negative change in the portfolio would be –3,200 thousand euro and –6,343 thousand euro, respectively. Among the interest rate scenarios, note that a parallel upward movement of the entire yield curve of Euro rates of +50 basis points would result in a reduction in the value of the entire trading book of around 6,730 thousand euro. Less significant are the impacts of non-parallel shifts in the Euro yield curve (tilting down-up and tilting up-down).

(thousands of Euro)

Interest Rates				Credit Spread			
–50 bps	+50 bps	Tilting Down-Up	Tilting Up-Down	–50 bps	–25 bps	+25 bps	+50 bps
7,135	–6,730	568	–541	6,568	3,256	–3,200	–6,343

1.2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management processes and methods of measuring interest rate risk and price risk

Interest rate risk is substantiated in the potential impact that unexpected changes in market interest rates have on current earnings (cash flow risk) and the Group's shareholders' equity (fair value risk). This risk occurs typically on positions in the banking book, namely:

- customers' loans and deposits;
- own bonds;
- own issues for institutional investors;
- secured and unsecured interbank transactions;
- operations with the European Central Bank (OMO);
- hedging derivatives.

Interest rate risk is therefore measured from the point of view of both income statement and the balance sheet.

From the point of view of the income statement, interest rate risk arises from the possibility that an unexpected change in interest rates generates a reduction in net interest income, and hence in Group profits. This risk therefore depends on:

- a shift in the time structure of loans and deposits in the case of fixed-rate items;
- a misalignment of the review periods of rate conditions in the case of floating-rate items.

From the point of view of assets, the interest rate risk arises from the possibility that an unexpected change in interest rates produces a net decrease in the balance sheet items, with a consequent impact on the Group's equity.

The main sources of interest rate risk can be schematised as follows:

- repricing risk: risk arising from timing mismatches in maturities and repricing of assets and liabilities; the main features of this type of risk are:
  - yield curve risk: risk resulting from exposure of balance sheet items to changes in slope and shape of the yield curve;
  - basis risk: risk from imperfect correlation in the variations of the rates earned and paid on different instruments, even with similar repricing structures;
- optionality risk: risk resulting from embedded options in the Banking Book items.

The Bipiemme Group monitors – both at consolidated level and at the level of individual legal entity – the banking book's exposure to adverse changes in interest rates, in terms of both the income statement and the balance sheet.

Measuring the interest rate risk on the banking book is done using integrated methods of Asset and Liability Management (ALM). In particular, the risk measurements used are:

- the change in interest margin expected as a result of a parallel shock on the spot rate curve of +/–100 basis points (earnings perspective);
- the change in economic value as a result of a parallel shock on the spot rate curve of +/–200 basis points (capital perspective), as defined in the Second Pillar of Basel II.

The impact on the interest margin is due to the reinvestment/refinancing at new market conditions of the principal amount due (reinvestment/refinancing risk) and to the change in the coupon element (repricing risk, only for floating rate operations). The impact on the interest margin is obtained by mapping the items at the actual dates at risk, or the date of payment of principal amounts for fixed rate transactions and the next repricing date after the cut-off for floating rate transactions.
This approach, known as the repricing gap, implies the adoption of a time horizon (known as the “gapping period”), of one year according to market best practices.

The impact on the economic value is measured according to a full evaluation approach, or as the change in fair value of the items mapped in each time band following a parallel shock in the curve of spot rates.
The methodologies used for analysing sensitivity to interest rate risk also include behavioural modelling of demand deposits and prepayments of the mortgage portfolio.

As for the modelling of demand deposits, the Bipiemme Group adopts statistical models able to grasp both the persistence of volumes over time and the responsiveness of rates to market conditions; in particular:

- the volume analysis model makes it possible to represent the element of aggregate demand items considered stable as a portfolio of amortizing to maturity items;
- the rate analysis model makes it possible to identify the proportion of demand items that react to movements in a market parameter considered significant and to measure the time needed to make the adjustment (viscosity effect).

Lastly, prepayment risk on the mortgage portfolio is measured through a CPR-type model (Constant Prepayment Rate), which estimates a prepayment rate for technical form.

B. Fair value hedging

A hedge accounting policy drawn up by the Parent Company has been in force since 2009. It defines the methodology and the organisational process for managing hedges of interest rate risk, with particular reference to the players involved, the definition of roles and responsibilities and the description of planned activities and mapping processes.
This Policy also gives the Parent Company the responsibility for managing the interest rate risk of the Bipiemme Group's banking book, both as regards monitoring the exposure and compliance with the operational limits and for its management and hedging activities.

The responsibility for managing interest rate risk and hedging activities is centralized in the Parent Company's Finance Committee, for any legal entity included in the scope of the policy (which excludes Banca Akros).
The Finance Committee establishes guidelines for management of the assets and liabilities side of the financial statements and sets up all interest rate risk hedging transactions. Such hedging transactions, as approved by the Finance Committee, are carried out by the Finance Function of Banca Popolare di Milano. This function has also been delegated the power to implement operating hedging strategies, taking positions on the interest rate curve with a view to reducing the exposure to the interest rate risk generated by the Bank's commercial activities in deposits and loans.

Hedging of interest rate risk has the objective of protecting the banking book from changes in the Fair value of deposits and loans due to movements in the interest rate curve or to reduce the variability of cash flows related to a particular asset or liability.

The main types of hedge derivatives used are represented by Interest Rate Swap (IRS), Overnight Indexed Swap (OIS), Cross Currency Swap (CCS) and options on interest rate (cap, floor, collar).

The hedging activity carried on by the Bipiemme Group is reflected in the books (Hedge Accounting) in two ways:

- micro fair value hedge: hedging of the Fair value of assets or liabilities specifically identified and represented mainly by bonds issued or purchased;
- macro fair value hedge: hedging of homogeneous pools of assets or liabilities not individually identifiable and represented mainly by loans to ordinary customers.

C. Cash flow hedging

The Bipiemme Group has taken out cash flow hedges to stabilise, by means of a swap, the coupon yield of a security recorded under financial assets available for sale.

2. Banking book: internal models and other methodologies used for sensitivity analysis

As described in the methodological section, the exposure to interest rate risk in terms of profitability is measured by the change in the interest margin expected over a period of one year following a parallel shock on the spot rate curve of +/–100 basis points.

The following table shows the average and actual results of the estimate of this change at 30 June 2015. For consistency with respect to the measurement of interest rate risk from a capital point of view, the result of the estimates obtained by applying a shock of +/–200 basis points is also shown.

In millions of Euro

Floating	Figure at 30 June 2015	Average figure for first half 2015
Sensitivity of interest margin +100bps	17.1	22.2
Sensitivity of interest margin –100 bps	–0.7	0.1
Sensitivity of interest margin +200bps	35.5	45.4
Sensitivity of interest margin –200 bps	–0.7	0.1

The exposure to interest rate risk from a capital point of view is measured by the maximum absolute change in economic value (fair value) following a parallel shock on the spot rate curve of +/–200 basis points.

The following table shows the average and actual results of the estimate of this change at 30 June 2015. For consistency with respect to the measurement of interest rate risk from an economic point of view, the result of the estimates obtained by applying a shock of +/–100 basis points is also shown.

In millions of Euro

Floating	Figure at 30 June 2015	Average figure for first half 2015
Sensitivity of the economic value +100bps	–266.0	–222.5
Sensitivity of the economic value –100bps	215.9	121.8
Sensitivity of the economic value +200bps	–521.8	–452.3
Sensitivity of the economic value –200bps	233.0	123.3

As shown in the following table, the maximum absolute change in fair value is then compared with the regulatory capital.

In millions of Euro

Floating	Figure at 30 June 2015	Average figure for first half 2015
Maximum absolute change in fair value (+/–100bps) in relation to Regulatory Capital	5.3%	4.4%
Maximum absolute change in fair value (+/–200bps) in relation to Regulatory Capital	10.4%	8.9%

As indicated in the reference standard, in the case of downward scenarios the application of an implicit floor equal to zero ensures that interest rates can not turn negative.

1.2.3 – Exchange risk

Qualitative information

A. General aspects, management processes and methods of measuring exchange risk

Banca Popolare di Milano
The Parent Company's forex operations are substantially limited to servicing the needs of the commercial functions.
Foreign exchange activities are limited to transactions involving currency gains (interest margin or commissions and fees collected in foreign currency) and foreign banknotes for the purchase and sale of currency by the branch network.
There is also a forex brokerage service for customers, but without keeping significant position books open.

Banca Akros
Exchange rate risk is managed internally by a specific desk, where forex and forex derivative transactions are also focused with a view to hedging the currency exposure of any of the Bank's assets.

A.1 Sources of exchange rate risk

The main sources of exchange rate risk are:
- loans and deposits in foreign currency with corporate and/or retail customers;
- purchases of securities and/or equity investments and other financial instruments in foreign currency;
- trading in foreign notes;
- receipt and/or payment of interest, dividends, administrative expenses, etc.;
- at Banca Akros, the forex desk and the currency operations of the other desks.

A.2 Internal processes for managing and controlling exchange rate risk

Banca Popolare di Milano
The system of operating limits allows the Head of the Finance Function to hold an overnight currency position of up to 5 million euro. Moreover, the sum of the absolute values of the open positions in all foreign currencies must not exceed the limits set, and periodically reviewed, by the Regulation for Financial Operations. There is also a stop loss of 1 million euro.
This position is monitored through the front-office application (Kondor+).

Banca Akros
Banca Akros assumes exchange risk within the established operating limits.
The principal indicator of exposure to exchange rate risk is the VaR of the FX Area, which includes analysing the sensitivity to exchange rate and interest rate risk, the risk of volatility and the effect of non-linear trends by the options portfolio (gamma and vega risk), using the methods explained above (see “General common aspects related to the management processes and methods adopted by the Bank”).

B. Exchange rate risk hedging

The exchange rate risk generated by loans and deposits on the banking books of the commercial banks and by investing in securities and/or equity investments is systematically hedged by carrying out funding (and/or lending) transactions in the same currency.
The forex position created by income flows in foreign currency (interest income/expense, fees and commissions) and foreign banknote transactions with customers tend to be hedged by carrying out forex transactions in the reverse direction.

2. Internal models and other methodologies for the sensitivity analysis

2.1. Banca Popolare di Milano

BPM did not use internal sensitivity analysis models for exchange risk.
The Parent Company's forex operations are substantially limited to servicing the needs of the commercial functions.
Moreover, in the supervisory reports for the first half of 2015, the capital requirements for currency risk did not show significant amounts and the net foreign exchange position has always remained below 2% of Own Funds.

2.2. Banca Akros

Banca Akros uses its own internal model based on VaR metrics also to calculate the exchange risk.

The following table shows the VaR for the first half of 2015, together with the corresponding amounts for the previous year.

99% – 1 Day Euro/000	**Exchange rate risk**	
	First half 2015	**First half 2014**
Ave. VaR EUR (000)	136	113
Max VaR EUR (000)	357	205
Min VaR EUR (000)	22	35
Last VaR EUR (000)	260	109
No. of exceptions	6/4	0/0

1.3 – Banking group – Liquidity risk

Qualitative information

A. General aspects, management processes and methods of measuring liquidity risk

A.1 Sources of liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its definite and foreseeable payment commitments with reasonable certainty. Normally, two types of liquidity risk are identified: Funding Liquidity Risk, i.e. the risk that the Group may not be able to meet its payment commitments and obligations efficiently because of an inability to raise funds without jeopardising its normal business activity and/or its financial situation; Market Liquidity Risk, i.e. the risk that the Group may not be able to liquidate an asset without incurring a capital loss because of the limited depth of the market and/or as a result of the timing with which it is necessary to carry out the transaction. In this second definition, liquidity risk comes very close to traditional market risk. The main difference between the two types of risk lies in the fact that while market risk measures the sensitivity of position's value to possible future scenarios, liquidity risk concentrates on the ability to finance present and future payment commitments in normal and in stress situations.

A.2 Internal procedures for managing and controlling liquidity risk

In the Bipiemme Group, the governance of liquidity risk is regulated by the Group's liquidity policy, which sets out:

- the liquidity risk governance model;
- responsibilities of the corporate bodies and business functions;
- the threshold of tolerance to liquidity risk;
- the tools for managing and monitoring liquidity risk;
- the tools for mitigating liquidity risk;
- the contingency funding plan;
- the guide lines for definition and monitoring of the Funding Plan.

Liquidity risk governance model

Liquidity governance is centralised at the Parent Company. Operative management of liquidity is coordinated by the Parent Company on a centralised basis, subject to appropriate exemptions, with part of liquidity management being done on a decentralised basis at the individual Group companies.

Responsibilities of corporate and business functions

The policy identifies the role and responsibilities of the corporate bodies involved in liquidity governance and management. In particular:

- the Management Board of the Parent Company sets the threshold of tolerance to liquidity risk and is responsible for maintaining a level of liquidity consistent with this threshold. It is responsible for setting governance policies and management processes related to liquidity risk; more in general, it also approves the methods of managing and monitoring liquidity risk;
- the Group Finance Committee is responsible for managing operational and structural liquidity and the related risk in the states of "normality", "observation", "stress" and "crisis" as defined in the Contingency Funding Plan, with the adoption of appropriate measures;
- the Supervisory Board of the Parent Company is responsible for ensuring the adequacy and compliance of the process of managing, monitoring and controlling liquidity risk with respect to the legislative requirements and in accordance with the tasks assigned to it by the Company's Articles of Association.

The Group has also defined the roles and responsibilities of the corporate functions involved in the process of managing and monitoring liquidity risk, such as the operational functions (finance, treasury, commercial network), the control functions (risk management, internal audit) and the function in charge of processing the pricing system for the internal transfer of funds.

Threshold of tolerance to liquidity risk

The threshold of tolerance to liquidity risk is understood as the maximum risk exposure considered to be sustainable in the context of the "normal course of business" (going concern), integrated with stress scenarios. It is defined in terms of limits on a set of indicators that must be respected in both short – and long-term liquidity management. These indicators are approved at Group level as part of the Risk Appetite Framework (RAF).

Tools for managing and monitoring liquidity risk

The liquidity risk is monitored through the following instruments:

- Operative maturity ladder: the report provides the liquidity requirement for a time horizon of up to twelve months, aggregating imbalances between cash inflows and outflows that occur in different time zones and adding to this the balance of available liquidity reserves;
- Structural maturity ladder: this report aims to monitor the maintenance of an adequate ratio between long-term assets and liabilities, i.e. to limit the exposure to refinancing for maturities over twelve months. The relationship between sources and uses of liquidity and the degree of maturity transformation are also monitored;
- Early Warning Indicators (EWI) for any liquidity tensions. We have identified a set of indicators for early detection of potential tensions in the Group's liquidity position. They provide market indicators and internal indicators, i.e. based on specific indicators of the Group's liquidity situation. Monitoring these indicators, in addition to allowing for timely identification of the deterioration of certain key variables, helps to determine the status of the liquidity situation between "normality", "observation", "stress" and "crisis";
- stress tests of the Group's ability to withstand adverse scenarios. Among the risk factors considered in the conduct of stress tests are potential cash outflows such as the impact of a downgrade of the bank in question, the granting of further collateral for derivative transactions and the unexpected use by customers of committed lines of credit granted.

Tools for mitigating liquidity risk

As tools for mitigating liquidity risk, the liquidity policy requires the Group to keep an adequate amount of cash reserves to maintain an liquidity profile that is consistent with the threshold of tolerance to this kind of risk, compliance with specific limits placed on certain variables, both operational and structural, and an appropriate diversification of funding sources.

Contingency Funding Plan

The Contingency Funding Plan is an integral part of the policy and sets out to protect the Group and the individual Group companies from situations of crisis of different magnitudes. The Contingency Funding Plan describes a series of non-binding actions that can be taken to overcome the crisis. In particular it describes:

- the mechanism for activating the states of "observation", "stress" and "crisis";
- identification of the functions involved and their responsibilities;
- possible action plans with an indication of the estimated cash recoverable by each of them;
- communication management in cases of stress and crisis.

Quantitative information

a. Net interbank position

The net interbank position at 30 June 2015 shows a negative (net borrowing) balance of Euro 3,332 million, a deterioration compared with the figure of Euro 2,334 million in December 2014 (– Euro 998 million), and on the Euro 3,121 million in March 2015 (– Euro 211 million). This trend is largely attributable to the amounts due from banks, which increase by Euro 1,176 million on the end of 2014.

To determine the unsecured net interbank position at 30 June 2015, the following components should be deducted from the difference between amounts due to and from banks:

- Euro 3.05 billion from open market operations with the European Central Bank, including TLTRO (Targeted Longer Term Refinancing Operations) and MRO (Main Refinancing Operations). As regards TLTRO, the Bipiemme Group shows a balance at 30 June 2015 of Euro 2.75 billion, of which Euro 1.5 billion requested at the auction on December 2014, Euro 250 million at the first quarter 2015 auction and Euro 1 billion with the last request to ECB in June 2015; the remaining Euro 300 million are attributable to MRO transactions of BPM and Akros;
- Euro 288 million resulting from net deposits deriving from repurchase agreements with banks;
- Euro 195 million relating to amounts due from banks shown in the financial statements of BPM Securitisation 2, BPM Securitisation 3 and BPM Covered Bond, as they relate to liquidity that is not immediately available.

Net of these components, the unsecured net interbank position at 30 June 2015 shows a negative balance of Euro 189 million, an improvement on 31 December 2014 (– Euro 598 million) and at 31 March 2015 (– Euro 722 million).

Net interbank position

(Euro/000)

	30.06.2015	31.03.2015	Change A – B		31.12.2014	Change A – C		30.06.2014
	A	B	amount	%	C	amount	%	D
Due from banks	1,162,731	1,050,829	111,902	10,6	984,777	177,954	18,1	1,849,987
Due to banks	4,494,906	4,171,724	323,182	7,7	3,318,564	1,176,342	35,4	4,313,017
Total	**–3,332,175**	**–3,120,895**	**–211,280**	**–6,8**	**–2,333,787**	**–998,388**	**–42,8**	**–2,463,030**

b. Liquidity position

The Group's liquidity position remains strong and the main indicators of the liquidity situation have remained within the set limits. Net liquidity – being assets available for use as collateral plus net inflows and outflows over a given time horizon – amounts to Euro 3,939 million at 30 June 2015, with a time horizon of 1 month, giving a ratio of total assets of 8% (11.3% at the end of December 2014).
Liquidity at three months at the end of March 2015 comes to Euro 2,905 million (5.9% of total assets).
The assets eligible as collateral with the European Central Bank amounted to Euro 12.7 billion at the end of June 2015, which is stable on the previous quarter, and are committed for Euro 9.2 billion, while the remaining Euro 3.1 billion is represented by free assets

As expected, the liquidity requirement of commercial banks, being the difference between commercial funding and lending to customers, amounted to Euro 5 billion at the end of June 2015 (management figures), up on the December 2014 figure (Euro 3.2 billion).

The following is an analysis of the main financial obligations maturing over the next twelve months.

Main financial liabilities in maturity – management figures

(in millions of Euro)

	07.15	08.15	09.15	10.15	11.15	12.15	01.16	02.16	03.16	04.16	05.16	06.16	Total
Securities issued (senior, subordinated, covered bonds)	–	–	–	–	900	–	997	–	–	–	–	–	**1,897**
Securities issued (retail issues)	108	171	56	129	26	83	73	1	194	81	72	90	**1,084**
Certificates of deposit (retail)	13	10	5	2	6	4	3	3	4	6	6	9	**71**
Total	**121**	**181**	**61**	**131**	**932**	**87**	**1,073**	**4**	**198**	**87**	**78**	**99**	**3,052**

Conventionally, based on IFRS 7, callable instruments have been considered as falling due at the first call date foreseen in the issue regulations.

Looking at the maturities of financial liabilities for the next 12 months (so at the same level of customer loans and deposits), the funding requirement of 3.1 billion euro is amply covered by the portfolio of financial assets eligible for refinancing with the ECB, on the one hand, and by the expected renewal on maturity of the liabilities represented by the retail issues placed by the commercial network, on the other.

Self-securitisations

Securitisations in which the Parent Company has subscribed all of the securities issued by the special purpose vehicle (self-securitisations) are not shown in the tables in Part E, Section C of the Notes "Securitisation transactions", in accordance with Bank of Italy Circular 262.
The self-securitisations of performing loans were structured in such a way as to improve liquidity risk management, focusing on efficient management of the loan portfolio and diversification of funding sources, reducing their cost and covering the natural maturities of assets with those of liabilities.
Direct and full subscription by the Bank of the notes issued by BPM Securitisation 3 S.r.l., despite not permitting direct access to liquidity from the market, did make it possible to have securities eligible for refinancing with the European Central Bank.
Given that the Parent Company has retained substantially all of the risks and benefits of the assets that were sold, the entire amount of these receivables has been kept on its balance sheet (applying the accounting treatment envisaged in IAS 39 for the category of financial instruments to which these belong), whereas the notes issued by the vehicle and subscribed by the Bank are not shown. At least until part of the junior securities are placed on the market, these assignment and purchase transactions, which are to be considered jointly according to the principle of substance over form, are in effect a straightforward transformation of receivables into financial instruments (securities), without there being any real economic effect.

Securitisation of mortgages and issue of Asset Backed Securities (ABS)

As at the reporting date, there is an ongoing self-securitisation that was finalised by the Bank in September 2014 and approved by the Management Board on 25 February 2014. In detail, this is a securitisation of mortgage loans with a view to issuing Asset Backed Securities (ABS), that is, financial instruments issued under Law 130 of 30 April 1999 (and subsequent amendments and updates). Loans (and other assets) intended exclusively for this purpose will be used to guarantee the rights enclosed in these securities and to cover the cost of the securitisation.

This operation was carried out through a sale without recourse to the vehicle company BPM Securitisation 3 S.r.l. (a company created ad hoc) of a portfolio of performing loans totalling some Euro 864 million, deriving from commercial loans secured by first rank mortgages and unsecured loans granted by the Bank.

The portfolio sold provides for a class of ABS Senior securities (Class A) with an "A2/AA" rating assigned by Moody's and DBRS, respectively, and an unrated class of ABS Junior securities (Class Z).

Securities	**Amount in Euro**	**Characteristics**
Class A – rating AA/A2	**573,000,000**	Legal maturity: 20 January 2057; coupon: 3-mth Euribor + 60 b.p.s., to be paid quarterly from 20 January 2015; quotation: Luxembourg Stock Exchange **("Senior Securities")**
Class Z – junior notes	**304,000,000**	Legal maturity: 20 January 2057; coupon: not foreseen; unrated; quotation: unlisted **("Junior Securities")**
	877,000,000	

The transaction structure provides for a call option under which Banca Popolare di Milano will have the right to repurchase all of the loans sold to the SPV, the issuer of the ABS, and not yet collected at each payment date.

BPM Securitisation 3 S.r.l. and Banca Popolare di Milano have signed a servicing contract, under which the SPV has delegated to BPM the task of managing and administrating the receivables, including their collection and recovery.

The ABS issued by BPM Securitisation 3 S.r.l. have been fully subscribed by the Bank, which will use the Senior securities to carry out refinancing transactions with the European Central Bank.

At the date of the half-yearly financial statements the self-securitisation transaction is represented as follows:

(Euro/000)

Line items	**30.06.2015**	**31.12.2014**
Principal balance sheet aggregates		
Loans to customers	613,620	726,181
Due from banks	77,390	154,142
Economic result of the operation	**10,997**	**5,432**

1.4 – Banking group – Operational risk

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

Main sources of operational risk

In line with EC Regulation 575/2013 of the European Parliament and Council, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This type includes losses due to frauds, human resources, breakdown of operations, non-availability of systems, breach of contract, natural disasters and legal risks, whereas strategic risk and reputational risk are excluded.

The supervisory regulations also say that banks have to equip themselves with operational risk management systems that are suitable for their size and risk profile and able to guarantee the identification, measurement, monitoring and control of such risk over time.

Unlike credit and market risk, operational risk is not taken on by the Group on the basis of strategic decisions, as it is inherent in its ordinary operations.

Organisational aspects

The Group has adopted The Standardised Approach (TSA) to calculate the amount of capital absorbed by operational risk for Banca Popolare di Milano and Banca Akros and applies the Basic Indicator Approach (BIA) for the other Group companies.

This method is adequate for the size and risk profile of the Group and helps to improve the efficiency and effectiveness of processes as well as to reduce the impact and probability of onerous losses arising; furthermore, this is a preparatory step in a gradual evolution towards more advanced models of risk evaluation.

From this point of view, Banca Popolare di Milano at Group level has taken steps:

- to define and formalise a model for governing operational risk and guidelines for the entire system of operational risk management;
- to regulate in accordance with company rules the duties and responsibilities assigned the various functions involved, giving a detailed description of their activities;
- to prepare suitable periodic reports for top management of the individual banks and for the Parent Company's corporate bodies on operational risk and operating losses;
- to evaluate the adequacy and effectiveness of the system implemented by defining operating criteria and methods.

Model of Governance

For the management of the Group's operational risk, it was decided to adopt a centralised model of governance at the Parent Company which provides for the definition of principles and methodologies that are common to all of the banks.

The model assigns to Banca Popolare di Milano, as the Parent Company, the task of coordinating and supervising all of the operating activities carried on by the individual banks in the Group through:

- a strategic level involving the Management Board, the Supervisory Board, the Internal Control and Audit Committee with the support of the Risk Management Department;
- a more operational level involving the Operational Risk of the Parent Company and the Operational Risk Owners identified within each of the banks.

The system of managing operational risk

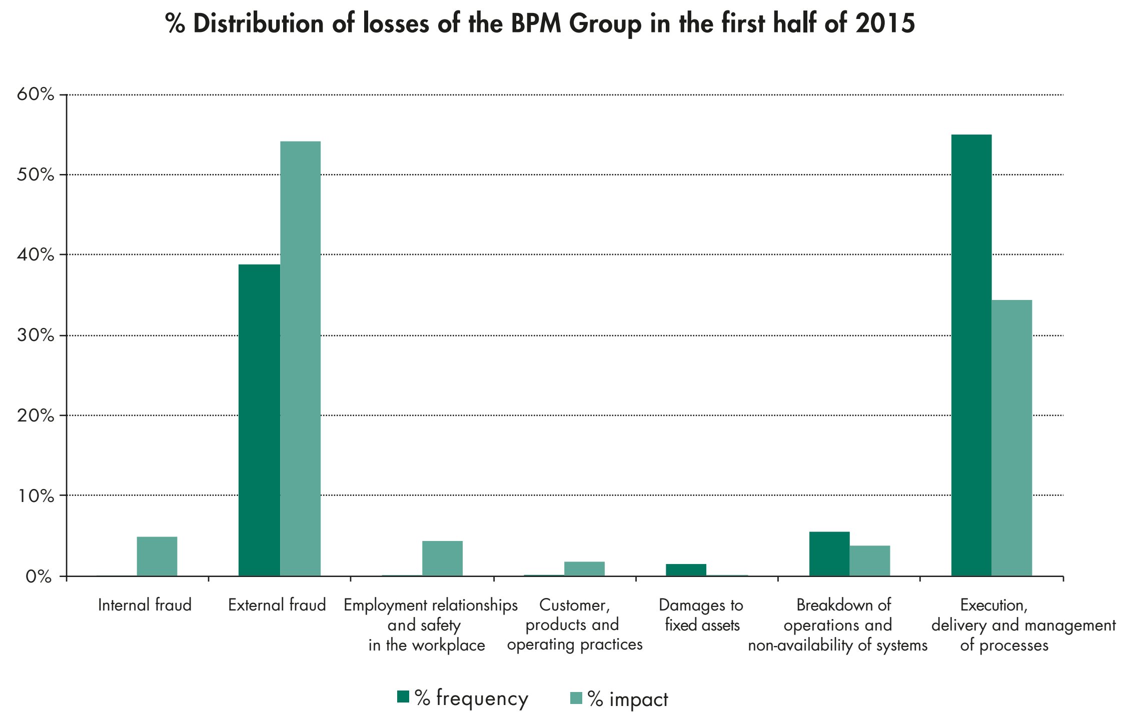
Banca Popolare di Milano has implemented a system for managing operational risk at Group level by means of:

- an organisational process of collecting data on operating losses and insurance recoveries that involves and responsibilises the various bank functions, guaranteeing the completeness, reliability and updating of the data;
- activation of the Risk Self Assessment tool, an annual process of identifying, assessing and measuring (where possible) the Group's exposure to operational risk in its main business processes and support carried out by means of questionnaires sent to the Process Owner by Operational Risk Management,
- the definition of criteria and methods for linking the Group's activities to the regulatory lines of business for the calculation of the individual and consolidated capital ratio;
- the implementation of a system of periodic reporting to top management and the operating functions on the main loss events and operational risks identified;
- the preparation of training tools for top management and the operating functions to encourage their involvement and to provide guidelines to the staff concerned for identifying and reporting such risk;
- an annual review of the entire system of operational risk management by means of a process of internal self-assessment, which allows the Group to evaluate the effectiveness of its strategies and the adequacy of the system implemented according to the Group's risk profile.

Loss data collection

One of the key aspects of the operational risk management system is loss data collection (LDC). Its purpose is to provide a picture over time of the trend in the more significant loan losses; it also represents a statistical basis necessary for a better risk analysis and for the adoption of advanced VaR models and for calculating the amount of capital absorbed by operational risk.
Detailed internal rules guarantee consistency in the classification of events within each Group bank, while at an operational level Group banks have been equipped with suitable procedures for collecting loss data and efficient management of all steps of the process.

By means of the reporting system, on a quarterly basis, operational loss data is brought to the attention of the corporate bodies of the Parent Company and of the other banks within the scope of application of the TSA model. Similar reports are also produced for the corporate bodies of Banca Popolare di Mantova, for which the BIA method is applied.
In the first half of 2015, the main sources of operating losses, in terms of impact and frequency, were the categories entitled "Execution, delivery and management of processes" and "External fraud".



Identifying operational risk

During the first half of 2015, the Risk Self Assessment (RSA) process was implemented as usual for the identification and analysis of operational risk. Assessments of operational risk represent the outcome of an assessment cycle performed in accordance with a methodological configuration and a common process agreed at Group level that enables the identification and measurement of the main operational risks to which the Group is exposed, as well as the adoption of suitable mitigating measures, where needed or appropriate.

According to the methodological approach of the Risk Self Assessment model, we continued what has been done the previous year, partially reviewing the questionnaire, which was sent out electronically and structured in guided fields.

As was the case for previous assessments, particular attention was paid to the assessment of the design of the internal control system, for which process owners were asked to provide their opinion on the functioning thereof.

The assessment cycle also allowed for “testing” of the methods adopted for the selection of the elements to be used to fine tune the methodology and the process with a view to the performance of RSA in subsequent years.

The findings from the assessment were shared with the appropriate corporate functions and bodies and represent the basis for the eventual definition and updating of measures for the mitigation and prevention of risk, as part of a wider process for the mitigation of operational risks. The results will be summarised and reported to the corporate bodies and senior management.

Business Continuity Plan

The Business Continuity Plan allows the Parent Company to verify its ability to restore vital and critical processes in the event of a disaster.

Through a structure set up specifically to manage the Plan:

- formalises the effective maintenance procedure;
- the crisis simulation plan gets tested;
- the continuity of vital and critical processes is guaranteed;
- mitigation steps are evaluated, widening the scope of the business continuity plan to new scenarios, such as that of a pandemic, and to new processes.

Quantitative information

Lawsuits pending

Legal risk can derive from a failure to comply with laws, regulations or directives from the Supervisory Authorities or from unfavourable changes in the legislative framework. The impact of this risk may take the form of fines or other sanctions or it may involve the Group in legal proceedings. So in principle, it concerns all corporate functions that are affected by legislative, regulatory and other legal provisions.

Banca Popolare di Milano

The lawsuits outstanding at 30 June 2015 mostly fall into the following categories:

- **erroneous application of interest rates:** there are 590 lawsuits outstanding for which 12.5 million euro has been provided for possible losses;
- **operational errors in the provision of services to customers:** there are 392 lawsuits outstanding for which 14.7 million euro has been provided for possible losses;
- **financial lawsuits:** these are disputes associated with financial advisory activities (documentary errors, incorrect information on financial risks, etc.); as far as lawsuits are concerned, there are specific provisions of 8.6 million euro for the 148 lawsuits that are outstanding.

Furthermore, it should be noted that a **provision of Euro 22 million** has been made as an estimate of the risk relating to issues connected with the placement of the BPM "Convertendo 2009-2013 6.75%" bond. Of this provision, which initially amounted to 40 million in 2011 and which was increased by another 7 million in 2012, 25 million was used for payments made under the Settlement Protocol and other arrangements reached.

Banca Akros

It should be noted that appropriate provision has been made for liabilities that could arise from lawsuits, claims, action taken in court and out of court and the costs of external advisers. Specific provisions made over the years for potential losses that could arise from disputes and lawsuits, including claims for damages, action taken in court and out of court, claims from customers and related legal expenses amount to 5.1 million euro at 30 June 2015.

Banca Popolare di Mantova

The lawsuits outstanding at 30 June 2015 mostly fall into the following categories:

- **erroneous application of interest rates:** there are 2 lawsuits outstanding for which no for possible losses has been provided;
- **operational errors in the provision of services to customers:** there are 4 lawsuits outstanding for which 20 thousand euro has been provided in previous years for possible losses;
- **financial lawsuits:** there are 2 lawsuits outstanding for which 20 thousand euro has been provided for possible losses.

Following the signature of the Settlement Protocol in August 2012, in relation to the estimate of risk on issues concerning the placement of the "Convertendo BPM 2009-2013 – 6.75%" bond loan, at 30 June 2015 the Bank has provided 66 thousand euro for the expected cost of settlements being reached with its customers. Of this provision, which initially amounted to 350 thousand euro in 2012, 284 thousand euro has been used due to payments made in 2014.

Part F – Information on consolidated capital

Section 1 – Consolidated capital

A. Qualitative information

Capital management involves a range of policies and decisions needed to define its size, as well as the best combination of the various alternative capitalisation instruments to ensure that the capital and consolidated ratios of the Bipiemme Group are consistent with the risk profile taken on in full compliance with the requirements of the Supervisory Authority.

As regards the policies adopted regarding compliance with the capital adequacy requirements, as well as the policies and processes adopted in the field of capital management, reference should be made to Section 2 below, entitled "Own funds and capital adequacy ratios".

B. Quantitative information

Equity line items	Banking group	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total	of which Group	of which minority interests
Share capital	3,367,771	–	22	–	3,367,793	3,365,439	2,354
Share premium reserve	11,921	–	–	–	11,921	–	11,921
Reserves	767,433	–	–	–	767,433	762,726	4,707
Equity instruments	–	–	–	–	–	–	–
(Treasury shares)	–859	–	–	–	–859	–859	–
Valuation reserves:	206,089	–	–	–	206,089	206,202	–113
– Financial assets available for sale	254,384	–	–	–	254,384	254,450	–66
– Property and equipment	–	–	–	–	–	–	–
– Intangible assets	–	–	–	–	–	–	–
– Hedging of foreign investments	–	–	–	–	–	–	–
– Cash flow hedges	–3,323	–	–	–	–3,323	–3,323	–
– Foreign exchange differences	–	–	–	–	–	–	–
– Non–current assets held for sale and discontinued operations	–	–	–	–	–	–	–
– Actuarial gains (losses) on defined-benefit pension plans	–55,931	–	–	–	–55,931	–55,884	–47
– Share of valuation reserves connected with investments carried at equity	–2,483	–	–	–	–2,483	–2,483	–
– Special revaluation laws	13,442	–	–	–	13,442	13,442	–
Net income (loss) (+/–) of the Group and minority interests	154,222	–	–	–	154,222	154,053	169
Shareholders' equity	**4,506,577**	**–**	**22**	**–**	**4,506,599**	**4,487,561**	**19,038**

Section 2 – Regulatory capital and capital adequacy ratios

2.1 Scope of application of the regulation

Changes in prudential bank regulations

The new harmonized framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26 June 2013 is applicable from 1 January 2014; they transpose the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel 3 Framework") into the European Union.
The Regulation (CRR) is directly applicable in the national legal systems, without the need for transposition, and constitutes the so-called "Single Rulebook"; the rules contained in the Directive (CRD IV), on the other hand, have to be transposed into the sources of national law.
In order to implement and facilitate the implementation of the new guidelines, as well as to achieve an overall revision and simplification of the rules for banks, on 17 December 2013 the Bank of Italy issued Circular 285 "Supervisory Provisions for Banks" which:

i) incorporates the provisions of CRD IV, implementation of which is the responsibility of the Bank of Italy under the Consolidated Banking Act;
ii) indicates the manner in which the discretionary decisions granted by the EU framework to the national authorities were exercised;
iii) outlines a comprehensive regulatory framework that is organic, rational and integrated with the directly applicable EU provisions, in order to facilitate its use by the operators.

In particular, with reference to the transitional arrangements for own funds, banks have the faculty – which they have to exercise by 31 January 2014 – not to include unrealized capital gains and losses related to exposures to central governments classified as "financial assets available for sale" in any element of own funds. The Management Board of BPM has resolved to take advantage of this faculty in the calculation of the individual own funds of all Group banks and of consolidated own funds. This faculty is a continuation of a similar option granted by the Bank of Italy in 2010 and adopted by BPM for the calculation of regulatory capital in accordance with the regulations contained in Circular 263.

2.2 Own funds on a consolidated basis

A. Qualitative information

Own funds (which under the previous rules constituted regulatory capital) are the first line of defence against the risks involved in the banking business as a whole and are the first parameter of reference for any assessment of a bank's solidity.
Own funds are the sum of:

- "Common Equity Tier 1" or "CET1"
- "Additional Tier 1" or "AT1"
- "Tier 2" or "T2"

In particular, with reference to the transitional arrangements for own funds, the Bipiemme Group has chosen not to include unrealized capital gains and losses related to exposures to central governments classified as "financial assets available for sale" in any element of own funds. At 30 June 2015, capital gains, net of tax, on AFS securities issued by central governments amounted to 112.62 million Euro. This amount is entirely related to bonds issued by the Italian government.

B. Quantitative information

	30.06.2015	31.12.2014
A. Common Equity Tier 1 – CET1 before the application of prudential filters	**4,301,310**	**4,352,272**
of which CET1 instruments subject to transitional instructions	–	–
B. Prudential filters of CET1 capital (+/–)	–5,458	–5,977
C. CET1 before items to be deducted and the effects of transitional instructions (A +/– B)	**4,295,852**	**4,346,295**
D. Items to be deducted from CET1	**–176,197**	**–150,276**
E. Transitional regime – Impact on CET1 (+/–), including minority interests subject to transitional instructions	**–147,341**	**–296,347**
F. Total Common Equity Tier 1 – CET1 (C – D +/– E)	**3,972,314**	**3,899,672**
G. Additional Tier 1 – AT1 before items to be deducted and the effects of transitional instructions	**187,361**	**213,499**
of which AT1 instruments subject to transitional instructions	184,572	210,940
H. Items to be deducted from AT1	**–**	**–**
I. Transitional regime – impact on AT1 (+/–), including instruments issued by subsidiaries and included in AT1 as per transitional instructions	**–**	**–**
L. Total Additional Tier 1 – AT1 (G – H +/– I)	**187,361**	**213,499**
M. Tier 2 capital (T2) before items to be deducted and the effects of the transitional regime	**887,340**	**1,073,546**
of which T2 instruments subject to transitional instructions	299,538	460,786
N. Items to be deducted from T2	**37,923**	**37,999**
O. Transitional regime – Impact on T2 (+/–), including instruments issued by subsidiaries and included in T2 as per transitional instructions	**17,361**	**20,790**
P. Total Tier 2 capital (T2) (M – N +/– O)	**866,778**	**1,056,337**
Q. Total own funds (F + L + P)	**5,026,453**	**5,169,508**

Composition of own funds at 30 June 2015:

Capital components	30.06.2015
CET1 instruments	
Paid-in share capital	3,365,439
Treasury shares	–25,000
Reserves	
Reserves	737,065
Net income for the period attributed to own funds	89,997
Accumulated other comprehensive income (OCI)	107,353
Other reserves	13,442
Minority interests	13,014
Tier 1 capital prudential filters	**–5,458**
Deductions:	
Intangible assets – Goodwill	–39,928
Intangible assets – Other intangible assets:	–115,981
Deductions with a 10% threshold: Significant investments in CET1 instruments of other participants in the financial sector	–20,288
Adjustments arising from transitional provisions	–147,341
Common Equity Tier 1 – CET1	**3,972,314**
Additional Tier 1 capital equity instruments subject to transitional provisions (grandfathering)	184,572
Minority interests	2,789
Additional Tier 1 – AT1	**187,361**
Tier 1 capital	**4,159,675**
Instruments and subordinated debt included in calculation of Tier 2 capital	586,083
Tier 2 capital equity instruments subject to transitional provisions (grandfathering)	299,538
Minority interests	1,719
Deductions pertaining to Tier 2 capital equity instruments in which the entity holds a significant investment	–37,923
Adjustments arising from transitional provisions	17,361
Tier 2 capital	**866,778**
Total own funds	**5,026,453**

Own Funds at 30 June 2015 include the amount of net income for the first half of 2015 as calculated according to EU Decision 2015/656.

The following table provides a reconciliation between Common Equity Tier 1 and the book value of the Group's shareholders' equity.

Line items	**30.06.2015**
Group shareholders' equity before the result for the period	4,333,508
Minority interests	19,038
Total shareholders' equity	**4,352,546**
Net income for 1st half 2015 included in Own Funds	89,997
Shareholders' equity, including share of net income for the period	**4,442,543**
Adjustments for instruments included in calculation of AT1 or T2	
Minority interests included in calculation of AT1	–2,789
Minority interests included in calculation of T2	–1,719
Minority interests not eligible for inclusion	–1,582
Other components not eligible for inclusion relating to valuation reserves for securities available for sale	–85,341
Other components: allocation of earnings to employees	–25,661
Treasury shares: Difference between the carrying amount and supervisory adjustments	–24,141
Common Equity Tier 1 prior to regulatory adjustments	**4,301,310**
Regulatory adjustments: prudential filters and deductions	–328,996
Common Equity Tier 1 net of regulatory adjustments	**3,972,314**

Instruments included in the calculation of Additional Tier 1 capital and of Tier 2 capital at 31 December 2014 are listed below; for the characteristics of individual bond loans, please refer to Section 3 – “Debt securities in issue” of these Explanatory Notes.

Bond	**30.06.2015**		**Original nominal amount issued**		**Bond issue price**	**Interest rate**	**Issue date/ maturity**	**Early redemption from**
	Book value	**Contribution to own funds**						
Additional Tier 1 – AT1	**199.182**	**184.572**						
Preference shares – Bpm Capital Trust I – 8.393%	–	–	160,000	Euro	100	Floating	02.07.2001 Perpetual	02.07.2011
Perpetual Subordinated Fixed/Floating Rate Notes – 9%	199,182	184,572	300,000	Euro	98.955	Floating	25.06.2008 Perpetual	25.6.2018
Tier 2 capital	**1,238,409**	**885,621**						
Banca Popolare di Milano Subordinated bond loan (Lower Tier 2) Fixed rate 4.5% 18 April 2008/2018	255,942	140,646	252,750	Euro	100	4,50	18.04.2008/18	n.p.
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Floating rate 20 October 2008/2018 (*)	454,781	299,538	502,050	Euro	100	Floating	20.10.2008/18	20.10.2013
Banca Popolare di Milano subordinated bond loan (Lower Tier 2) Fixed rate 7.125% (issued as part of the EMTN Programme)	527,186	445,437	475,000	Euro	99.603	7,125	01.03.2011/21	n.p.
Banca Popolare di Milano subordinated bond – Floating rate – 18.06.08/18	500	–	17,850	Euro	100	Floating	18.06.2008/18	n.p.

(*) T2 instruments subject to transitional provisions (grandfathering) for which it is envisaged they will gradually become ineligible for inclusion in own funds up to 2017, when they will no longer be fully eligible for inclusion in own funds.

2.3 Capital adequacy

A. Qualitative information

Capital ratios at 31 December 2014 have been calculated in accordance with the methodology set out in the Basel III Capital Accord; the new Basel 3 regulations have been applied as from the report as of March 2014.

Total capital requirements are calculated as the sum of:

Credit and counterparty risk

Market risks

The Standardised Approach is used by the Bipiemme Group, except for Banca Akros which from 2007 has been authorised by the Bank of Italy to use internal models.

Operational risk

The capital requirement for operational risk is calculated by using a combination of The Standardised Approach and the Basic Approach. According to the Standardised Approach, the capital requirement is determined by applying distinct regulatory coefficients to the three-year average of the relevant indicator for each line of business foreseen in the regulations. In BPM's case, this method is applied to the relevant consolidated indicator for the Group's banks (excluding Banca Popolare di Mantova). The Basic Approach, which provides for a capital requirement of 15% of the three-year average of the relevant indicator, is applied to the relevant consolidated indicator for the non-banking companies and to Banca Popolare di Mantova.

The following coefficients take on particular importance for the assessment of capital solidity:

- Common Equity tier 1 ratio, represented by the ratio between Common Equity Tier 1 and risk-weighted assets;
- Tier 1 share capital ratio, represented by the ratio between Tier 1 capital and risk-weighted assets;
- The Total capital ratio, represented by the ratio between total capital and risk-weighted assets.

B. Quantitative information

The following table shows the situation of the capital requirements at 30 June 2015.

Categories/amounts	Non-weighted amounts		Weighted/required amounts	
	30.06.2015	**31.12.2014**	**30.06.2015**	**31.12.2014**
A. RISK-WEIGHTED ASSETS				
A.1 Credit and counterparty risk	**51,267,832**	**50,341,065**	**31,281,214**	**30,397,433**
1. Standardised approach	51,244,073	50,314,875	31,036,553	30,121,562
2. Method based on internal ratings		–		–
2.1 Basic		–		–
2.2 Advanced		–		–
3. Securitisations	23,759	26,190	244,661	275,871
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**2,502,497**	**2,431,795**
B.2 Risk of downgrading of credit rating			**8,546**	**9,920**
B.3 Regulation risk			**268**	**313**
B.4 Market risk			**73,970**	**38,760**
1. Standardised approach			35,075	21,303
2. Internal models			38,895	17,457
3. Concentration risk				–
B.5 Operational risk			**213,337**	**213,337**
1. Basic approach			8,135	8,135
2. Standardised approach			205,202	205,202
3. Advanced approach				–
B.6 Other calculation elements				**–**
B.7 Total minimum requirements			**2,798,618**	**2,694,125**
C. RISK ASSETS AND CAPITAL ADEQUACY RATIOS				
C.1 Risk-weighted assets (*)			34,982,727	33,676,557
C.2 Tier 1 capital/Risk-weighted assets (CET1 capital ratio)			11.35%	11.58%
C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			11.89%	12.21%
C.4 Total own funds/risk-weighted assets (Total capital ratio)			14.37%	15.35%

(*) Risk-weighted assets (Line item C.1) are the product of total minimum capital requirements and the reciprocal of the obligatory minimum ratio for credit risk, namely 8%.

The above capital ratios include the effect of the share of net income for the first half of 2015 attributed to Own Funds as per EU Decision 656/2015; excluding this element, the coefficients would be:

Tier 1 capital/Risk-weighted assets (CET1 capital ratio)	11.08%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	11.61%
Total own funds/risk-weighted assets (Total capital ratio)	14.12%

Financial Leverage

The following table shows the reference data for the calculation of the leverage ratio as of 30 June 2015:

LEVERAGE INDICATORS	30.06.2015
Tier 1 capital (full application)	4,013,296
Total exposure	53,739,360
Indicator of financial leverage (full application)	**7.47%**
Tier 1 capital (transitional)	4,159,675
Total exposure	53,592,018
Indicator of financial leverage (transitional)	**7.76%**

Further information on own funds calculated according to the Basel 3 rules, and on the Group's capital ratios, are provided in the Pillar 3 document.

Part G – Business combinations

Section 1 – Transactions carried out during the year

1.1 Business combinations

During the period no business combinations within the scope of IFRS 3 were completed.

Section 2 – Transactions carried out after the end of the period

2.1 Business combinations

No combinations involving companies or businesses within the scope of IFRS 3 have been carried since the end of the period.

Section 3 – Retrospective adjustments

No retrospective adjustments were made during the period.

Part H – Related party transactions

1. Information relating to the remuneration of key management personnel

As a result of the Extraordinary General Meeting of Members on 22 October 2011, the Parent Company changed its system of corporate governance, adopting the "two-tier" model which envisages:

- a Supervisory Board elected by the General Meeting of Members and vested with the control functions foreseen by law and the Articles of Association;
- a Management Board, elected by the Supervisory Board, which is responsible for running the business.

Other Group companies have maintained the traditional system of governance, typically with a Board of Directors and, where applicable, a Board of Statutory Auditors.

The fees accruing to the administrative and control bodies in the first half of 2015 – booked to the income statement in line item 180 a) "Personnel expenses" – amount to 2.148 million, as follows:

- Management Board of the Parent Company: 0.646 million;
- Supervisory Board of the Parent Company: 1.1 million;
- Boards of Directors of subsidiaries: 0.327 million;
- Boards of Statutory Auditors of subsidiaries: 0.075 million.

Information relating to the remuneration of key management personnel

The information required by paragraph 16 of IAS 24 is provided below in relation to managers belonging to the senior management teams of Group companies and of the Parent Company.

	1st half 2015	1st half 2014
Salaries and other short-term benefits	2,267	2,582
Bonuses and other incentives in cash	314	–
Post-employment benefits (1)	204	232
Termination benefits	–	–

(1) Represents the annual charge to the employee termination indemnities and pension fund.

2. Related party disclosures

For further details on the procedures governing related party transactions, please refer to the specific section in the report on operations.

A. Joint ventures and companies subject to significant influence

Line items	30.06.2015			30.06.2014		
	Joint ventures	Companies subject to significant influence	Total	Joint ventures	Companies subject to significant influence	Total
Balance sheet: assets	**2,818**	**730,376**	**733,194**	**6,715**	**549,648**	**556,363**
Financial assets held for trading	–	7,779	**7,779**	–	9,106	**9,106**
Due from banks	–	–	**–**	–	–	**–**
Loans to customers	2,818	722,597	**725,415**	6,715	540,542	**547,257**
Balance sheet: liabilities and shareholders' equity	**1,516**	**269,385**	**270,901**	**1,735**	**232,713**	**234,448**
Due to customers	1,516	236,521	**238,037**	1,735	197,562	**199,297**
Securities issued	–	30,611	**30,611**	–	30,600	**30,600**
Financial liabilities held for trading	–	2,253	**2,253**	–	4,551	**4,551**
Financial liabilities designated at fair value through profit and loss	–	–	**–**	–	–	**–**
Balance sheet: guarantees and commitments	**–**	**43,974**	**43,974**	**–**	**142,710**	**142,710**
Guarantees given	–	3,224	**3,224**	–	3,608	**3,608**
Commitments	–	40,750	**40,750**	–	139,102	**139,102**
Income statement	**144**	**119,703**	**119,847**	**227**	**96,574**	**96,801**
Interest income	147	4,559	**4,706**	235	11,397	**11,632**
Interest expense	(3)	(1,757)	**(1,760)**	(8)	(4,229)	**(4,237)**
Fee and commission income	–	116,024	**116,024**	–	88,187	**88,187**
Fee and commission expense	–	–	**–**	–	–	**–**
Recharge of personnel expenses for staff seconded to third parties	–	451	**451**	–	262	**262**
Other operating charges/income	–	426	**426**	–	957	**957**

The column entitled "Companies subject to significant influence" conventionally includes the figures relating to the subsidiaries of associates, Fondazione Cassa di Risparmio di Alessandria and its subsidiaries and the BPM Pension Fund.

B. Other related parties

The following table reports transactions and balances between group companies and members of the Management Boards and of the Supervisory Board and of the Boards of Directors and of Statutory Auditors, as well as key management personnel of group companies, and other parties related to them.

Management Board of the Parent Company		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	11	–	1	1
	Drawdowns	–	–	–	–
Deposits		393	–	341	2
Indirect deposits (at market value)		14	–	54	–
Assets under management (at market value)		614	–	53	–
Guarantees given		–	–	–	–
Interest income		–	–	–	–
Interest expense		(2)	–	(2)	–
Commission and other income		2	–	–	–
Amounts recognised for professional and consultancy services		–	–	–	231

Boards of Directors of other Group companies		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	3,706	8,483	705	42,403
	Drawdowns	2,337	2,613	648	20,888
Deposits		2,645	706	15,824	9,188
Indirect deposits (at market value)		7,748	669	24,597	66,682
Assets under management (at market value)		6,570	62	1,843	–
Guarantees given		–	29	–	7
Interest income		20	21	8	359
Interest expense		(10)	(1)	(111)	(40)
Commission and other income		46	7	18	14
Amounts recognised for professional and consultancy services		–	–	–	–

Supervisory Board of the Parent Company		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	104	95	19	426
	Drawdowns	23	–	–	360
Deposits		889	42	502	145
Indirect deposits (at market value)		868	–	257	–
Assets under management (at market value)		551	–	411	–
Guarantees given		–	–	–	–
Interest income		1	–	–	6
Interest expense		(3)	–	(2)	–
Commission and other income		8	–	3	3
Amounts recognised for professional and consultancy services		–	–	–	–

Boards of Statutory Auditors of other Group companies		Members of the Board	Companies controlled by members of the Board	Relatives of members of the Board	Companies controlled by relatives of members of the Board
Loans	Granted	12	236	160	294
	Drawdowns	4	172	9	34
Deposits		413	–	42	852
Indirect deposits (at market value)		–	–	56	–
Assets under management (at market value)		–	–	–	–
Guarantees given		–	–	–	–
Interest income		–	4	–	1
Interest expense		(5)	–	–	(1)
Commission and other income		–	2	2	2
Amounts recognised for professional and consultancy services		–	–	–	–

General Management		Members of General Management	Companies controlled by members of General Management	Relatives of members of General Management	Companies controlled by relatives of General Management
Loans	Granted	1,157	–	9	–
	Drawdowns	568	–	–	–
Deposits		2,151	–	1,090	132
Indirect deposits (at market value)		1,138	–	2,136	–
Assets under management (at market value)		541	–	910	–
Guarantees given		–	–	–	20
Interest income		3	–	–	–
Interest expense		(9)	–	(6)	–
Commission and other income		3	–	8	2
Amounts recognised for professional and consultancy services		–	–	–	–

Proportion of related party transactions

On the basis of Consob Communication DEM/6064293 of 28.7.2006 and in addition to the requirements of the international accounting standard on "Related party disclosures" (IAS 24), we also provide information on related party transactions or balances as classified by IAS 24, and their impact on the balance sheet and income statement of the Group.

Impact of related party transactions or balances on:	30.06.2015			30.06.2014		
	Book value	Related parties		Book value	Related parties	
		Absolute amount	%		Absolute amount	%
Asset line items:						
20. Financial assets held for trading	1,824,944	7,779	0.4%	1,712,025	9,106	0.5%
70. Loans to customers	33,483,029	753,071	2.2%	32,520,786	572,823	1.8%
Liabilities:						
20. Due to customers	28,777,043	273,394	0.9%	26,812,018	232,364	0.9%
30. Securities issued	7,867,754	30,611	0.4%	9,316,712	30,600	0.3%
40. Financial liabilities held for trading	1,326,834	2,253	0.2%	1,321,381	4,551	0.3%
Income statement line items:						
10. Interest and similar income	593,064	5,129	0.9%	667,103	12,134	1.8%
20. Interest and similar expense	(190,184)	(1,952)	1.0%	(259,857)	(4,557)	1.8%
40. Fee and commission income	344,003	116,144	33.8%	316,765	88,285	27.9%
50. Fee and commission expense	(37,250)	–	n.s.	(40,404)	–	n.s.
180. Administrative expenses (*)	(493,882)	220	n.s.	(497,081)	262	n.s.
220. Other operating charges/income	67,411	426	0.6%	63,576	957	1.5%

(*) The amount of 220 consists of income of 451 (recharge of expenses relating to Group personnel seconded to associated companies) and costs of 231 (professional and consultancy services provided by related parties).

Part I – Share-based payments

A. Qualitative information

1. Description of share-based payments

Allocation of profits
Under art. 60 of the Parent Company's Articles of Association, an annual allocation is made to current employees – except those who hold senior management positions – or to collective funds where they are registered, of 5% of the Parent Company's pre-tax profit ("Income (loss) before tax from continuing operations"), calculated before determining this amount, unless the Meeting decides not to distribute a dividend out of earnings for the year. This amount is paid in the form of shares, which will be subject to a three-year retention period before the assignee can dispose of them; the number of shares allocated is based on the average market price recorded during the 30 days preceding the assignment.
Based on IFRS 2, the amount to be paid to employees is considered an expense for the year and recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the labour received, with the contra-entry booked to shareholders' equity.

Variable component of remuneration linked to performance targets
Banca Popolare di Milano, as Parent Company, prepares an annual update of the **Remuneration Report** in accordance with the current provisions on remuneration policies and practices of the Bank of Italy dated 30 March 2011, art. 123-ter of Legislative Decree 58/1998 (Consolidated Finance Act or CFA) and art. 84-quater of the Issuers' Regulations (Consob Resolution 11971/1999 and subsequent amendments).
This document is available on the website www.gruppobpm.it.
These remuneration policies define – in the interests of all stakeholders – the guidelines of the remuneration and incentive system for personnel of the Group. The aim, on the one hand, is to encourage the pursuit of strategies, objectives and results over the long term in line with the levels of liquidity and capitalisation and in accordance with sound and prudent risk management; and, on the other hand, to attract and retain within the Group people with the right professional skills and abilities for the needs of the business, to the benefit of competitiveness and good governance.
For so-called **"key personnel"** (i.e. those identified at Group level whose professional duties have or may have a significant impact on the risk profile of the Group) is envisaged a variable component of remuneration linked to performance targets ("annual bonus").
Recognition of the individual **"annual bonus"**:
- depends on the implementation of an incentive system by the Group Company or Bank for which the person works, which provides for the assignment of quantitative and qualitative objectives;
- is subject to full compliance with the predetermined access conditions (the so-called "access gates");
- is paid in line with the guidelines issued from time to time by the Supervisory Authorities.

The "annual bonus" of "key personnel" is divided into:
- an up-front portion of 60% of the annual bonus, payable by the end of July of the year after the one that the bonus relates to;
- three annual instalments, amounting in total to 40% of the annual bonus, each of an equal amount, deferred over the three-year period subsequent to the year in which the up-front portion is paid, with each instalment payable by the end of July of each year.

Where the variable component of remuneration exceeds 50% of gross annual remuneration, the deferred portion is 60% of the annual bonus, paid in the same way as explained above.

For "key personnel", both the 50% up-front portion and the 50% deferred portion of the annual bonus are paid in Banca Popolare di Milano shares.

The total number of shares to be allocated to each beneficiary – for both the up-front portion and the deferred portion – is calculated on the basis of the average share price for the 30 days prior to the date of allocation of the right, measured in the year when the up-front portion is allocated.

For the financial instruments granted, there is a **retention** period of two years for the up-front portion and one year for the deferred portion. For the deferred instruments, the retention period starts from the end of the entire period of deferral. The Management Board approves the compensation plans based on financial instruments and decides about their purchase to support the annual bonus.

The Parent Company has established after-the-event (so-called **"malus"**) correction systems, which link the allocation of each of the deferred portions to full compliance with the "access gates" and the related thresholds set for the year preceding that of their allocation. The Parent Company has also identified certain situations of a qualitative nature (i.e. regulatory violations, fraudulent behaviour, etc.) that would block allocation of the annual bonus (both the up-front and deferred portions).

The Parent Company also has the right to consider restitution (or "claw-back") of the annual bonus or any portions of it that have already been paid.

As established in IFRS 2, the transaction explained in this paragraph is considered an expense for the year and recognised in the income statement under "Personnel expenses", for an amount equal to the fair value of the labour received, with the contra-entry booked to shareholders' equity.

B. Quantitative information

2. Other information

As regards the allocation of profits to employees pursuant to art. 60 of the Articles of Association, the cost of Euro 9.4 million for the period to 30 June 2015 (14.2 million at 30 June 2014) has been accounted for under personnel expenses in sub-item "h) costs associated with share-based payments" to be allocated entirely in Banca Popolare di Milano ordinary shares in accordance with the conditions explained in the preceding section.

Part L – Segment information

Consolidated results by business segment

This section presents the consolidated results broken down by business segment on the basis of IFRS 8 "Operating Segments".

Primary reporting by business segment

The definition of the activities carried out by each Bipiemme Group company represents the basis for their allocation to the relevant business segment. Broad customer groupings have been identified with regard to the numerous types of customer served by the Group, particularly by its retail banks which use a model that splits customers into different groups. These groupings have similar characteristics in terms of:

- type of products provided;
- distribution channels;
- risk-return profiles;.

The method used for segmenting customers is based on qualitative and quantitative criteria; in particular, as regards corporate customers, the reference parameter is represented by the following turnover thresholds:

- retail customers, up to Euro 15 million;
- middle corporate, over Euro 15 million and up to Euro 50 million;
- upper corporate, over Euro 50 million and up to Euro 250 million;
- large corporate, over Euro 250 million.

The customer segmentation model is also consistent with the principle used for allocating them to portfolios, adopted for setting commercial policies and representing the basis for management reporting.

The following segments have therefore been identified and reported:

- **"Retail banking":** this contains the results of individual customers and SMEs of the Group's retail banks together with those of Banca Akros. In addition, this segment contains the results of the private banking business, the amounts related to WeBank customers (post-merger) and the results and financial position of ProFamily;
- **"Corporate Banking"**: this contains amounts relating to middle, upper and large corporate customers mainly related to the Parent Company;
- **"Treasury & Investment banking":** this contains the results of managing the bank's own securities portfolio, trading on its own account in securities and foreign exchange and treasury activities. This segment not only reports the financial activities typifying the Group's commercial banks but also the results of Banca Akros, the Group's investment bank;
- **"Corporate Centre"**: this covers services relating to the Group operations, its role as the receptacle for the investments portfolio, the subordinated liabilities and all the other assets and liabilities not allocated to the other business segments and as the counterparty to all the figurative/standard effects. The following companies are classified in this segment: BPM Capital I, BPM Luxembourg, the three special purpose vehicles BPM Securitisation 2, BPM Securitisation 3 and BPM Covered Bond (set up respectively for the securitisation of mortgages and for the Covered Bond issue programme) and the results of Ge.Se.So. (canteen services company).

For the purpose of reconciling the segment results and the consolidated results, please note that:

- the methods used for measuring the quantitative information shown below are the same as those used for management reporting purposes, which are also in line with the accounting policies applied in drawing up the consolidated financial statements;
- the format of the schedule provides for the disclosure of the amounts of eliminations between the above segments, as well as the consolidation adjustments, in a column entitled "Corporate Centre", which also includes the results of the companies measured under the equity method;
- it was not necessary to prepare the reconciliation schedule as there were no other reconciling items between the sum of the pre-tax results of the segments and the consolidated book result.

Definition of content

With reference to the information reported in the formats below, it is to be noted as follows:

- **"interest margin"** is determined according to the model of internal transfer rates used to measure the performances of all the centres of responsibility of the individual legal entities belonging to the Group;
- **"Personnel expenses"** only refer to the share of personnel costs directly attributable to the business unit, in line with the new Cost Allocation model adopted this year; the balance of personnel expenses was allocated to "indirect costs/other direct costs";
- **"Indirect costs/other direct costs"** are understood as the sum of the share of administrative expenses directly attributable to the business unit ("direct costs") and the indirect costs recharged to the business units by means of the allocation criteria adopted by the new cost allocation system;
- the line item **"income (loss) before tax from continuing operations"** is obtained by deducting segment costs from segment revenues, including the effect of figurative income and expenses. The sum of all of the segment results is the same as the corresponding line item in the consolidated income statement;
- assets are those reported internally at the end of the period; **liabilities** are shown net of capital, reserves and the result for the period;
- the breakdown of operating costs between business lines in June 2014 has been restated in the interests of a better comparison with the June 2015 figures. This was required following the adoption of the new cost allocation system from 2015 which, in addition to applications and technology aspects, revised the logic of cost attribution and recharging to the various business lines. In particular, the perimeter of costs attributable directly to the organisational units that make use of the services has been expanded, without changing the logic followed in calculating the internal charges used to quantify indirect costs. The model adopted is in fact based on **"actual costs"**, by which all of the costs of the central structures and various service units are allocated to the business lines.

A. Segment quantitative information

In order to make a comparison, the figures for 2014 have been restated, where necessary, to take account of the update of the customer "portfoliation", which in some cases led to a different allocation of customers between the various segments.
Moreover, the review of the "internal transfer rates" system led to a different allocation of the interest margin to the various business units.

A.1 Segment results

The results by business segment are reported below:

- **"Retail banking"**, reported a pre-tax loss of Euro 9.5 million.
  In details:
  - **operating income** of Euro 485.0 million decreased by Euro 2.4 million on June 2014. This result is attributable to a negative trend in the interest margin (–31.5 million euro compared with June 2014), which suffered the effect of a contraction in volumes accompanied by a decline in profitability on both the lending and funding side. This decrease was only partially offset by the positive trend in service income (+ 29.0 million euro compared with June 2014), achieved mainly thanks to higher commissions from management, dealing and advisory services thanks to a good performance by asset management;
  - **operating expenses** amount to Euro 423.5 million, a decrease of Euro 4.2 million on the previous year;
  - **net impairment adjustments** to loans, financial assets and other items amount to Euro 71.0 million, down by Euro 24.9 million on the previous year.
- **"Corporate banking":** contributes with a pre-tax result of Euro 92.9 million. Operating income amounts to Euro 209.7 million, an improvement over the previous year (+18.2 million euro) thanks to better profitability on loans and higher commissions. Operating expenses amount to Euro 25.6 million, in line with the comparison period.
- **"Treasury & Investment banking":** contributes a pre-tax profit of Euro 152.1 million, a decrease of Euro 79.2 million on last year. This negative trend in the interest margin (–22.4 million on the comparative figure of June 2014) is accompanied by a decrease in net income from banking activities of Euro 76.2 million (–63.6 million on the previous year). This last decrease reflects, among other things, lower gains on securities classified as "Assets available for sale" (–35 million euro), as well as lower income from trading (–11.7 million euro), due to the negative impact of the "mark to market" valuation at the end of the period, as well as lower results from Banca Akros' market making activity because of lower flows from customers in fixed income.
- **"Corporate Centre":** this reports a negative result of Euro 23.1 million, versus Euro 17.0 million profit of the previous year.

Segment income statement

(Euro/000)

	Retail Banking	Corporate Banking	Treasury & Investment Banking	Corporate Centre	Total
A. JUNE 2015					
Interest margin	196,034	149,380	93,193	–35,727	402,880
Service income	288,920	60,367	87,122	–15,756	420,653
Operating income	**484,954**	**209,747**	**180,315**	**–51,483**	**823,533**
Personnel expenses	–146,559	–7,793	–11,254	–92	–165,698
Indirect costs/other direct costs	–276,972	–17,790	–16,306	–4,607	–315,675
Operating expenses	**–423,531**	**–25,583**	**–27,560**	**–4,699**	**–481,373**
Operating profit	**61,423**	**184,164**	**152,755**	**–56,182**	**342,160**
Net impairment adjustments to loans, financial and other assets	–70,965	–91,215	–654	–4,413	–167,247
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	–	–	–	37,453	37,453
Income (loss) before tax from continuing operations	**–9,542**	**92,949**	**152,101**	**–23,142**	**212,366**
B. JUNE 2014					
Operating income	**487,391**	**191,551**	**265,104**	**–79,739**	**864,307**
Operating expenses	**–427,720**	**–25,895**	**–31,565**	**–7,653**	**–492,833**
Operating profit	**59,671**	**165,656**	**233,539**	**–87,392**	**371,474**
Net impairment adjustments to loans, financial and other assets	–95,822	–96,153	–2,221	–49	–194,245
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	–	–	–	104,474	104,474
Income (loss) before tax from continuing operations	**–36,151**	**69,503**	**231,318**	**17,033**	**281,703**
CHANGES A–B					
Operating income	**–2,437**	**18,196**	**–84,789**	**28,256**	**–40,774**
Operating expenses	**4,189**	**312**	**4,005**	**2,954**	**11,460**
Net impairment adjustments to loans, financial and other assets	24,857	4,938	1,567	–4,364	26,998
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	–	–	–	–67,021	–67,021
Income (loss) before tax from continuing operations	**26,609**	**23,446**	**–79,217**	**–40,175**	**–69,337**

Segment balance sheet

(Euro/000)

	Retail Banking	Corporate Banking	Treasury & Investment Banking	Corporate Center	Total companies
A. JUNE 2015					
Total assets	**19,148,153**	**15,166,003**	**12,807,763**	**2,186,353**	**49,308,272**
of which investments carried at equity	–	–	–	*330,883*	*330,883*
Total liabilities (*)	**–23,670,469**	**–2,751,169**	**–12,264,900**	**–6,115,135**	**–44,801,673**
B. JUNE 2014					
Total assets	**19,051,489**	**13,567,530**	**13,555,064**	**2,606,789**	**48,780,872**
of which investments carried at equity	–	–	–	*284,500*	*284,500*
Total liabilities (*)	**–24,996,704**	**–2,219,640**	**–10,558,039**	**–6,528,830**	**–44,303,213**
CHANGES A – B					
Total assets	**96,664**	**1,598,473**	**–747,301**	**–420,436**	**527,400**
of which investments carried at equity	–	–	–	*46,383*	*46,383*
Total liabilities (*)	**1,326,235**	**–531,529**	**–1,706,861**	**413,695**	**–498,460**

(*) excluding shareholders' equity

Certification of the half-yearly condensed financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

1. Giuseppe Castagna, as Managing Director, and Angelo Zanzi, as the Financial Reporting Manager of Banca Popolare di Milano S.C.a.r.l., certify, taking into account art. 154-bis, para. 3 and 4, of Decree 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- effective application

of the administrative and accounting procedures for the preparation of the half-yearly condensed consolidated financial statements at 30 June 2015, during the course of the first half of 2015.

2. The assessment of adequacy of the administrative and accounting procedures as a basis for the formation of the half-yearly condensed financial statements at 30 June 2015 is based on a model developed by Banca Popolare di Milano in line with that of the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (CoSO), which represents a framework of reference that is generally accepted at international level.
IT procedures have been evaluated using the "Control Objective for Information and Related Technologies" (COBIT), developed by Information System Audit and Control Association (ISACA).

3. In addition, we certify that:

3.1 the half-yearly condensed financial statements: at 30 June 2015:
a) have been prepared in accordance with the international accounting standards (IAS/IFRS) applicable and recognised by the European Community as per (EC) Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002;
b) agree with the balances on the books of account and accounting entries;
c) give a true and fair view of the assets and liabilities, results and financial situation of the issuer and of the companies included in the consolidation.

3.2 The half-yearly report on operations contains an analysis of the key events that took place during the first six months of the year, including their impact on the half-yearly condensed financial statements, together with a description of the main risks and uncertainties for the other six months of the year. The half-yearly report on operations also includes an analysis of significant transactions with related parties.

Milano, 6 August 2015

The Managing Director

Giuseppe Castagna

The Financial Reporting Manager

Angelo Zanzi

Attachments

Reconciliation between the consolidated balance sheet and consolidated reclassified balance sheet (Euro/000)

Consolidated reclassified balance sheet			Consolidated balance sheet	30.06.2015	31.03.2015	31.12.2014	30.06.2014
Cash and cash equivalents				**224,184**	**209,129**	**322,840**	**248,942**
	Line item	10	Cash and cash equivalents	224,184	209,129	322,840	248,942
Financial assets designated at fair value and hedging derivatives:				**11,715,087**	**12,780,251**	**11,887,806**	**11,434,356**
	Line item	20	Financial assets held for trading	1,824,944	2,284,325	1,921,518	1,712,025
	Line item	30	Financial assets designated at fair value through profit and loss	81,410	105,443	97,449	172,235
	Line item	40	Financial assets available for sale	9,632,210	10,208,114	9,670,272	9,336,110
	Line item	50	Investments held to maturity	0	0	0	0
	Line item	80	Hedging derivatives	161,979	160,497	178,460	198,790
	Line item	90	Fair value change of financial assets in hedged portfolios (+/–)	14,544	21,872	20,107	15,196
Due from banks				**1,162,731**	**1,050,829**	**984,777**	**1,849,987**
	Line item	60	Due from banks	1,162,731	1,050,829	984,777	1,849,987
Loans to customers				**33,483,029**	**32,600,377**	**32,078,843**	**32,520,786**
	Line item	70	Loans to customers	33,483,029	32,600,377	32,078,843	32,520,786
Fixed assets				**1,156,028**	**1,127,543**	**1,117,879**	**1,099,688**
	Line item	100	Investments in associates and companies subject to joint control	330,883	306,120	293,797	284,500
	Line item	120	Property and equipment	709,164	710,809	715,705	720,676
	Line item	130	Intangible assets	115,981	110,614	108,377	94,512
Technical insurance reserves reassured with third parties				**0**	**0**	**0**	**0**
	Line item	110	Technical insurance reserves reassured with third parties	0	0	0	0
Non-current assets held for sale and discontinued operations				**6,118**	**0**	**0**	**0**
	Line item	150	Non-current assets held for sale and discontinued operations	6,118	0	0	0
Other assets				**1,561,095**	**1,541,504**	**1,879,666**	**1,627,113**
	Line item	140	Tax assets	1,061,237	1,050,254	1,091,309	1,038,139
	Line item	160	Other assets	499,858	491,250	788,357	588,974
Total assets				**49,308,272**	**49,309,633**	**48,271,811**	**48,780,872**
Due to banks				**4,494,906**	**4,171,724**	**3,318,564**	**4,313,017**
	Line item	10	Due to banks	4,494,906	4,171,724	3,318,564	4,313,017
Due to customers				**28,777,043**	**27,589,895**	**27,702,942**	**26,812,018**
	Line item	20	Due to customers	28,777,043	27,589,895	27,702,942	26,812,018
Securities issued				**7,867,754**	**8,677,218**	**8,981,834**	**9,316,712**
	Line item	30	Securities issued	7,867,754	8,677,218	8,981,834	9,316,712
Financial liabilities and hedging derivatives:				**1,543,437**	**1,981,271**	**1,690,396**	**1,544,651**
	Line item	40	Financial liabilities held for trading	1,326,834	1,746,892	1,463,445	1,321,381
	Line item	50	Financial liabilities designated at fair value through profit and loss	157,702	161,759	152,116	157,846
	Line item	60	Hedging derivatives	44,092	58,053	58,751	45,742
	Line item	70	Fair value change of financial liabilities in hedged portfolios (+/–)	14,809	14,567	16,084	19,682
Liabilities associated with non-current assets held for sale and discontinued operations				**0**	**0**	**0**	**0**
	Line item	90	Liabilities associated with non-current assets held for sale and discontinued operations	0	0	0	0
Other liabilities				**1,650,859**	**1,686,438**	**1,501,993**	**1,777,531**
	Line item	80	Tax liabilities	119,463	187,914	165,201	211,020
	Line item	100	Other liabilities	1,531,396	1,498,524	1,336,792	1,566,511
Provisions for specific use				**467,674**	**502,403**	**519,975**	**539,284**
	Line item	110	Employee termination indemnities	126,696	135,133	137,730	137,451
	Line item	120	Allowances for risks and charges	340,978	367,270	382,245	401,833
Technical reserves				**0**	**0**	**0**	**0**
	Line item	130	Technical reserves	0	0	0	0
Capital and reserves				**4,333,508**	**4,613,588**	**4,304,390**	**4,266,963**
	Line item	140	Valuation reserves	206,202	393,342	321,917	301,702
	Line item	150	Redeemable shares	0	0	0	0
	Line item	160	Equity instruments	0	0	0	0
	Line item	170	Reserves	762,726	855,665	617,888	600,676
	Line item	180	Share premium reserve	0	0	0	0
	Line item	190	Share capital	3,365,439	3,365,439	3,365,439	3,365,439
	Line item	200	Treasury shares (–)	–859	–858	–854	–854
Minority interests (+/–)				**19,038**	**19,493**	**19,424**	**19,228**
	Line item	210	Minority interests (+/–)	19,038	19,493	19,424	19,228
Net income (loss) for the period (+/–)				**154,053**	**67,603**	**232,293**	**191,468**
	Line item	220	Net income (loss) for the period (+/–)	154,053	67,603	232,293	191,468
Total liabilities and shareholders' equity				**49,308,272**	**49,309,633**	**48,271,811**	**48,780,872**

Reconciliation between the consolidated income statement and the consolidated reclassified income statement (Euro/000)

Reclassified consolidated income statement			Consolidated income statement line items	First half 2015	First half 2014
Interest margin				**402,880**	**407,246**
	Line item	10	Interest and similar income	593,064	667,103
			Interest and similar income	**593,064**	**667,103**
	Line item	20	Interest and similar expense	(190,184)	(259,857)
			Interest and similar expense	**(190,184)**	**(259,857)**
Non-interest margin				**420,653**	**457,061**
Net fee and commission income				**306,753**	**276,361**
	Line item	40	Fee and commission income	344,003	316,765
			Fee and commission income	**344,003**	**316,765**
	Line item	50	Fee and commission expense	(37,250)	(40,404)
			Fee and commission expense	**(37,250)**	**(40,404)**
Other income				**113,900**	**180,700**
Profits (losses) on investments carried at equity				**19,083**	**11,945**
	(+) Line item	240	(partial) – Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	19,083	11,945
Net income from banking activities				**70,827**	**144,691**
	Line item	70	Dividend and similar income	11,966	12,474
			Dividend and similar income	**11,966**	**12,474**
	Line item	80	Profits (losses) on trading	10,356	22,017
			Profits (losses) on trading	**10,356**	**22,017**
	Line item	90	Fair value adjustments in hedge accounting	(1,055)	1,030
			Fair value adjustments in hedge accounting	**(1,055)**	**1,030**
	Line item	100	Profits (losses) on disposal or repurchase of:	61,233	110,278
			a) loans	*(570)*	*(49)*
			b) financial assets available for sale	*74,788*	*110,327*
			c) investments held to maturity	*0*	*0*
			d) financial liabilities	*(12,985)*	*0*
	(–) Line item	100	a) Profits (losses) on disposal or repurchase of loans	570	49
			Profits/losses on disposal or repurchase of financial assets/liabilities	**61,803**	**110,327**
	Line item	110	Profits (losses) on financial assets and liabilities designated at fair value	(3,415)	11,035
			Profits (losses) on financial assets/liabilities designated at fair value	**(3,415)**	**11,035**
	(+) Line item	130	b) Net impairment adjustments/writebacks: financial assets available for sale	(8,828)	(12,192)
			Net impairment adjustments/writebacks: financial assets available for sale	**(8,828)**	**(12,192)**
Other operating charges/income				**23,990**	**24,064**
	Line item	220	Other operating charges/income	67,411	63,576
	(–) Line item	220	(partial) – Recoverable portion of indirect taxes	(45,633)	(41,792)
	(+) Line item	220	(partial) – Depreciation of leasehold improvements	2,212	2,280
Operating income				**823,533**	**864,307**
Administrative expenses:				**(448,249)**	**(455,289)**
a) personnel expenses				**(303,365)**	**(320,480)**
	Line item	180	a) personnel expenses	(303,365)	(320,480)
b) other administrative expenses				**(144,884)**	**(134,809)**
	Line item	180	b) Other administrative expenses	(190,517)	(176,601)
	(+) Line item	*220*	*(partial) – Other operating charges/income (recoverable portion of indirect taxes)*	*45,633*	*41,792*
Net adjustments to property and equipment and intangible assets				**(33,124)**	**(37,544)**
	Line item	200	Net adjustments/writebacks to property and equipment	(17,175)	(22,635)
	Line item	210	Net adjustments/writebacks to intangible assets	(13,737)	(12,629)
	(+) Line item	*220*	*(partial) – Other operating charges/income (depreciation of leasehold improvements)*	*(2,212)*	*(2,280)*
Operating expenses				**(481,373)**	**(492,833)**
Operating profit				**342,160**	**371,474**

(Cont.)

Reconciliation between the consolidated income statement and the consolidated reclassified income statement (Euro/000)

(Cont.)

Reclassified consolidated income statement			Consolidated income statement line items	First half 2015	First half 2014
Net impairment adjustments of loans and other activities				**(168,339)**	**(198,990)**
	Line item	130	Net losses/recoveries on impairment of:	(176,597)	(211,133)
			a) loans	(180,403)	(193,039)
			b) financial assets available for sale	(8,828)	(12,192)
			c) investments held to maturity	0	0
			d) other financial activities	12,634	(5,902)
	(+) Line item	*100*	*a) Profits (losses) on disposal or repurchase of loans*	*(570)*	*(49)*
	(–) Line item	*130*	*b) Net impairment adjustments/writebacks: financial assets available for sale*	*8,828*	*12,192*
Net provisions for risks and charges				**1,092**	**4,745**
	Line item	190	Accantonamenti netti ai fondi per rischi e oneri	1,092	4,745
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets				**37,453**	**104,474**
	Line item	240	Profits (losses) on investments in associates and companies subject to joint control	56,534	116,419
	Line item	250	Net result of valuation differences on property, equipment and intangible assets measured at fair value	0	0
	Line item	260	Goodwill impairment	0	0
	Line item	270	Profits (losses) on disposal of investments	2	0
	(–) Line item	*240*	*(partial) – Profits (losses) on investments in associates and companies subject to joint control (carried at equity)*	*(19,083)*	*(11,945)*
Income (loss) before tax from continuing operations				**212,366**	**281,703**
Taxes on income from continuing operations				**(58,144)**	**(89,926)**
	Line item	290	Taxes on income from continuing operations	(58,144)	(89,926)
Income (loss) after tax from continuing operations				**154,222**	**191,777**
Net income (loss) for the period				**154,222**	**191,777**
Net income (loss) pertaining to minority interests				**(169)**	**(309)**
	Line item	330	Net income (loss) pertaining to minority interests	(169)	(309)
Net result				**154,053**	**191,468**

Bipiemme Group reclassified consolidated income statement net of non-recurring transactions Quarter by quarter

(Euro/000)

Line items	Year 2015						Year 2014											
	2nd Quarter			1st Quarter			4th Quarter			3th Quarter			2nd Quarter			1st Quarter		
	Net result	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net result	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net result	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net result	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net result	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions	Net result	Net income (loss) from non-recurring transactions	Net income (loss) from recurring transactions
Interest margin	**206,759**		**206,759**	**196,121**		**196,121**	**197,922**	**0**	**197,922**	**195,003**	**0**	**195,003**	**201,157**	**0**	**201,157**	**206,089**	**0**	**206,089**
Non-interest margin:	**191,007**	**0**	**191,007**	**229,646**	**(11,504)**	**241,150**	**213,382**	**0**	**213,382**	**150,952**	**0**	**150,952**	**221,011**	**0**	**221,011**	**236,050**	**0**	**236,050**
– Net fee and commission income	158,461		158,461	148,292		148,292	149,349	0	149,349	130,856	0	130,856	135,990	0	135,990	140,371	0	140,371
– Other income:	32,546	0	32,546	81,354	(11,504)	92,858	64,033	0	64,033	20,096	0	20,096	85,021	0	85,021	95,679	0	95,679
- Profits (losses) on investments carried at equity	*7,574*		*7,574*	*11,509*		*11,509*	*6,300*	*0*	*6,300*	*4,612*	*0*	*4,612*	*6,910*	*0*	*6,910*	*5,035*	*0*	*5,035*
- Net income from banking activities	*12,434*	*0*	*12,434*	*58,393*	*(11,504)*	*69,897*	*38,082*	*0*	*38,082*	*5,799*	*0*	*5,799*	*65,253*	*0*	*65,253*	*79,438*	*0*	*79,438*
- Other operating charges/income	*12,538*		*12,538*	*11,452*		*11,452*	*19,651*	*0*	*19,651*	*9,685*	*0*	*9,685*	*12,858*	*0*	*12,858*	*11,206*	*0*	*11,206*
Operating income	**397,766**	**0**	**397,766**	**425,767**	**(11,504)**	**437,271**	**411,304**	**0**	**411,304**	**345,955**	**0**	**345,955**	**422,168**	**0**	**422,168**	**442,139**	**0**	**442,139**
Administrative expenses:	(220,251)	(1,258)	(218,993)	(227,998)	(922)	(227,076)	(236,376)	(3,740)	(232,636)	(207,166)	(986)	(206,180)	(236,573)	(7,179)	(229,394)	(218,716)	(1,312)	(217,404)
a) personnel expenses	*(148,632)*	*(1,258)*	*(147,374)*	*(154,733)*	*(922)*	*(153,811)*	*(147,232)*	*(3,740)*	*(143,492)*	*(144,708)*	*(986)*	*(143,722)*	*(168,601)*	*(7,179)*	*(161,422)*	*(151,879)*	*(1,312)*	*(150,567)*
b) other administrative expenses	*(71,619)*		*(71,619)*	*(73,265)*		*(73,265)*	*(89,144)*	*0*	*(89,144)*	*(62,458)*	*0*	*(62,458)*	*(67,972)*	*0*	*(67,972)*	*(66,837)*	*0*	*(66,837)*
Net adjustments to property and equipment and intangible assets	(16,629)		(16,629)	(16,495)		(16,495)	(18,612)	0	(18,612)	(18,728)	0	(18,728)	(19,478)	0	(19,478)	(18,066)	0	(18,066)
Operating expenses	**(236,880)**	**(1,258)**	**(235,622)**	**(244,493)**	**(922)**	**(243,571)**	**(254,988)**	**(3,740)**	**(251,248)**	**(225,894)**	**(986)**	**(224,908)**	**(256,051)**	**(7,179)**	**(248,872)**	**(236,782)**	**(1,312)**	**(235,470)**
Operating profit	**160,886**	**(1,258)**	**162,144**	**181,274**	**(12,426)**	**193,700**	**156,316**	**(3,740)**	**160,056**	**120,061**	**(986)**	**121,047**	**166,117**	**(7,179)**	**173,296**	**205,357**	**(1,312)**	**206,669**
Net adjustments for impairment of loans and other activities	(94,029)	0	(94,029)	(74,310)	0	(74,310)	(136,633)	0	(136,633)	(88,216)	0	(88,216)	(113,653)	0	(113,653)	(85,337)	0	(85,337)
Net provisions for risks and charges	2,364	0	2,364	(1,272)	0	(1,272)	(8,004)	0	(8,004)	(286)	0	(286)	7,566	0	7,566	(2,821)	0	(2,821)
Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets	37,453	(1,398)	38,851	0		0	0	0	0	0	0	0	104,474	104,474	0	0	0	0
Income (loss) before tax from continuing operations	**106,674**	**(2,656)**	**109,330**	**105,692**	**(12,426)**	**118,118**	**11,679**	**(3,740)**	**15,419**	**31,559**	**(986)**	**32,545**	**164,504**	**97,295**	**67,209**	**117,199**	**(1,312)**	**118,511**
Taxes on income from continuing operations	(20,339)	346	(20,685)	(37,805)	4,058	(41,863)	1,450	1,029	421	(3,532)	271	(3,803)	(36,960)	(2,343)	(34,617)	(52,966)	361	(53,327)
Net income (loss) for the period	**86,335**	**(2,310)**	**88,645**	**67,887**	**(8,368)**	**76,255**	**13,129**	**(2,711)**	**15,840**	**28,027**	**(715)**	**28,742**	**127,544**	**94,952**	**32,592**	**64,233**	**(951)**	**65,184**
Net income (loss) pertaining to minority interests	115	8	107	(284)	0	(284)	(99)	(1)	(98)	(232)	0	(232)	(397)	4	(401)	88	0	88
Net result	**86,450**	**(2,302)**	**88,752**	**67,603**	**(8,368)**	**75,971**	**13,030**	**(2,712)**	**15,742**	**27,795**	**(715)**	**28,510**	**127,147**	**94,956**	**32,191**	**64,321**	**(951)**	**65,272**

Information on the main Group companies

For a complete description of the Bipiemme Group, information on the half-yearly results of the main companies included in the scope of consolidation are shown below. Key income statement and balance sheet figures are provided, together with a brief commentary.

Banca Popolare di Milano S.c.a.r.l.

Please note that the balance sheet and income statement aggregates at 30 June 2014 have been restated by combining the figures for Banca Popolare di Milano and WeBank, net of eliminations of intercompany transactions following the merger of WeBank, the Group's online bank, with Banca Popolare Milan that was completed on 23 November 2014 with effect for accounting and tax purposes from 1 January 2014.

Banca Popolare di Milano – Reclassified balance sheet

(Euro/000)

Assets	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Changes A – B		Changes A – C	
	A	B	C	D	amount	%	amount	%
Cash and cash equivalents	219,072	204,610	316,187	243,210	14,462	7.1	–97,115	–30.7
Financial assets designated at fair value and hedging derivatives:	9,377,739	10,216,041	9,688,932	9,433,213	–838,302	–8.2	–311,193	–3.2
– financial assets held for trading	*215,458*	*301,095*	*234,915*	*201,156*	*–85,637*	*–28.4*	*–19,457*	*–8.3*
– Financial assets designated at fair value through profit and loss	*81,410*	*105,443*	*97,449*	*172,235*	*–24,032*	*–22.8*	*–16,039*	*–16.5*
– Financial assets available for sale	*8,982,713*	*9,701,505*	*9,226,565*	*8,960,504*	*–718,793*	*–7.4*	*–243,852*	*–2.6*
– Hedging derivatives	*83,614*	*86,126*	*109,895*	*84,122*	*–2,512*	*–2.9*	*–26,282*	*–23.9*
– Fair value change of financial assets in hedged portfolios	*14,544*	*21,872*	*20,107*	*15,196*	*–7,328*	*–33.5*	*–5,563*	*–27.7*
Due from banks	1,259,238	744,331	619,231	1,253,157	514,907	69.2	640,007	103.4
Loans to customers	32,741,540	32,031,457	31,554,803	32,027,908	710,083	2.2	1,186,736	3.8
Fixed assets	1,216,216	1,233,836	1,234,715	1,219,920	–17,620	–1.4	–18,500	–1.5
Non–current assets held for sale and discontinued operations	4,019	–	–	–	4,019	–	4,019	–
Other activities	1,495,408	1,476,613	1,805,311	1,557,777	18,795	1.3	–309,903	–17.2
Total assets	**46,313,231**	**45,906,888**	**45,219,179**	**45,735,185**	**406,343**	**0.9**	**1,094,052**	**2.4**

Liabilities	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Changes A – B		Changes A – C	
	A	B	C	D	amount	%	amount	%
Due to banks	3,685,481	3,231,548	2,554,832	3,519,115	453,933	14.0	1,130,649	44.3
Due to customers	27,910,397	26,970,912	27,066,623	26,184,210	939,485	3.5	843,774	3.1
Securities issued	7,939,424	8,594,982	8,858,712	9,097,439	–655,558	–7.6	–919,288	–10.4
Financial liabilities and hedging derivatives:	432,384	494,073	429,845	398,753	–61,689	–12.5	2,539	0.6
– Financial liabilities held for trading	*206,437*	*253,612*	*189,599*	*170,147*	*–47,175*	*–18.6*	*16,838*	*8.9*
– Financial liabilities designated at fair value through profit and loss	*167,045*	*167,842*	*165,411*	*163,181*	*–796*	*–0.5*	*1,634*	*1.0*
– Hedging derivatives	*44,092*	*58,053*	*58,751*	*45,743*	*–13,960*	*–24.0*	*–14,659*	*–25.0*
– Fair value change of financial liabilities in hedged portfolios	*14,809*	*14,567*	*16,084*	*19,682*	*242*	*1.7*	*–1,275*	*–7.9*
Other liabilities	1,565,216	1,594,319	1,406,200	1,674,024	–29,103	–1.8	159,016	11.3
Provisions for specific use	443,329	475,473	492,849	513,689	–32,144	–6.8	–49,520	–10.0
Capital and reserves	4,213,076	4,484,478	4,185,574	4,148,321	–271,401	–6.1	27,502	0.7
Net income (loss) for the period (+/–)	123,924	61,103	224,544	199,636	62,821	n.s.	–100,620	n.s.
Total liabilities and shareholders' equity	**46,313,231**	**45,906,888**	**45,219,179**	**45,735,185**	**406,343**	**0.9**	**1,094,052**	**2.4**

Other information	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Changes A – B		Changes A – C	
	A	B	C	D	amount	%	amount	%
Indirect customer deposits at market value	32,021,917	32,666,016	30,574,813	30,574,813	–644,099	–2.0	1,447,104	4.7
- of which assets under administration	12,767,594	13,985,919	13,569,884	13,569,884	–1,218,325	–8.7	–802,290	–5.9
- of which assets under management	19,254,323	18,680,097	17,004,929	17,004,929	574,226	3.1	2,249,394	13.2
Workforce (1)	7,276	7,269	7,264	7,314	12	0.2	12	0.2
Number of branches	636	633	636	650	3	0.5	0	0.0

(1) Employees + net secondees + temps

Principal balance sheet aggregates

Direct deposits

The aggregate "Direct deposits" – consisting of amounts due to customers, securities issued and financial liabilities designated at fair value through profit and loss – comes to Euro 36,017 million in June 2015, stable compared with the end of 2014 but with a slight increase compared with March 2015 (+0.8%). The comparison of the aggregates with those at the end of 2014 shows the following:

- **amounts due to customers,** which come to Euro 27,910 million, have risen by 3.1% compared with the end of 2014 (+ Euro 844 million) due to an increase in current accounts and savings deposits (+ Euro 648 million; +3%) and in repurchase agreements (+ Euro 224 million; +4.4%) that reflects MTS Repo market transactions entered into with Cassa di Compensazione e Garanzia as central counterparty. As regards current and savings accounts, it is worth noticing the trend in on-demand current accounts compared with the end of 2014: they have increased by Euro 1,248 million, growth entirely due to private (i.e. corporate and retail) customers. Restricted deposits decrease by euro 600 million in the first half-year;
- **securities issued,** which amount to Euro 7,939 million, have decreased by 10.4% (– Euro 919 million) compared with the end of 2014. This aggregate is the net of a Euro 752 million increase due to the covered bonds issued by the Bank and repurchased to be used as the underlying in repurchase agreements (in previous periods,on the other hand, they were used as collateral in refinancing operations with the ECB), and a Euro 760 million contraction in subordinated liabilities, mainly due to the expiry of a Lower Tier 2 subordinated bond, and a decrease in bonds and structured securities. In this last case, the reduction is due to the different investment decisions made by the subscribers of the bonds that matured and/or were redeemed in advance during in the period, in addition to a liability management action carried out in the first half on bonds placed with retail customers;
- **financial liabilities designated at fair value,** which came in at Euro 167 million, are stable compared with the end of 2014 (+1%).

The comparison with the figures at 31 March 2015 we point out the following:

- due to customers rise (+ Euro 939 million; +3.5%) as a result of the good trend in current and savings accounts (+2.7%) and in repurchase agreements (+7.7%);
- securities issued have decreased by 7.6% (– Euro 656 million) due to the aforementioned effect of the reallocation of customer investments towards asset management products;
- financial liabilities designated at fair value through profit and loss are stable.

Indirect deposits

Indirect deposits, at 30 June 2015, come to Euro 32,022 million, showing a rise on the figures of the end of 2014 (+4.7%) but decrease versus the end of March 2015 (–2%).

Within this aggregate, **assets under management**, total Euro 19,254 million, up both on the end of 2014 (+13.2%) and on the end of March 2015 (+3.1%). This performance benefited from net positive deposits in the first six months of the year of Euro 1,746 million, Euro 1,340 of which related to mutual funds and individual portfolio management, and the remaining Euro 406 million related to insurance products.

Specifically, the funds segment, which comes to Euro 12,014 million, has increased by Euro 1,764 million (+17.2%) compared with the end of 2014 and by Euro 499 million (+4.3%) on the end of March 2015.

There has also been an improvement in insurance-sector reserves, which come to Euro 5,785 million, resulting in an increase when compared with both December 2014 (+10.8%) and at 31 March 2015 (+2.4%). Individual portfolio management was down slightly compared with both the end of 2014 (– Euro 77 million; –5.1%) and with the end of March 2015 (– Euro 63 million; –4.2%).

Assets under administration at 30 June 2015 come to Euro 12,768 million, a decrease compared with both December 2014 (–5.9%) and March 2015 (–8.7%), reflecting the volatility of financial markets in the second quarter of the year, in addition to the continued switch into asset management.

Loans to customers

As of June 2015, **loans to customers** amount to Euro 32,742 million, being an improvement compared with the figure at the end of December 2014 (+3.8%), and compared with the figure at the end of March 2015 (+2.2%). Within this aggregate, mortgage loans rose by 2.4% on December 2014 and by 2.1% on March 2015, "other loans" increased by 12.2% compared with December 2014 and by 7.7% compared with March 2015. The growth in other loans was supported, among other things, by syndicated loans and stand-by loans, largely for the corporate segment.

Note that, there has been an upturn in new mortgage loans granted in the first six months of 2015 compared with 30 June 2014. Specifically, mortgage loans granted have increased with respect to the same period of last year by 30%, reflecting a positive trend for both individual and corporate customers. Loans achieved more than double last year's growth (Euro 1,232 million in June 2015 compared with Euro 577 million in the same period of 2014), mainly because of loans granted to companies. Overall, mortgages and loans disbursed in the first half have increased by around 66% compared with the same period of 2014.

Asset quality

The BPM's gross impaired assets amount to Euro 5,957 million at 30 June 2015, having increased by 3.4% compared with December 2014 (+ Euro 194 million) and on the previous quarter by 1% (+ Euro 56 million).

Compared with the situation at 31 December 2014, the following trends have emerged:

- **gross non-performing loans** amount to Euro 3,161 million, an increase of Euro 170 million (+5.7%) on the end of December, mainly attributable to the deterioration of loans to real estate companies. The ratio of gross non-performing loans to total Group loans has reached 9%, a slight growth of 8.8% on March 2015 and December 2014;
- **unlikely to pay loans** have increased by Euro 73 million (+2.8%) to Euro 2,700 million; the rise is due to the reclassification of a particularly significant position from performing loans. The ratio of probable defaults to total loans is 7.7%, which is stable on the 2014 year end figure;
- **overdue positions** continued to confirm the downward trend that was seen throughout 2014 and came to Euro 96 million, representing 0.3% of total Group loans, although they fell by 0.1% compared with the year end figure.

The proportion of gross impaired loans to total loans was 16.9%, stable with respect to 17% at the end of 2014.

The coverage of the impaired loans portfolio as of June 2015 is of 38.3% with a rise of 38.5% on December 2014.
In detail:

- the coverage of non-performing loans was 54.6% compared with 55.6% as of December 2014;
- the coverage of probable defaults was 22.1%, which was up on the December 2014 figure of 20.4%, attributable to an increase in provisions from Euro 535 million as of December 2014 to the current figure of Euro 596 million;
- the coverage of overdue positions increased and came in at 8.7%,on 7.8% of December.

As regards performing loans, they increased by 3.9% in the first half of 2015, characterised by a positive trend in low risk loans. This trend, together with a reclassification of high risk positions to impaired loans, affected the coverage, which came to 0.61% versus 0.67% as of December 2014.
Overall, total impaired loans at 30 June 2015, net of adjustments, amounted to Euro 3,626 million, up by 2.1% compared with the December 2014 figure.

Net interbank position

The net interbank position at 30 June 2015 shows a negative balance (net borrowing) of Euro 2,426 million, a deterioration compared with the negative balance of Euro 1,936 in December 2013 (-25.3%), but an improvement compared with that of March 2015 (+2.5%). The difference in amounts due to banks (–1,131 million Euro compared with the end of 2014) refers almost exclusively to the increase in TLTRO that took place during the year. In fact, the balance of bank borrowings at 30 June amounted to Euro 3,685 million, including Euro 2,751 million for TLTRO (of which Euro 1.5 billion from the auction in December 2014, Euro 250 million in the first quarter and Euro 1 billion in June) and Euro 26 million for MRO with the European Central Bank. Half of the remainder, Euro 908 million, consists of deposits from other Group banks.

Net financial assets

Net financial assets come to Euro 9,112 million, down both compared with December 2014 (– Euro 312 million; –3.3%) and with the end of March 2015 (– Euro 777 million; –7.9%). This result arises mainly from the volatility of financial markets in June.

Fixed assets

At 30 June 2015, **fixed assets** amount to Euro 1,216 million, for a drop compared with December (– Euro 18 million; –1.5%) and on March 2015(– Euro 18 million; –1.4%) after the liquidation of BPM Capital 1 (– Euro 25.4 million).

Shareholders' equity

At 30 June 2015 **shareholders' equity**, including the net result for the period, comes to Euro 4,337 million, which is less than both the end of 2014 (–1.7%), and the end of March 2015 (–4.6%).
These changes are attributable to the reduction in valuation reserves of respectively Euro 110 million compared with the end of 2014 and Euro 179 million compared with the end of March 2015, mainly due to the market volatility that characterised the month of June, coinciding with the worsening of the financial crisis in Greece.

Banca Popolare di Milano – Reclassified income statement

(Euro/000)

Line items	First half 2015	First half 2014 [1]	Changes amount	Changes %
Interest margin	**373,358**	**381,566**	**(8,208)**	**–2.2**
Non-interest margin:	**397,505**	**404,736**	**(7,231)**	**–1.8**
– Net fee and commission income	292,890	263,740	29,150	11.1
– Other income:	104,615	140,996	(36,381)	–25.8
- Dividends from equity investments	*24,293*	*7,932*	*16,361*	*206.3*
- Net income from banking activities	*57,237*	*109,860*	*(52,623)*	*–47.9*
- Other operating charges/income	*23,086*	*23,204*	*(118)*	*–0.5*
Operating income	**770,864**	**786,302**	**(15,438)**	**–2.0**
Administrative expenses:	(413,338)	(417,138)	3,800	0.9
a) personnel expenses	*(284,814)*	*(297,425)*	*12,611*	*4.2*
b) other administrative expenses	*(128,524)*	*(119,713)*	*(8,811)*	*–7.4*
Net adjustments to property and equipment and intangible assets	(28,867)	(33,729)	4,862	14.4
Operating expenses	**(442,205)**	**(450,867)**	**8,662**	**1.9**
Operating profit	**328,659**	**335,435**	**(6,776)**	**–2.0**
Net adjustments for impairment of loans and other activities	(158,299)	(191,651)	33,352	17.4
Net provisions for risks and charges	265	5,056	(4,791)	–94.8
Profits (losses) from equity and other investments, and adjustments to goodwill and intangible assets	7,299	129,148	(121,849)	–94.3
Income (loss) before tax from continuing operations	**177,924**	**277,988**	**(100,064)**	**–36.0**
Taxes on income from continuing operations	(54,000)	(78,352)	24,352	31.1
Net result	**123,924**	**199,636**	**(75,712)**	**–37.9**

Income statement of the period

The first half of 2015 closes with a net income of Euro 123.9 million, down on Euro 75.7 million with respect to the first half of 2014. The result mainly reflects the lower net result from financial activities (–52.6 million euro), only partially offset by the increase of Euro 29.2 million in net commissions and of Euro 16.4 million in dividends from investments. In addition, the first half-year benefits from a significant contraction in net adjustments to loans (– Euro 33.4 million). Note that the first half of 2014 included the capital gain for the sale of part of the interest in Anima Holding SpA, with an impact of Euro 110 million.

Operating income

In the first six months of 2015, operating income, Euro 770.9 million, showed a decrease of Euro 15.4 million (–2.0%) compared with the same period in 2014.
Within this aggregate, **interest margin** amounts to Euro 373.4 million, a decrease of Euro 8.2 million (–2.2%) compared with the first half of 2014. This reflects a lower return on the securities portfolio (–13.1 million euro), only partly offset by an increase in the commercial margin (+1.7 million euro) and by lower interest expense on institutional funding (over 3 million euro).

Net fee and commission income comes to Euro 292.9 million, a rise of 11.1% (+ Euro 29.2 million) on the figure recorded in the same period of the previous year. In particular, this aggregate has benefited from fees and commissions earned on the placement of securities and asset management products during the period with a consequent increase in fees and commissions from management, dealing and advisory services of Euro 30 million.

The **net income from banking activities** of Euro 57.2 million decreases by Euro 52.6 million (–47.9%) compared with the same period of 2014, mainly due to lower profits on debt securities during the period and booked under "Profits/losses on disposal or repurchase of financial assets/liabilities".

Euro 24.3 million of dividends were received from equity investments during the first six months of 2015, a growth of Euro 16.4 million on the same period of last year.

Operating expenses

During the first half of 2015, operating expenses amount to Euro 442.2 million, a decrease compared with the same period of 2014 (–1.9%). The cost/income ratio is 57.4%, stable compared with June 2014 (57.3%).

In details, personnel expenses in the first quarter of the year came to Euro 284.8 million, with a fall of Euro 12.6 million (–4.2%) compared with the same period of the previous year. This result mainly benefits from:

- the lower provision for art. 60, including the related social contributions, of Euro 6.8 million. This reduction is due to the lower net income for the first half of 2015, compared with that recorded in the corresponding period last year, which benefited from the gain on the sale of the interest in Anima Holding;
- lower adjustments for the benefits provided by the solidarity fund of approximately Euro 6.3 million.

Excluding this component, personnel expenses are down by 1.2%, having benefited from a reduction in the average headcount due to leavers who had signed up for the Solidarity Fund (since the fund was set up at the end of March 2013, there have been 690 leavers, of which 51 in the last quarter).

Other administrative expenses amount to Euro 128.5 million, net of indirect tax recoveries (+Euro 8.8 million; +7.4% on June 2014). On this increase weighs the estimate, of Euro 11.8 million, of the contribution foreseen under European regulations concerning assistance for the recovery and resolution of credit institutions (the so-called "bail-in") and to the deposit guarantee systems, partially offset by lower IT costs for Euro 3 million (–9.3%), expenses for the purchase of goods and non-professional services for Euro 1.9 million (–6.9%) and expenses for rents and fees of Euro 1.3 million (–7.3%). On the other hand, there has been an increase in advertising expenses of Euro 3 million as a result of anticipating certain campaigns compared with the previous year, as well as for co-marketing initiatives, advertising expenses and campaigns on products.

Net adjustments to property and equipment and intangible assets come to Euro 28.9 million, a decrease of Euro 4.9 million (–14.4%).

Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets

Profits (losses) from equity and other investments and adjustments to goodwill and intangible assets amount to Euro 7.3 million, a decrease compared with June 2014, which included the gain on the sale of part of the interest in Anima Holding of Euro 110 million, as well as Euro 18 million of write-backs. The figure at June 2015 reflects a write-back on Selmabipiemme Leasing of Euro 7 million against the writedowns made in previous years.

Net impairment adjustments of loans and other activities and provisions

Net impairment adjustments of loans and other activities have fallen by 17.4% on the same period of 2014, from Euro 191.7 million in June 2014 to the current Euro 158.3 million.
The annualised **cost of credit** has improved by 24 bps, going from 121 bps in June 2014 to the current figure of 97 bps.
Net provisions for risks and charges show a positive balance of Euro 0.3 million, a decrease compared with Euro 5.1 million in the first six months of 2014 due to lower provisions for legal disputes.

Net income (loss) for the period

At the end of the first half of 2015, **net income for the period comes to Euro 123.9 million**, down by Euro 75.7 million compared with the same period of the previous year. The June 2014 result included the capital gain from the sale of part of the interest in Anima Holding SpA of Euro 110 million; net of non-recurring items, net income for the first half of 2015 would amount to Euro 126 million, a significant improvement on the figure of Euro 81 million in the first half of 2014 (+55.6%).

Companies consolidated line-by-line

Banca Akros S.p.A.

Banca Akros – Reclassified balance sheet

(Euro/000)

Assets	30.06.2015 A	31.03.2015 B	31.12.2014 C	30.06.2014 D	Changes A – B		Changes A – C	
					amount	%	amount	%
Cash and cash equivalents	44	71	95	55	–27	–38.0	–51	–53.7
Financial assets designated at fair value and hedging derivatives:	2,662,851	2,924,237	2,556,772	2,217,893	–261,386	–8.9	106,079	4.1
– financial assets held for trading	*2,024,948*	*2,429,263*	*2,124,616*	*1,853,508*	*–404,315*	*–16.6*	*–99,668*	*–4.7*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
– Financial assets available for sale	*637,903*	*494,974*	*432,156*	*364,385*	*142,929*	*28.9*	*205,747*	*47.6*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
– Fair value change of financial assets in hedged portfolios	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
Due from banks	958,622	760,959	696,723	675,712	197,663	26.0	261,899	37.6
Loans to customers	396,079	419,857	318,494	590,981	–23,778	–5.7	77,585	24.4
Fixed assets	39,294	39,362	39,795	39,394	–68	–0.2	–501	–1.3
Other assets	28,079	27,810	30,827	24,081	269	1.0	–2,748	–8.9
Total assets	**4,084,969**	**4,172,296**	**3,642,706**	**3,548,116**	**–87,327**	**–2.1**	**442,263**	**12.1**

Liabilities	30.06.2015 A	31.03.2015 B	31.12.2014 C	30.06.2014 D	Changes A – B		Changes A – C	
					amount	%	amount	%
Due to banks	1,707,999	1,556,938	1,248,482	1,284,074	151,061	9.7	459,517	36.8
Due to customers	730,367	522,826	530,297	573,873	207,541	39.7	200,070	37.7
Securities issued	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
Financial liabilities and hedging derivatives:	*1,390,076*	*1,813,394*	*1,599,659*	*1,432,179*	*–423,318*	*–23.3*	*–209,583*	*–13.1*
– Financial liabilities held for trading	*1,390,076*	*1,813,394*	*1,599,659*	*1,432,179*	*–423,318*	*–23.3*	*–209,583*	*–13.1*
– Financial liabilities designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*n.s.*	*0*	*n.s.*
– Fair value change of financial liabilities in hedged portfolios	0	0	0	0	0	n.s.	0	n.s.
Other liabilities	46,318	59,138	41,999	44,395	–12,820	–21.7	4,319	10.3
Provisions for specific use	20,405	23,280	23,410	21,926	–2,875	–12.3	–3,005	–12.8
Capital and reserves	183,120	191,550	181,057	182,117	–8,430	–4.4	2,063	1.1
Net income (loss) for the period (+/–)	6,684	5,170	17,802	9,552	1,514	n.s.	–11,118	n.s.
Total liabilities and shareholders' equity	**4,084,969**	**4,172,296**	**3,642,706**	**3,548,116**	**–87,327**	**–2.1**	**442,263**	**12.1**

Other information	30.06.2015 A	31.03.2015 B	31.12.2014 C	30.06.2014 D	Changes A – B		Changes A – C	
					amount	%	amount	%
Indirect customer deposits at market value	2,157,000	2,188,000	2,020,000	1,906,631	–31,000	–1.4	137,000	6.8
– of which assets under administration	898,000	883,000	810,000	846,000	15,000	1.7	88,000	10.9
– of which assets under management	1,259,000	1,305,000	1,210,000	1,060,631	–46,000	–3.5	49,000	4.0
Workforce (1)	263	263	259	267	0	0	4	1.5
Number of branches	1	1	1	1	0	0	0	0

(1) Employees + net secondees + temps

An analysis of the **principal balance sheet aggregates** of Banca Akros shows:

- **financial assets and liabilities** consist of securities and financial derivatives, the fair value of which is mainly represented by prices drawn from active markets or determined based on observable parameters (levels 1 and 2). The measurement of regulatory VaR (Value at Risk 99%, 1 day) of the trading book in the first half of 2015 amounted on average to Euro 507 thousand (Euro 478 thousand in the first half of 2014); the measurement of internal VaR, which also incorporates the issuer risk on debt securities, amounts to an average of Euro 1,005 thousand (Euro 562 thousand in the first half of 2014);
- the change in the level of **amounts due to and from banks and customers** is mainly due to the trend in normal operations in repurchase agreements and securities, which were also entered into with Group banks, and the amount of cash collateral exchanged with counterparties for exposures in Over the Counter financial derivatives;
- **shareholders' equity** at 30 June 2015 amounts to Euro 190 million;
- the **Common Equity Tier 1 ratio** is equal to 12.8%.

Banca Akros – Reclassified income statement

(Euro/000)

Line items	First half 2015	First half 2014	Changes amount	Changes %
Interest margin	**7,907**	**5,279**	**2,628**	**49.8**
Non-interest margin	**28,928**	**45,045**	**(16,117)**	**–35.8**
Net fee and commission income	14,481	12,272	2,209	18.0
Other income:	14,447	32,773	(18,326)	–55.9
Net income (loss) from banking activities	*14,130*	*31,775*	*(17,645)*	*–55.5*
Other operating charges/income	*317*	*998*	*(681)*	*–68.2*
Operating income	**36,835**	**50,324**	**(13,489)**	**–26.8**
Administrative expenses:	–22,438	–26,766	4,328	16.2
a) personnel expenses	*–12,260*	*–17,197*	*4,937*	*28.7*
b) other administrative expenses	*–10,178*	*–9,569*	*(609)*	*–6.4*
Net adjustments to property and equipment and intangible assets	–2,465	–2,234	(231)	–10.3
Operating expenses	**–24,903**	**–29,000**	**4,097**	**14.1**
Operating profit	**11,932**	**21,324**	**(9,392)**	**–44.0**
Net adjustments for impairment of loans and other activities	–2,109	–1,895	(214)	–11.3
Net provisions for risks and charges	1,233	–326	1,559	n.s.
Profits (losses) from equity and other investments	0	0	0	n.s.
Income (loss) before tax from continuing operations	**11,056**	**19,103**	**(8,047)**	**–42.1**
Taxes on income from continuing operations	–4,372	–9,551	5,179	54.2
Net income (loss) for the period	**6,684**	**9,552**	**(2,868)**	**–30.0**

An analysis of the principal income statement aggregates shows:

- the **interest margin** is positive, going from Euro 5.3 million in the first half of 2014 to Euro 7.9 million in the first half of 2015, because of the increase in the average amount of own bonds in portfolio; the average cost of funding decreases compared with the same period last year and also reflects the diversification of funding sources in order to align maturities with the liquidability of loans;
- a positive **non-interest margin** of Euro 28.9 million, mainly generated by:
  - **net commission flows** of Euro 14.5 million (Euro 12.3 million in the first half of 2014) are up thanks to the positive contribution made by the activities of collecting and trading orders on regulated markets, including other services such as providing access to financial markets for professional customers, consultancy activities and individual portfolio management;
  - **net income from banking activities** of Euro 14.1 million (Euro 31.8 million in the first half of 2014), whose contraction mainly reflects the negative effects arising from the mark to market valuation of securities in the trading portfolio, influenced by the deterioration in conditions on the main markets at the close of the half-year, and the slowdown in flows from customers in the fixed income segment;
- **operating income** for a total of Euro 36.8 million (Euro 50.3 million in the first half of 2014);
- **total operating expenses** of Euro 24.9 million (Euro 29 million in the first half 2014), a decrease especially in personnel expenses;
- **net income** for the period of Euro 6.7 million (Euro million 9.6 in the first half of 2014), after taxes that reflect an effective tax rate of around 40%.

Banca Popolare di Mantova – Reclassified balance sheet

(Euro/000)

Assets	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Changes A – B		Changes A – C	
	A	B	C	D	amount	%	amount	%
Cash and cash equivalents	5,066	4,447	6,557	5,668	619	13.9	–1,491	–33.5
Financial assets designated at fair value and hedging derivatives:	11,806	11,861	11,782	11,859	–55	–0.5	24	0.2
– Financial assets held for trading	*209*	*223*	*227*	*354*	*–14*	*–6.3*	*–18*	*–8.1*
– Financial assets designated at fair value through profit and loss	*0*	*0*	*0*	*0*	*0*	*0.0*	*0*	*0.0*
– Financial assets available for sale	*11,597*	*11,638*	*11,555*	*11,505*	*–41*	*–0.4*	*42*	*0.4*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*0.0*	*0*	*0.0*
Due from banks	*10,992*	*7,664*	*25,364*	*22,229*	*3,328*	*43.4*	*–14,372*	*–187.5*
Loans to customers	496,911	477,008	475,501	467,566	19,903	4.2	21,410	4.5
Fixed assets	8,021	8,113	8,139	8,262	–92	–1.1	–118	–1.5
Non-current assets held for sale and discontinued operations	0	0	0	0	0	0.0	0	0.0
Other assets	13,858	12,601	15,006	13,518	1,257	10.0	–1,148	–9.1
Total assets	**546,654**	**521,694**	**542,349**	**529,102**	**24,960**	**4.8**	**4,305**	**0.8**

Liabilities	30.06.2015	31.03.2015	31.12.2014	30.06.2014	Changes A – B		Changes A – C	
	A	B	C	D	amount	%	amount	%
Due to banks	152,846	130,502	125,406	131,010	22,344	17.1	27,440	21.0
Due to customers	318,664	316,916	326,745	297,226	1,748	0.6	–8,081	–2.5
Securities issued	*18,960*	*22,566*	*22,541*	*27,035*	*–3,606*	*–16.0*	*–3,581*	*–15.9*
Financial liabilities and hedging derivatives:	*221*	*231*	*228*	*5,530*	*–10*	*–4.3*	*–7*	*–3.0*
– Financial liabilities held for trading	*221*	*231*	*228*	*261*	*–10*	*–4.3*	*–7*	*–3.0*
– Financial liabilities designated at fair value through profit and loss	*0*	*0*	*0*	*5,269*	*0*	*0.0*	*0*	*0.0*
– Hedging derivatives	*0*	*0*	*0*	*0*	*0*	*0.0*	*0*	*0.0*
– Fair value change of financial liabilities in hedged portfolios	0	0	0	0	0	0.0	0	0.0
Other liabilities	19,653	14,682	30,979	31,847	4,971	33.9	–11,326	–77.1
Provisions for specific use	1,052	1,075	1,095	1,294	–23	–2.1	–43	–4.0
Capital and reserves	35,365	35,392	35,126	35,128	–27	–0.1	239	0.7
Net income (loss) for the period (+/–)	–107	330	229	32	–437	n.s.	–336	n.s.
Total liabilities and shareholders' equity	**546,654**	**521,694**	**542,349**	**529,102**	**24,960**	**4.8**	**4,305**	**0.8**

Other information	30.06.2015 A	31.03.2015 B	31.12.2014 C	30.06.2014 D	Changes A – B		Changes A – C	
					amount	%	amount	%
Indirect customer deposits at market value	176,601	175,490	154,746	175,566	1,111	0.6	21,855	14.1
– of which assets under administration	101,876	105,827	97,322	131,304	–3,951	–3.7	4,554	4.7
– of which assets under management	*74,725*	*69,663*	*57,424*	*44,262*	*5,062*	*7.3*	*17,301*	*30.1*
Workforce (1)	79	79	77	78	0	0.0	2	2.6
Number of branches	17	17	17	17	0	0.0	0	0.0

(1) Employees + net secondees + temps + collaborators

An analysis of the principal **balance sheet aggregates** shows:

- At 30 June 2015, **loans to customers** amounted to Euro 496.9 million, up by Euro 21.4 million (+4.5%) with respect to 31 December 2014 and by Euro 19.9 million (+4.2%) compared with March 2015. Compared with December 2014, the change was attributable to an increase in mortgage loans of Euro 8.5 million (+2.8%), and current accounts of Euro 6.7 million (+15.1%). The Bank continued its policy of diversifying loans, increasing the retail and SME component.
- At 30 June 2015, the **"direct deposits"** figure – consisting of amounts due to customers, securities issued and financial liabilities designated at fair value – amounted to Euro 337.6 million, a decrease of Euro 11.7 million with respect to 31 December 2014 (–3.3%) because of the drop both in "due to customers" of Euro 8.1 million (–2.5%) and "securities issued" of Euro 3.6 million (–15.9%). In detail, the comparison between the figure with the end of 2014 shows the following:
  - amounts **due to customers** amount to Euro 318.7 million, a decrease of Euro 8.1 million with respect to 31 December 2014 (–2.5%), because of the significant drop in "current and savings accounts" (-2.5%) which, despite the positive trend in the number of customers (+319 customers; +2.8% vs December 2014) is affected by the decline in deposits to maturity;
  - **securities issued** amounting to Euro 19 million decrease by Euro 3.6 million (–15.9%) compared with December 2014 because of repayments made in the year – of a nominal value of some Euro 3.1 million – as well as of the decrease in certificates of deposit (– Euro 0.5 million), reflecting a preference shown by customers for other forms of deposits;
- The volume of **"indirect deposits"** from ordinary customers, measured at market value, comes to some Euro 176.6 million, up with respect to 31 December 2014 figure of some Euro 21.9 million (+14.1%) and by Euro 1.1 million (+0.6%) compared with March 2015 due to a positive performance by assets under management partly offset by the contraction in assets under administration.
- **At 30 June 2015, shareholders' equity**, including income for the period amounts to Euro 35.3 million, with a contraction of Euro 0.1 million compared with the end of 2014 and of Euro 0.5 million compared with March 2015. The Bank's **capital position** at 30 June 2015 shows a Total Capital Ratio of 9.11%.

Banca Popolare di Mantova – Reclassified income statement

(Euro/000)

Line items	First half 2015	First half 2014	Changes	
			amount	%
Interest margin	**5,899**	**4,238**	**1,661**	**39.2**
Non-interest margin	**2,860**	**2,772**	**88**	**3.2**
Net fee and commission income	2,446	2,381	65	2.7
Other income:	414	391	23	5.9
Profits (losses) on investments carried at equity	*0*	*0*	*0*	*n.a.*
Net income (loss) from banking activities	*0*	*14*	*(14)*	*–100*
Other operating charges/income	414	377	37	9.8
Operating income	**8,759**	**7,010**	**1,749**	**25.0**
Administrative expenses:	*(4,682)*	*(4,593)*	*(89)*	*–1.9*
a) personnel expenses	*(2,793)*	*(2,540)*	*(253)*	*–10.0*
b) other administrative expenses	(1,889)	(2,053)	164	8.0
Net adjustments to property and equipment and intangible assets	(437)	(410)	(27)	–6.6
Operating expenses	**(5,119)**	**(5,003)**	**(116)**	**–2.3**
Operating profit	**3,640**	**2,007**	**1,633**	**81.4**
Net adjustments for impairment of loans and other activities	(3,755)	(1,773)	(1,982)	–111.8
Net provisions for risks and charges	(32)	(42)	10	23.8
Profits (losses) from equity and other investments	0	0	0	n.a.
Income (loss) before tax from continuing operations	(147)	192	(339)	n.a.
Taxes on income from continuing operations	40	(160)	200	n.a.
Net income (loss) for the period	**(107)**	**32**	**(139)**	**n.a.**

At 30 June 2015, **operating income** comes to Euro 8.8 million, up by 25% compared with the previous year, thanks to the good performance of the interest margin (+ Euro 1.7 million; +39.2%).
In details:

- The **interest margin** comes to Euro 5.9 million, up by 39.2% with respect to June 2014, due to an increase in the commercial margin attributable to a rise in volumes and to a widening of the spread between lending and borrowing rates, which comes to 2.31% (average annual figures), a growth of 63 bps. This increase benefited from a reduction in the cost of funding (–90 bps) that exceeded the reduction in lending rates (–26 bps).
- **Non-interest margin** came to Euro 2.9 million in the first half 2015, up by 3.2% compared with the same period of 2014. This result is attributable to the rise in net fee and commission income (+2.7%) and in other operating expenses/income (+9.8%).

Operating expenses – made up of **administrative expenses** and **net adjustments to property and equipment and intangible assets** – stand at Euro 5.1 million, an increase of about Euro 0.1 million on June 2014 (+2.3%).
In details:

- personnel expenses come to Euro 2.8 million at the end of the half-year 2015, an increase of Euro 0.3 million (+10%) compared with the previous year; which included lower variable components of remuneration;
- other administrative expenses amount to Euro 1.9 million net of "tax recoveries" and show a decrease compared with 30 June 2014 (–8%).

The cost/income ratio comes to 58.4%, a decrease of 13 p.p. compared with the first half of 2014 (71.4%), mainly due to the increase in operating income (+25%).

Operating profit amounts to Euro 3.6 million, up by Euro 1.6 million (+81.4%) compared with June 2014.
As a result of the considerable increase in writedowns of loans of Euro 3.8 million (Euro 1.8 million in June 2014), the **result before tax from continuing operations** is a loss of Euro 147 thousand, compared with a profit of Euro 192 thousand in June 2014.

After having booked taxes of Euro 40 thousand, the first half of 2015 closed with net loss of Euro 107 thousand, compared with a profit of Euro 32 thousand in the same period last year.

ProFamily – Reclassified balance sheet

(Euro/000)

Assets	30.06.2015 A	31.03.2015 B	31.12.2014 C	30.06.2014 D	Changes A – B		Changes A – C	
					amount	%	amount	%
Cash and cash equivalents	0	0	0	6	0	n.s.	–6	–100
Financial assets designated at fair value and hedging derivatives:	0	0	0	0	0	n.s.	0	n.s.
Due from banks	1,935	17,526	7,525	3,226	–15,591	–89.0	–5,590	–74.3
Loans to customers	917,652	904,287	898,425	900,526	13,365	1.5	19,227	2.1
Fixed assets	4,401	4,934	5,463	6,107	–533	–10.8	–1,062	–19.4
Other activities	10,628	10,707	10,694	9,892	–79	–0.7	–66	–0.6
Total assets	**934,616**	**937,454**	**922,107**	**919,757**	**–2,838**	**–0.3**	**12,509**	**1.4**

Liabilities	30.06.2015 A	31.03.2015 B	31.12.2014 C	30.06.2014 D	Changes A – B		Changes A – C	
					amount	%	amount	%
Due to banks	861,313	866,630	853,910	858,603	–5,317	–0.6	7,403	0.9
Due to customers	4,447	3,286	2,447	3,436	1,161	35.3	2,000	81.7
Securities issued	0	0	0	0	0	n.s.	0	n.s.
Financial liabilities and hedging derivatives:	0	0	0	0	0	n.s.	0	n.s.
Other liabilities	9,723	9,778	8,829	7,235	–55	–0.6	894	10.1
Provisions for specific use	2,346	2,031	2,060	1,859	315	15.5	286	13.9
Capital and reserves	54,861	54,861	52,091	47,091	0	0.0	2,770	5.3
Net income (loss) for the period (+/–)	1,926	868	2,770	1,533	1,058	n.s.	–844	n.s.
Total liabilities and shareholders' equity	**934,616**	**937,454**	**922,107**	**919,757**	**–2,838**	**–0.3%**	**12,509**	**1.4**

Other information	30.06.2015 A	31.03.2015 B	31.12.2014 C	30.06.2014 D	Changes A – B		Changes A – C	
					amount	%	amount	%
Workforce (1)	98	96	102	100	2	2.1	–4	–3.9
Number of branches	28	27	25	22	1	3.7	3	12.0

(1) Employees + net secondees + temps

An analysis of the principal balance sheet aggregates shows:

- **Total assets** have reached a total of Euro 934.6 million, which is up on the amount of Euro 922.1 million at the end of 2014, with 98% of the total consisting of loans, which include Euro 1.9 million of deposits on the current accounts of the Company and Euro 917.7 million which corresponds to the IAS value of outstanding loans to customers, net of adjustments;
- **property and equipment** amount to Euro 0.6 million and **intangible assets** to Euro 3.8 million; they mainly relate to furniture, hardware and software;
- **other assets** amount to Euro 10.6 million and mainly include tax assets of Euro 7.5 million, receivables from the tax authorities of Euro 1.1 million, prepayments of Euro 0.5 million and deferred charges on third party's assets of Euro 0.8 million;
- **amounts due to banks** come to Euro 861.3 million, due to the Parent Company, being attributable to the use of lines of credit related to loans granted;
- **other liabilities** of Euro 9.7 million mainly comprise invoices to be received of Euro 4.4 million, provisions for personnel expenses of Euro 0.8 million, payables to pension entities and tax authorities (IRPEF, INPS, withholding taxes) of Euro 0.6 million and sums available to third parties of Euro 0.9 million;
- **shareholders' equity** comes to Euro 56.8 million and consists of share capital of Euro 50 million, reserves of Euro 4.9 million and profit for the period of Euro 1.9 million.

ProFamily – Reclassified income statement

(Euro/000)

Line items	First half 2015	First half 2014	Changes	
			amount	%
Interest margin	**16,527**	**15,304**	**1,223**	**8.0**
Non-interest margin	**1,242**	**347**	**895**	**257.9**
Net fee and commission income	(249)	(887)	638	71.9
Other income:	1,491	1,234	257	20.8
Profits (losses) on investments carried at equity	*0*	*0*	*0*	*0.0*
Net income (loss) from banking activities	*0*	*0*	*0*	*0.0*
Other operating charges/income	*1,491*	*1,234*	*257*	*20.8*
Operating income	**17,769**	**15,651**	**2,118**	**13.5**
Administrative expenses:	(9,311)	(8,563)	(748)	–8.7
a) personnel expenses	*(3,829)*	*(3,822)*	*(7)*	*–0.2*
b) other administrative expenses	*(5,482)*	*(4,741)*	*(741)*	*–15.6*
Net adjustments to property and equipment and intangible assets	(1,344)	(1,263)	(81)	–6.4
Operating expenses	**(10,655)**	**(9,826)**	**(829)**	**–8.4**
Operating profit	**7,114**	**5,825**	**1,289**	**22.1**
Net adjustments for impairment of loans and other activities	(4,185)	(3,672)	(513)	–14.0
Net provisions for risks and charges	(374)	57	(431)	n.s.
Profits (losses) from equity and other investments	0	0	0	0.0
Income (loss) before tax from continuing operations	**2,555**	**2,210**	**345**	**15.6**
Taxes on income from continuing operations	(629)	(677)	48	7.1
Net income (loss) for the period	**1,926**	**1,533**	**393**	**25.6**

An analysis of the principal income statement aggregates shows:

- **Operating income** for the period amounts to Euro 17.8 million, up on Euro 15.7 million in the same period of 2014.
- Interest and similar income amounts to Euro 28.1 million, whereas Interest and similar expense total Euro 11.6 million and take the interest margin to Euro 16.5 million. Net fee and commission income is an expense of Euro 0.2 million, whereas other operating income amounts to Euro 1.5 million and mainly consists of recoveries from customers of administrative costs (collection and mailing costs);
- **loan adjustments** amount to Euro 4.2 million. The method used for calculating writedowns involves segmentation of the loan portfolio into different product categories; for each of these categories we establish provision percentages to be applied to the residual credit based on payment delays. Non-performing loans have been written down for 100% of the residual credit;
- total **administrative expenses** incurred by the company in the half-year amount to Euro 9.3 million and increase by Euro 8.6 million compared with the first six months of 2014. This figure is made up of personnel expenses and administrative expenses. In particular:
  - **personnel expenses** come to Euro 3.8 million, and entirely relate to employees;
  - **other administrative expenses** amount to Euro 5.5 million. The main component is represented by professional fees and third-party services amounting to Euro 2.4 million and include for the most part consortium services provided by the Parent Company and outsourcing services for credit recovery, back-office, contact center, help desk and digital storage;
- after deducting depreciation and amortisation of Euro 1.3 million, the net value of ProFamily's **tangible** and **intangible assets** amounts to Euro 4.4 million. The most significant amortisation charge refers to software purchased for the management and IT system in use since July 2010;
- **income before tax from continuing operations** amounts to Euro 2.6 million, an improvement on the income of Euro 2.2 million recorded in June 2014. Taxes on income amount to a charge of Euro 0.6 million;
- the **net income (loss) for the period** amounts to Euro 1.9 million, showing a rise compared with the net 'income of Euro 1.5 million of June 2014.

Financial statements of the Parent Company

Balance sheet

Assets		30.06.2015	31.12.2014	30.06.2014
10.	Cash and cash equivalents	219,072,137	316,187,243	243,209,570
20.	Financial assets held for trading	215,458,077	234,914,680	201,148,791
30.	Financial assets designated at fair value through profit and loss	81,410,462	97,449,153	172,234,644
40.	Financial assets available for sale	8,982,712,828	9,226,565,158	8,596,160,098
50.	Investments held to maturity	–	–	–
60.	Due from banks	1,259,238,286	619,231,167	1,143,534,613
70.	Loans to customers	32,741,539,597	31,554,803,154	30,848,969,795
80.	Hedging derivatives	83,613,760	109,895,414	84,121,850
90.	Fair value change of financial assets in hedged portfolios (+/–)	14,543,853	20,107,165	3,381,574
100.	Investments in associates and companies subject to joint control	438,404,279	459,611,460	570,506,990
110.	Property and equipment	671,116,665	676,918,953	681,104,190
120.	Intangible assets	106,694,715	98,184,860	79,057,062
	of which:			
	– goodwill	–	–	–
130.	Tax assets	1,022,374,881	1,048,462,904	990,513,285
	a) current	*159,993,694*	*186,037,717*	*155,063,184*
	b) deferred	*862,381,187*	*862,425,187*	*835,450,101*
	of which as per L. 214/11	*697,820,142*	*697,520,142*	*669,904,019*
140.	Non-current assets held for sale and discontinued operations	4,018,633	–	–
150.	Other activities	473,032,924	756,848,104	515,162,352
Total assets		**46,313,231,097**	**45,219,179,415**	**44,129,104,814**

Balance sheet

Liabilities and shareholders' equity		30.06.2015	31.12.2014	30.06.2014
10.	Due to banks	3,685,480,731	2,554,831,764	4,590,163,393
20.	Due to customers	27,910,397,116	27,066,623,474	22,777,606,243
30.	Securities issued	7,939,423,805	8,858,712,275	9,893,671,574
40.	Financial liabilities held for trading	206,437,083	189,598,919	170,147,288
50.	Financial liabilities designated at fair value through profit and loss	167,045,411	165,410,962	163,180,690
60.	Hedging derivatives	44,092,499	58,751,104	33,763,290
70.	Fair value change of financial liabilities in hedged portfolios (+/–)	14,808,878	16,083,667	19,682,312
80.	Tax liabilities	104,736,129	142,561,405	177,302,532
	a) current	*3,552,724*	–	*44,023,636*
	b) deferred	*101,183,405*	*142,561,405*	*133,278,896*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	–	–	–
100.	Other liabilities	1,460,480,307	1,263,638,881	1,457,328,246
110.	Employee termination indemnities	118,814,279	129,131,620	128,650,047
120.	Allowances for risks and charges:	324,514,363	363,717,417	382,395,836
	a) post employment benefits	*86,744,999*	*91,312,863*	*90,384,644*
	b) other allowances	*237,769,364*	*272,404,554*	*292,011,192*
130.	Valuation reserves	199,434,153	309,016,289	280,204,395
140	Redeemable shares	–	–	–
150.	Equity instruments	–	–	–
160.	Reserves	649,062,096	511,972,597	495,446,100
165.	Half-yearly dividends (–)	–	–	–
170.	Share premium reserve	–	–	–
180.	Share capital	3,365,439,319	3,365,439,319	3,365,439,319
190.	Treasury shares (–)	–859,099	–853,966	–853,966
200.	Net income (loss) for the year (+/–)	123,924,027	224,543,688	194,977,515
Total liabilities and shareholders' equity		**46,313,231,097**	**45,219,179,415**	**44,129,104,814**

Income statement

Line items of income statement		1st half 2015	1st half 2014
10.	Interest and similar income	552,605,154	609,279,190
20.	Interest and similar expense	(179,246,748)	(238,749,316)
30.	**Interest margin**	**373,358,406**	**370,529,874**
40.	Fee and commission income	320,876,967	286,310,684
50.	Fee and commission expense	(27,987,157)	(29,556,515)
60.	**Net fee and commission income**	**292,889,810**	**256,754,169**
70.	Dividend and similar income	32,685,239	17,736,829
80.	Profits (losses) on trading	5,778,169	4,397,828
90.	Fair value adjustments in hedge accounting	(514,005)	(1,903,326)
100.	Profits (losses) on disposal or repurchase of:	55,790,922	98,250,544
	a) loans	*(570,263)*	*(48,857)*
	b) financial assets available for sale	*69,346,114*	*98,299,401*
	c) investments held to maturity	*0*	*0*
	d) financial liabilities	*(12,984,929)*	*0*
110.	Profits (losses) on financial assets and liabilities designated at fair value	(3,952,343)	10,738,001
120.	**Net interest and other banking income**	**756,036,198**	**756,503,919**
130.	Net losses/recoveries on impairment of:	(166,556,311)	(203,058,739)
	a) loans	*(170,246,937)*	*(185,850,982)*
	b) financial assets available for sale	*(8,827,635)*	*(12,192,487)*
	c) investments held to maturity	*0*	*0*
	d) other financial activities	*12,518,261*	*(5,015,270)*
140.	**Net income from banking activities**	**589,479,887**	**553,445,180**
150.	Administrative expenses:	(458,508,751)	(449,633,898)
	a) personnel expenses	*(284,813,639)*	*(290,566,191)*
	b) other administrative expenses	*(173,695,112)*	*(159,067,707)*
160.	Net provisions for risks and charges	265,494	5,201,698
170.	Net adjustments/writebacks to property and equipment	(16,142,025)	(21,607,321)
180.	Net adjustments/writebacks to intangible assets	(10,770,123)	(8,316,219)
190.	Other operating charges/income	66,301,116	61,740,385
200.	**Operating expenses**	**(418,854,289)**	**(412,615,355)**
210.	Profits (losses) on investments in associates and companies subject to joint control	7,296,929	129,147,690
220.	Valuation differences on property, equipment and intangible assets measured at fair value	0	0
230.	Goodwill impairment	0	0
240.	Profits (losses) on disposal of investments	1,500	0
250.	**Income (loss) before tax from continuing operations**	**177,924,027**	**269,977,515**
260.	Taxes on income from continuing operations	(54,000,000)	(75,000,000)
270.	**Income (loss) after tax from continuing operations**	**123,924,027**	**194,977,515**
280.	Income (loss) after tax from discontinued operations	0	0
290.	**Net income (loss) for the period**	**123,924,027**	**194,977,515**
	Basic EPS – Euro	**0.028**	**0.056**
	Diluted EPS – Euro	**0.028**	**0.056**

Statement of comprehensive income

Line items		1st half 2015	1st half 2014
10.	**Net income (loss) for the period**	**123,924,027**	**194,977,515**
	Other comprehensive income, net of tax, without reversal to the income statement	**5,784,595**	**(13,586,490)**
20.	Property and equipment	0	0
30.	Intangible assets	0	0
40.	Actuarial gains (losses) on defined-benefit plans	5,784,585	(13,586,490)
50.	Non-current assets held for sale	0	0
60.	Share of valuation reserves connected with investments carried at equity	0	0
	Other comprehensive income, net of tax, with reversal to the income statement	**(115,366,721)**	**165,470,427**
70.	Hedges of foreign investments	0	0
80.	Foreign exchange differences	0	0
90.	Cash flow hedges	1,178,714	(1,510,814)
100.	Financial assets available for sale	(116,545,435)	166,981,241
110.	Non-current assets held for sale	0	0
120.	Share of valuation reserves connected with investments carried at equity	0	0
130.	**Total other comprehensive income (net of tax)**	**(109,582,136)**	**151,883,937**
140.	**Total comprehensive income (Line items 10+130)**	**14,341,891**	**346,861,452**

The statement of comprehensive income is a restatement of the result for the year that includes changes in the value of assets booked directly to the valuation reserves (net of tax).

Statement of changes in shareholders' equity as at 30 June 2015

	Amounts as at 31.12.2014	Change in opening balances	Amounts as at 1.1.2015	Allocation of net income of the previous year		Changes for the period								Shareholders' equity at 30.06.2015
							Operations on shareholders' equity							
				Reserves	Dividends and other allocations	Change in reserves (*)	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Total comprehensive income for 1st half 2015	
Share capital:	**3,365,439,319**	**–**	**3,365,439,319**	**–**	–	**–**	–	–	**–**	**–**	**–**	**–**	**–**	**3,365,439,319**
a) ordinary shares	3,365,439,319	–	3,365,439,319	–	–	–	–	–	–	–	–	–	–	3,365,439,319
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium reserve	**–**	**–**	**–**	**–**	**–**	**–**	–	–	**–**	**–**	**–**	**–**	**–**	**–**
Reserves:	**511,972,597**	**–**	**511,972,597**	**127,955,132**	–	**9,134,367**	**–**	–	**–**	**–**	**–**	**–**	**–**	**649,062,096**
a) retained earnings	490,950,487	–	490,950,487	127,955,132	–	–	–	–	–	–	–	–	–	618,905,619
b) other	21,022,110	–	21,022,110	–	–	9,134,367	–	–	–	–	–	–	–	30,156,477
Valuation reserves	**309,016,289**	**–**	**309,016,289**	**–**	–	**–**	–	**–**	**–**	**–**	**–**	**–**	**–109,582,136**	**199,434,153**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**–853,966**	**–**	**–853,966**	**–**	**–**	**–**	**25,932**	**–31,065**	**–**	**–**	**–**	**–**	**–**	**–859,099**
Net income (loss) for the period	**224,543,688**	**–**	**224,543,688**	**–127,955,132**	**–96,588,556**	**–**	–	**–**	**–**	**–**	**–**	**–**	**123,924,027**	**123,924,027**
Shareholders' equity	**4,410,117,927**	**–**	**4,410,117,927**	**–**	**–96,588,556**	**9,134,367**	25,932	**–31,065**	**–**	**–**	**–**	**–**	**14,341,891**	**4,337,000,496**

(*) The amount in the column refers primarily to the allocation of shares to employees out of earnings pursuant to art. 60 of the Articles of Association.

Statement of changes in shareholders' equity as at 30 June 2014

	Amounts as at 31.12.2013	Change in opening balances	Amounts as at 1.1.2014	Allocation of net income of the previous year		Extraordinary dividends								Shareholders' equity at 30.06.2014
							Operations on shareholders' equity							
				Reserves	Dividends and other allocations	Change in reserves (*)	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Total comprehensive income for 1st half 2014	
Share capital:	**2,865,709,760**	**–**	**2,865,709,760**	**–**	**–**	**–**	**499,729,559**	**–**	**–**	**–**	**–**	**–**	**–**	**3,365,439,319**
a) ordinary shares	2,865,709,760	–	2,865,709,760	–	–	–	499,729,559	–	–	–	–	–	–	3,365,439,319
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium reserve	**8,276**	**–**	**8,276**	**–**	**–**	**–**	**–8,276**	–	**–**	**–**	**–**	**–**	**–**	**0**
Reserves:	**487,500,741**	**–**	**487,500,741**	**23,054,573**	–	**–**	**–15,109,214**	–	**–**	**–**	**–**	**–**	**–**	**495,446,100**
a) retained earnings	467,895,914	–	467,895,914	23,054,573	–	–	–	–	–	–	–	–	–	490,950,487
b) other	19,604,827	–	19,604,827	–	–	–	–15,109,214	–	–	–	–	–	–	4,495,613
Valuation reserves	**128,320,458**	**–**	**128,320,458**	**–**	–	**–**	–	**–**	**–**	**–**	**–**	**–**	**151,883,937**	**280,204,395**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**–858,632**	**–**	**–858,632**	**–**	**–**	**–**	**224,208**	**–219,542**	**–**	**–**	**–**	**–**	**–**	**–853,966**
Net income (loss) for the period	**23,054,573**	**–**	**23,054,573**	**–23,054,573**	**–**	**–**			**–**	**–**	**–**	**–**	**194,977,515**	**194,977,515**
Shareholders' equity	**3,503,735,176**	**–**	**3,503,735,176**	**–**	**–**	**–**	484,836,277	**–219,542**	**–**	**–**	**–**	**–**	**346,861,452**	**4,335,213,363**

(*) The amounts shown in this column relate to:
- issue of 1,162,161,765 new BPM ordinary shares at Euro 0.43 each, for a total of Euro 499,729,558.95;
- revenues from the sale of unexercised options for Euro 1,251,293 booked entirely to the share premium reserve;
- expenses incurred in connection with the increase in capital for Euro 22,544,682, net of the related tax effect of Euro 6,199,788, booked for Euro 1,235,681 to the share premium and for Euro 15,109,214 to other reserves set up at the time the BPM 2009/2013 warrants were issued;
- changes in treasury shares, which reduced the share premium reserve by Euro 23,886.

Statement of cash flow – (indirect method)

A. OPERATING ACTIVITIES	1st half 2015	Year 2014	1st half 2014
1. Cash flow from operations	**426,660,601**	**762,424,576**	**403,951,855**
– net income (loss) for the period (+/–)	123,924,027	224,543,688	194,977,515
– profits/losses on financial assets held for trading and on financial assets/liabilities designated at fair value through profit and loss	27,162,371	–825,648	–926,947
– profits/losses on hedging activities (–/+)	514,005	3,349,999	1,903,326
– net impairment adjustments/writebacks (+/–)	183,741,323	486,400,696	217,131,995
– net adjustments to property and equipment and intangible assets (+/–)	29,061,912	62,948,176	29,923,540
– net provisions for risks and charges and other costs/revenues (+/–)	3,312,414	24,330,308	8,729,548
– taxes and duties to be settled (+)	66,241,478	91,374,932	81,360,568
– net of tax effect (+/–)	–	–	–
– other adjustments (+/–)	–7,296,929	–129,697,575	–129,147,690
2. Cash flow from/used in financial assets	**–1,651,578,197**	**1,252,675,174**	**1,054,601,034**
– financial assets held for trading	–3,651,041	–42,313,632	–9,674,486
– financial assets designated at fair value through profit and loss	13,865,573	121,562,754	46,081,152
– financial assets available for sale	42,704,495	–235,416,541	–4,309,203
– due from banks: on demand	54,213,992	171,435,647	–55,531,864
– due from banks: other receivables	–694,183,795	603,141,653	247,131,988
– loans to customers	–1,378,453,180	969,909,200	875,493,143
– other assets	313,925,759	–335,643,907	–44,589,696
3. Cash flow from/used in financial liabilities	**1,229,623,370**	**–2,704,853,816**	**–2,267,653,643**
– due to banks: on demand	5,780,192	201,568,513	117,481,012
– due to banks: other payables	1,124,868,775	–3,120,882,911	–2,110,068,144
– due to customers	843,773,642	1,281,708,114	–16,754,794
– securities issued	–907,823,030	–1,029,343,794	–515,683,084
– financial liabilities held for trading	16,838,164	40,138,944	20,687,314
– financial liabilities designated at fair value through profit and loss	–247,160	–120,831,449	–121,138,821
– other liabilities	146,432,787	42,788,767	357,822,874
Net cash flow from/used in operating activities	**4,705,774**	**–689,754,066**	**–809,100,754**
B. INVESTING ACTIVITIES			
1. Liquidity risk generated by	**25,351,500**	**225,304,097**	**225,303,955**
– sales of investments in associates and companies subject to joint control	25,350,000	225,304,097	225,303,955
– dividends collected on investments in associates and companies subject to joint control	–	–	–
– sales of investments held to maturity	–	–	–
– sales of property and equipment	1,500	–	–
– sales of intangible assets	–	–	–
– sales of businesses	–	–	–
2. Cash flow used in from	**–30,578,691**	**–60,080,447**	**–13,710,904**
– purchases of investments in associates and companies subject to joint control	–864,523	–5,159,375	–46,679
– purchases of investments held to maturity	–	–	–
– purchases of property and equipment	–10,154,000	–21,323,419	–4,907,879
– purchases of intangible assets	–19,560,168	–33,597,653	–8,756,346
– purchases of businesses	–	–	–
Net cash flow from/used in investing activities	**–5,227,191**	**165,223,650**	**211,593,051**
C. FINANCING ACTIVITIES			
– issue/purchase of treasury shares	–5,133	484,616,735	484,616,735
– issue/purchase of equity instruments	–	–	–
– dividends distributed and other	–96,588,556	–	–
Net cash flow from/used in financing activities	**–96,593,689**	**484,616,735**	**484,616,735**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–97,115,106**	**–39,913,681**	**–112,890,968**

RECONCILIATION

Line items	1st half 2015	Year 2014	1st half 2014
Cash and cash equivalents at the beginning of the period	316,187,243	356,100,924	356,100,538
Net increase (decrease) in cash and cash equivalents	–97,115,106	–39,913,681	–112,890,968
Cash and cash equivalents: foreign exchange effects	–	–	–
Cash and cash equivalents at the end of the period	**219,072,137**	**316,187,243**	**243,209,570**

Key: (+) generated (–) absorbed

Report of the Independent Auditors

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Auditors' review report on the half-yearly condensed consolidated financial statements (Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Milano S.c. a r.l.

Introduction

We have reviewed the half-yearly condensed consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes, of Banca Popolare di Milano S.c. a r.l. and its subsidiaries (the "Bipiemme Group") as of June 30, 2015. Management Board of Banca Popolare di Milano S.c. a r.l. is responsible for the preparation of the half-yearly condensed consolidated financial statements in compliance with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the half-yearly condensed consolidated financial statements.

Conclusions

Based on our review, nothing has come to our attention that causes us to believe that the half-yearly condensed consolidated financial statements of Bipiemme Group as of June 30, 2015 are not prepared, in all material respects, in compliance with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 7, 2015

Reconta Ernst & Young S.p.A.
Signed by: Davide Lisi, Partner

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