



Banca Popolare di Sondrio



ANNUAL REPORT 2011



**Banca Popolare
di Sondrio**

2011 FINANCIAL
STATEMENTS
141TH YEAR

Milan and picturesque early nineteenth century

Lombardy, as a political-territorial unit, is not very old. It was created in 1815 at the Congress of Vienna, after the dissolution of the Napoleonic Kingdom of Italy. Beforehand, there was no Lombardy, but the Duchy of Milan, which is not exactly the same thing. It was only with the Restoration that modern Lombardy acquired its present regionale physiognomy, as part of the Kingdom of Lombardy-Venetia, encompassed within the larger Austro-Hungarian Empire. With Napoleon having made Milan the capital of his Kingdom of Italy, the Lombardy-Venetia age was to give Lombardy its new regional identity, constructing its reputation for landscapes. A decisive contributory factor came from Italian and European artistic culture at the time, particularly from engravings and prints that had a social movement and a greater impact on the collective imagination than that of contemporary landscape painting. Many artists set off to discover the places, the historic monuments and the most beautiful corners of Lombardy and increased public awareness thereof through etching and aquatint prints, obtained by making incisions on a metal matrix (made of copper or zinc) directly or after having covered it with powdered resin or bitumen, producing atmospheric and tonal rendering effects similar to that of paint. The artistic practice of a *voyage pittoresque* or *pictorial journey* thus spread in early nineteenth century Lombardy, with a collection of etchings and aquatints in black and white, seppia or hand coloured for more moneyed pockets, accompanied by short historical and explanatory texts, half way between an art book and a tourist guide. It was through these images that romantic spots surrounded by alpine landscapes and Lombardy's lacustrine destinations became known, as, until then, they had remained at the margins of traditional itineraries of the European grand tour of our peninsula due to the lack of convenient means of communication. The artistic discovery of alpine landscapes and lacustrine destinations of upper Lombardy were, in fact, linked to the construction of two major roads, Spluga (1823) and Stelvio (1825), along which the new pictorial itineraries unfolded. Right from the beginning, the underlying motive for the *pictorial journey* was for artistic and documentary reasons and it was aimed at mainly the aristocratic and upper middle class public, tourists, travellers and intellectuals, who had increased rapidly in a Europe pacified by the Restoration, after the turbulence of the Napoleonic age. In this manner, Milan, the Brianza hills, the landscape of both branches of Lake Como, the high passes of the Alps and the small mountain dwellings of Lombardy, became part of the visual imagery of European culture nourished by romantic sensibility and a new feeling for nature learned from the pages of *Émile* di Rousseau, who praised the extraordinary variety of the alpine landscape and lacustrine destinations. It should not be forgotten that, in these same years, two artists like Manzoni (the first edition of *The Betrothed* with the famous *incipit* came out in 1827) or Stendhal (whose *Diary of a journey in Brianza* dates back to 1818) gave the landscapes of the lake district and Lombardy's Brianza an exceptional literary resonance. The prints that we present here document, in fact, some moments of this complex construction of the landscape imagery of upper Lombardy. These form a new picturesque genre, in which man, nature and signs of history merge into one image, which, at the same time, is a representation of a place and a projection of a state of mind. An obligatory prologue, in this sense, would be some famous views of Milan by Domenico Aspari, created between 1786 and 1792 and reprinted by Vallardi again in 1808, in which the close ties between architecture, history and social life, united with a refined caricaturist and ethnographic taste, anticipated budding landscape romanticism with its picturesque poetry.

The first to discover the landscapes of Lombardy were French, English and especially German artists and etchers, from the areas where the culture of the *grand tour* started and developed, as from the second half of the 1700s and it was none

other than the *Italianische Reise*, the *Italian journey* that Goethe left us as an unsurpassed literary model.

After 1813, the German spouses Friedrich Lose and Caroline Lose von Schlieben settled in Milan, where in 1814 they created their first "pictorial views" of Lake Como and published in 1823 *Pictorial journey in the mountains of Brianza*, one of the most refined albums of etchings of early nineteenth century Lombardy. There then followed in 1824 *Pictorial and historical journey to Mount Spluga* by Federico Lose alone, with which the discovery of the Lombardy landscape reached the summit of the Rhaetian Alps, the same year in which, on the Lombard and Grisons side, the new major Spluga road was opened, which, with its arduous bends, its spectacular waterfalls and its vertiginous cliffs tempered by the idyllic sweetness of the lake, seemed to have been made to vibrate all the strings of the romantic soul.

It was this exciting visual experience that another German area artist, the Zurich painter Johann Jacob Meyer, documented in 1826 in his album of etchings on *Die Bergstrasse durch den Canton Graubünden nach den Langen - und Comer-See* ("The mountain road from the Grisons Canton to Lake Maggiore and Lake Como") – 32 splendid views accompanied by historical notes by Jacob Gottfried Ebel, author of the first and extremely fortunate guide to Switzerland – which was followed in 1831, when the road was completed on the left bank of the lake, by *Voyage pittoresque sur la nouvelle route depuis Glurns en Tyrol par le Col de Stilfs (Stelvio Pass) par la Valtellina, le long du lac de Come, jusqu'à Milan*.

In the discovery of the Lombardy landscape, the Loses had gone from Milan towards the Alps and Switzerland; Meyer, on the other hand, had followed the opposite itinerary from Europe to Milan, across the Valchiavenna, the Valtellina and the lake.

Thus, when, in 1838 the two volumes were completed of *Pictorial Lombardy* with images by Giuseppe Elena and historical notes by Cesare Cantù and Michele Sartorio, the landscape identity of the Lombardy territory was by then fully delineated and the new, monumental album of prints provided a more minute description, not only of the landscape, but also of major artistic testimony, by reproducing frescoes and works of art. It was thus a more descriptive than artistic intent that prevailed in the images of *Pictorial Lombardy* by Elena and Cantù, which came out in installments between 1836 and 1838 and which, above all, was a challenging publication aimed at the new and wider bourgeois public. It was not by chance that etchings and aquatints, made by incisions on metal plates, made way to lithographs, which, by using a drawing on stone as a printing matrix, were less costly and yielded high volume runs extending the social use of printed images to a wider bourgeois public with whom prevailed a taste for new and more disenchanting visual realism. According to Walter Benjamin, landscape prints thus lost all their romantic "aura" on entering «into the age of mechanical reproduction of works of art». Once again, Attilio Zuccagni-Orlandini in 1845, with his *Physical, historical and statistical choreography of Italy* and the Englishman Albert Henry Payne, with his pictorial views of Lecco and Lake Como in the volumes of his *Payne's Universum*, resorted to etchings, but by then the road had been marked out. Soon, in 1840, the first landscape prints arrived, made from daguerreotypes, that is, light sensitive glass plates, which gave the idea of more realism and which replaced the taste for a "view" with that for a "panorama" or a "cosmorama". Painters and etchers tried in vain to capture the artistic aura of romantic aquatints with daguerreotypes, retouching them or hand colouring them, as was the case for the large panorama of *Lake Como* in the Bps collection, which is a painted daguerreotype. Daguerreotypes were to fatally pave the way for photographers and, in doing so, artistic landscape images were finally divorced from photographic images.

Franco Monteforte



Domenico Aspari
Porta Romana toll gate, 1788
 Etching, 450 x 640 mm

DOMENICO ASPARI
 (Milan 1745-1831)

Born in Milan of a modest family originally from Olivone in Ticino, he was able to complete his artistic training at the Accademia di Parma only with help from benefactors. In 1765 he returned to Milan, where he remained until he died in 1831. Aspari (or Aspar, as he signed his name, using that of his ancestors) probably would have dedicated himself willingly to painting, for which, however, he lacked commissions and the financial means, but not the talent, as demonstrated by the *Self portrait* on display in the Brera and a *Canal scene*, which Angela Ottino Della Chiesa decided was «one of the few happy and expansive landscapes of the neoclassical period». In 1776, when the Accademia di Brera opened, he ended up applying for and obtaining, with Firmian's support, the position of Professor of Design, which he held until 1826, dedicating himself contemporaneously to illustrating, with his etchings, various important editions of books, including the first Italian translation of *History of art and design* by Winckelmann (1779) and four volumes of *Milanese Longobard Antiquities* by A. Fumagalli (1792-93). But his fame, in this field, is linked above all to the *16 Views of Milan*, created between 1786 and 1792, which, alone, were sufficient to make him one of the great Italian etchers of the 1700s, along with the Venetians (Canaletto, Bellotto, Visentini, etc.) and G. B. Piranesi.

Erected in 1598, from a drawing by Aurelio Trezzi, as a triumphal entrance arch in honour of Mary Margaret of Austria for her marriage to Philip III of Spain, Porta Romana was for centuries the only monumental entrance to the city. This opened, as did the other city gates, onto the Spanish walls, the bastions, the construction of which started in 1545 and, until the 1800s, they served, as well as for defence, as a city toll barrier.

At the end of the 1700s the monument appeared, however, to already be in a state of decadence and Aspari emphasised the characteristic of it almost being a ruin in the middle of vegetation, with clear inspiration from the ruins of Rome by Piranesi, in one of the matrices of Milanese views by Aspari. To the left can be seen the remains of the fortifications that stood near the walls, while, on the right, a lush grove seems to extend into the vegetation that covers the pediment.

This creates a close interrelationship between nature, history and architecture, while, in the distance, acting as a backdrop, is the city with its monuments framed by the arch, the foreground is full of life with groups of gentry and peasantry in their costumes who are conversing and haggling between a vehicle that makes its way out blaring and a merchant who pushes his beast of burden loaded with goods to the city entrance. The monument has lost every nostalgic characteristic of a ruin and silent witness of the past, to fit, with the signs of its own age, into the vital flow of the city, there where it ends to give way to the countryside.

Banca Popolare di Sondrio

Founded in 1871

ORDINARY SHAREHOLDERS' MEETING OF 14 APRIL 2012

Società cooperativa per azioni
Head office: Piazza Garibaldi 16, 23100 Sondrio, Italy
Tel. +390 342 528.111 - Fax +390 342 528.204
Website: <http://www.popso.it> - E-mail: info@popso.it

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent Bank of the Banca Popolare di Sondrio Banking Group,
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 924,443,955 - Reserves: € 723,895,425 (figures approved by the shareholders' meeting of 14 April 2012)

Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 6 February 2012:

- long term issuer default rating: A-
- short-term issuer default rating: F2
- viability rating: a-

BOARD OF DIRECTORS

Chairman	PIERO MELAZZINI*
Deputy Chairmen	MILES EMILIO NEGRI* FRANCESCO VENOSTA*
Directors	CLAUDIO BENEDETTI PAOLO BIGLIOLI GIANLUIGI BONISOLO* FEDERICO FALCK ATTILIO PIERO FERRAR GIUSEPPE FONTANA MARIO GALBUSERA* NICOLÒ MELZI DI CUSANO ADRIANO PROPERSI RENATO SOZZANI* LINO ENRICO STOPPANI DOMENICO TRIACCA*

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Auditors	PIO BERSANI MARIO VITALI
Alternate auditors	LUIGI GIANOLA DANIELE MORELLI

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Advisors	ALBERTO CRESPI GIUSEPPE GUARINO ANDREA MONORCHIO
Alternate advisors	DIANA BRACCO ANTONIO LA TORRE

GENERAL MANAGEMENT

General Manager	MARIO ALBERTO PEDRANZINI**
Deputy General Managers	GIOVANNI RUFFINI MARIO ERBA MILO GUSMEROLI GIUSEPPE FRANCO

The Financial Reporting Officer

MAURIZIO BERTOLETTI

* Members of the Chairman's Committee

** Secretary to the Board of Directors

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- LUGANO Via Maggio
- LUGANO Cassarate
- PARADISO
- BASEL Greifengasse
- BASEL Münsterberg
- BELLINZONA
- BERN 8

- BIASCA
- CASTASEGNA
- CELERINA
- CHIASSO
- CHUR
- DAVOS DORF
- LOCARNO

- MENDRISIO
- PONTRESINA
- POSCHIAVO
- SAMEDAN
- ST. GALLEN
- ST. MORITZ
- ZÜRICH

Principality of Monaco:
• MONACO




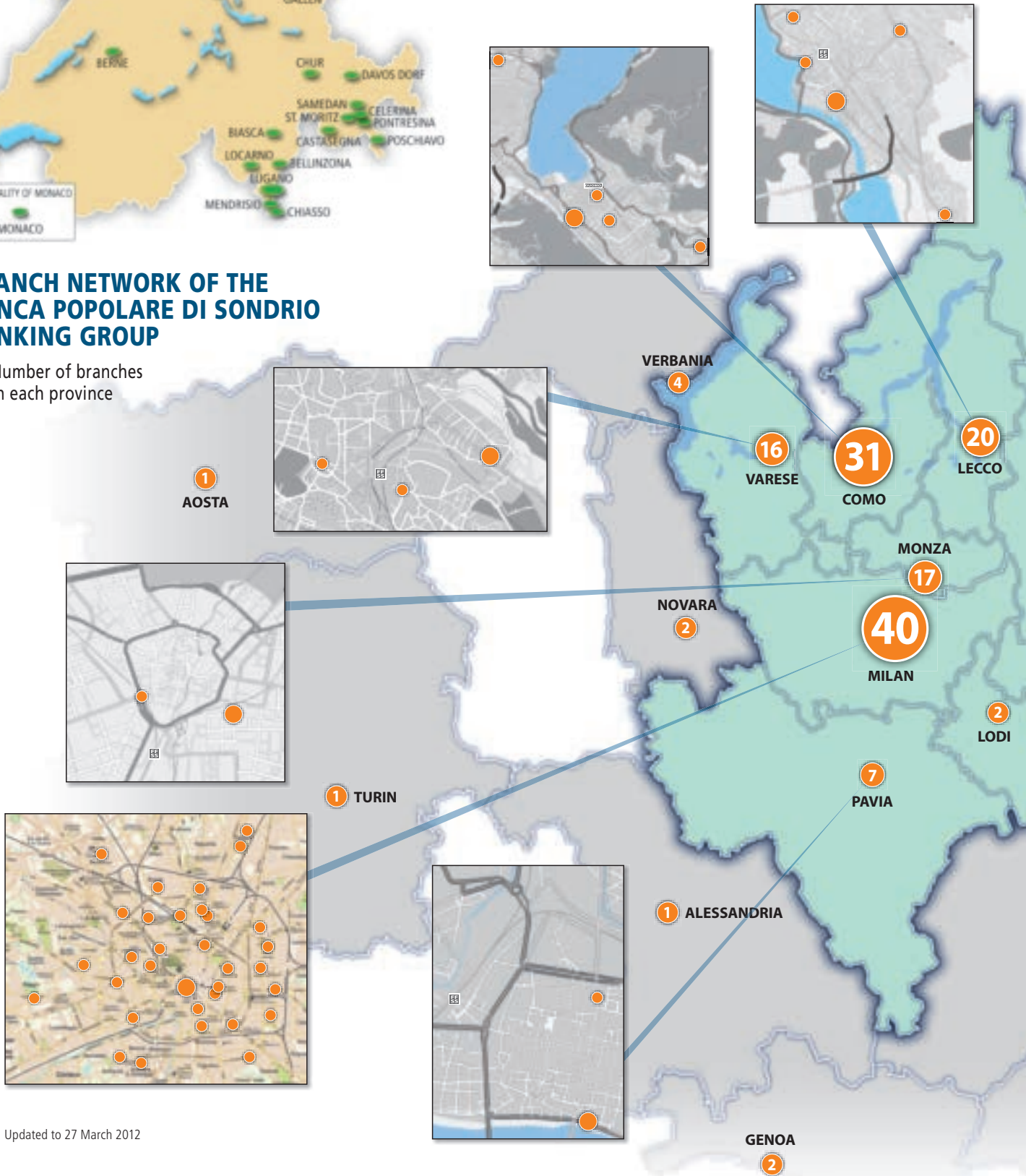
Branches:

- 51 in the province of SONDRIO
- 1 in ALESSANDRIA
- 1 in AOSTA
- 13 in the province of BERGAMO
- 2 in the province of BOLZANO
- 30 in the province of BRESCIA
- 31 in the province of COMO
- 5 in the province of CREMONA
- 2 in the province of GENOVA

- 20 in the province of LECCO
- 2 in the province of LODI
- 5 in the province of MANTOVA
- 32 in MILANO
- 8 in the province of MILANO
- 17 in the province of MONZA E BRIANZA
- 2 in the province of NOVARA
- 1 in PARMA

BRANCH NETWORK OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

 Number of branches in each province



- 7 in the province of PAVIA
- 3 in the province of PIACENZA
- 35 in ROMA
- 4 in the province of ROMA
- 1 in TORINO
- 4 in the province of TRENTO
- 16 in the province of VARESE
- 4 in the province of VERBANO CUSIO OSSOLA
- 3 in the province of VERONA

Representative offices:

- HONG KONG*
- SHANGHAI*

* with other banking partners

Desks abroad:

- ABU DHABI • ATHENS
- BRUXELLES • BUDAPEST
- BUENOS AIRES • CAIRO
- CASABLANCA • CHICAGO
- CHISINAU • CIUDAD DE MEXICO
- ISTANBUL • LIMA • LISBOA • LYON
- MONTEVIDEO • MOSCOW
- MUMBAI • PARIS • SAO PAULO
- SEOUL • SHANGHAI • TEL AVIV
- TOKYO • TORONTO • TUNIS
- ULAANBAATAR • WARSZAWA

(c/o different partners)

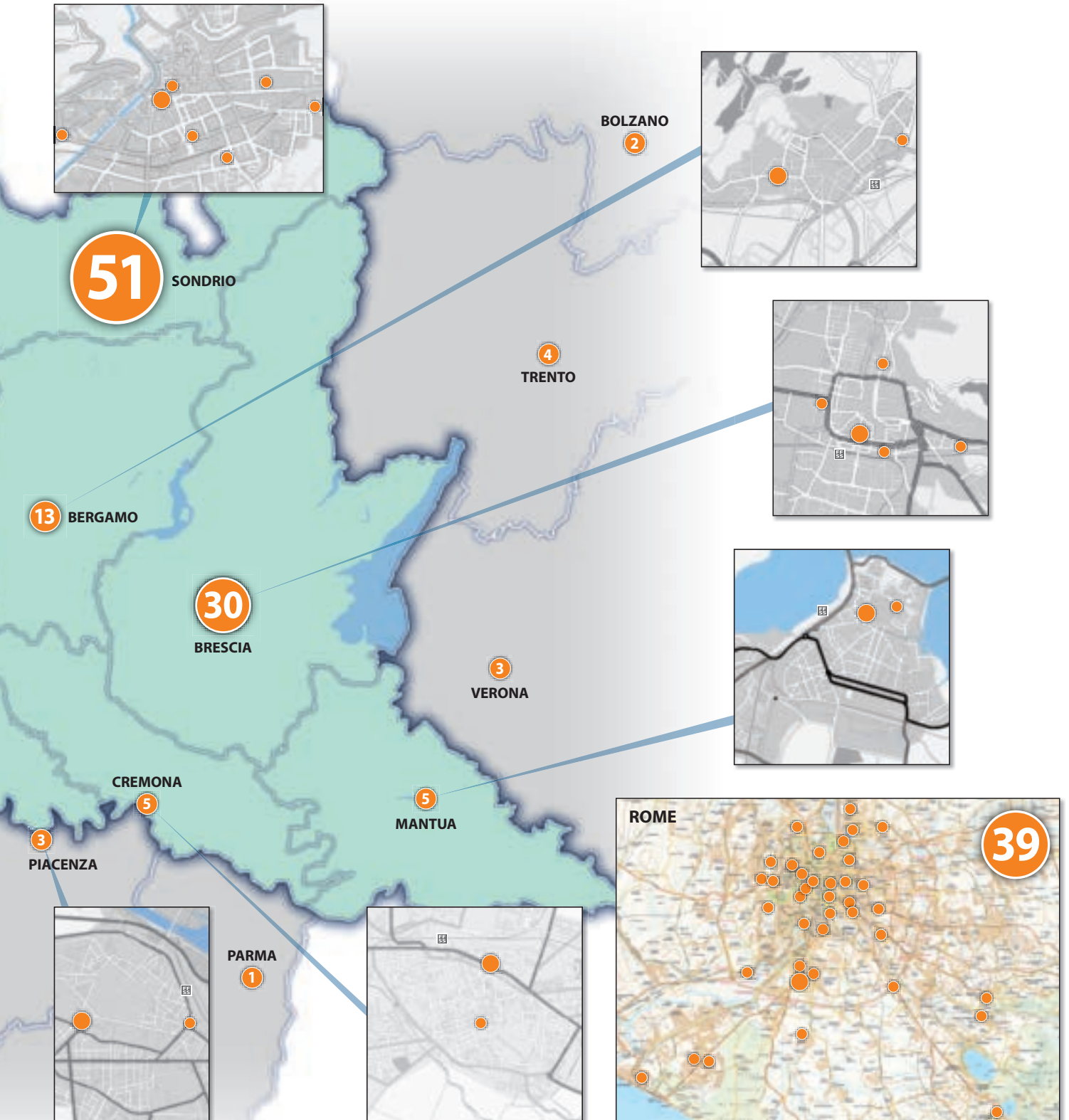
Factoring of Corporate Receivables

Branches in:

- MILANO • TORINO • PADOVA
- BOLOGNA • ROMA • NAPOLI

in addition to 250 foreign correspondents in the main international markets.

It operates at the branches of Banca Popolare di Sondrio and at those of the associated banks.



BRANCH NETWORK

BANCA POPOLARE DI SONDRIO

Società cooperativa per azioni - Established in 1871
Sondrio Companies Register no. 00053810149
Official List of Banks no. 842
Parent Bank of the Banca Popolare di Sondrio Group,
Official List of Banking Groups no. 5696.0
Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149

MANAGEMENT AND HEAD OFFICE

Sondrio, piazza Giuseppe Garibaldi 16
tel. +39 0342 528111 - fax +39 0342 528204
www.popso.it - info@popso.it

BRANCH OFFICES

ORGANISATION AND IT SYSTEMS:

"F. Morani" Service Centre - via Ranée 511/1
Berbenno di Valtellina (So) - fraz. S. Pietro

INTERNATIONAL UNIT: lungo Mallero Luigi Cadorna 24, Sondrio
COMMERCIAL BANKING, PUBLIC ENTITIES AND TREASURIES,
SUPPLY OFFICE, TECHNICAL OFFICE, SAFETY AND SECURITY:
corso Vittorio Veneto 7, Sondrio

BRANCHES - Country code +39

PROVINCE OF SONDRIO

ALBOSAGGIA via al Porto 11 tel. 0342 512178
APRICA corso Roma 140 tel. 0342 746098
ARDENNO via Libertà tel. 0342 660440
BERBENNO DI VALTELLINA - fraz. San Pietro
via Nazionale Ovest 110 tel. 0342 492115
BORMIO
Head Office, via Roma 131
- ang. via don Evaristo Peccedi tel. 0342 910019
Branch no. 1, via Roma 64 tel. 0342 913071
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CEPINA VALDISOTTO via Roma 13/E tel. 0342 951103
CHIAVENNA
via Francesco e Giovanni Dolzino 67 tel. 0343 32202
CHIESA IN VALMALENCO via Roma 138 tel. 0342 451141
CHIURO via Stelvio 8 tel. 0342 483957
COLORINA via Roma 84 tel. 0342 598074
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via Roma 7 tel. 0342 638053
DELEBIO piazza San Carpofo 7/9 tel. 0342 696032
DUBINO via Spluga 83 tel. 0342 687440
GORDONA via Scogli 9 tel. 0343 42389
GROSIO via Roma 67 tel. 0342 848063
GROSOTTO via Statale 73 tel. 0342 887001
ISOLACCIA VALDIDENTRO
via Nazionale 31 tel. 0342 921303
LANZADA via Palù 388 tel. 0342 454021
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Branch no. 1, via Saroch 728/730 tel. 0342 997656
MADESIMO via Giosuè Carducci 3 tel. 0343 56019
MADONNA DI TIRANO piazza Basilica 55 tel. 0342 702552
MAZZO DI VALTELLINA
via Santo Stefano 18 tel. 0342 860090
MONTAGNA IN VALTELLINA
via Stelvio 336 tel. 0342 210345
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SAN NICOLÒ VALFURVA via San Nicolò 96 tel. 0342 946001
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SONDALO via Dr. Ausonio Zubiani 2 tel. 0342 801150
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Branch no. 2, via Tomaso Nani 32 tel. 0342 210152
Branch no. 3,
Ingresso Ospedale Civile - via Stelvio 25 tel. 0342 216071
Branch no. 4,
piazza Giovanni Bertacchi 57 tel. 0342 567256
Branch no. 5, Galleria Campello 2 tel. 0342 212517
Branch no. 6, via Giacinto Sertorelli 2 tel. 0342 510191
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TIRANO piazza Cavour 20 tel. 0342 702533
TRAONA via Valeriana 88/A tel. 0342 653171
TRENDA DI TEGLIO via Nazionale 57 tel. 0342 735300
VILLA DI CHIAVENNA via Roma 38 tel. 0343 40490
VILLA DI TIRANO traversa Foppa 25 tel. 0342 701145

AUTONOMOUS REGION OF VALLE D'AOSTA

AOSTA corso Battaglione Aosta 79 tel. 0165 065150

PROVINCE OF ALESSANDRIA

ALESSANDRIA corso Crimea 21 tel. 0131 202101

PROVINCE OF BERGAMO

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BONATE SOTTO via Vittorio Veneto
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OSIO SOTTO via Monte Grappa 12 tel. 035 881844
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SARNICO via Giuseppe Garibaldi 1/C tel. 035 912638
SERIATE piazza Caduti per la Libertà 7 tel. 035 296193
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PROVINCE OF BOLZANO

BOLZANO viale Amedeo Duca d'Aosta 88
Amedeo Duca D'Aosta Allee 88 tel. 0471 402400
MERANO corso della Libertà 16
Freiheitsstrasse 16 tel. 0473 239895

PROVINCE OF BRESCIA

BERZO DEMO via Nazionale 14 tel. 0364 630328
BIENNO via Giuseppe Fantoni 36 tel. 0364 300558
BRENO piazza Generale Pietro Ronchi 4 tel. 0364 320892
BRESCIA
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Branch no. 1, via Crociffissa di Rosa 59 tel. 030 3700976
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CORTE FRANCA piazza di Franciacorta 7/C tel. 030 9884307
DARFO BOARIO TERME
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EDOLO piazza Martiri della Libertà 16 tel. 0364 770088
ERBUSCO via Provinciale 29 tel. 030 7760101
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via Giacomo Matteotti 300 tel. 030 8913039
ISEO via Roma 12/E tel. 030 980585
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via Massimo D'Azeglio 108 tel. 030 8925236
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MONTICHIARI via Mantova
- ang. via 3 Innocenti 74 tel. 030 9650703
ORZINUOVI piazza Giuseppe Garibaldi 19 tel. 030 9941518
OSPITALETTO via Brescia 107/109 tel. 030 643205
PALAZZOLO SULL'OGGIO via Brescia 23 tel. 030 7400777
PISOGNE via Trento 1 tel. 0364 880290
PONTE DI LEGNO piazzale Europa 8 tel. 0364 900714
SALE MARASINO via Roma 33/35 tel. 030 9820868
SALÒ viale Alcide De Gasperi 13 tel. 0365 522974
TOSCOLANO MADERNO
piazza San Marco 51 tel. 0365 548426

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APPIANO GENTILE piazza della Libertà 9 tel. 031 934571
AROSIO piazza Montello 1 tel. 031 763730
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BREGNANO via Giuseppe Mazzini 22/A tel. 031 774163
BULGAROSSO via Pietro Ferloni 2 tel. 031 891834
CAMPIONE D'ITALIA piazza Roma 1/G tel. 0041 916401020
CANTÙ via Milano 47 tel. 031 3517049
CANZO via Alessandro Verza 39 tel. 031 681252
CARIMATE - fraz. Montesolaro
piazza Lorenzo Spallino tel. 031 726061
CARLAZZO via Regina 125 tel. 0344 74996/89
COMO
Head Office, viale Innocenzo XI 71 tel. 031 2769111
Branch no. 1, via Giorgio Giulini 12 tel. 031 260211
Branch no. 2,
via Statale per Lecco 70 - fraz. Lora tel. 031 555061
Branch no. 3,
via Asiago 25 - fraz. Tavernola tel. 031 513930
Branch no. 4,
c/o ACSM - via Vittorio Emanuele II 93 tel. 031 242542
DOMASO via Statale Regina 77 tel. 0344 85170
DONGO piazza Virgilio Mattered 14 tel. 0344 81206
ERBA via Alessandro Volta 3 tel. 031 4472070
FINO MORNASCO via Giuseppe Garibaldi
- ang. piazza Odescalchi 5 tel. 031 880795
GARZENO via Roma 32 tel. 0344 88646
GERA LARIO via Statale Regina 18 tel. 0344 84380
GRAVEDONA ED UNITI via Dante Alighieri 20 tel. 0344 499000
GUANZATE via Giuseppe Garibaldi 1 tel. 031 3529036
LURAGO D'ERBA via Roma 58 tel. 031 698367
MENAGGIO
via Annetta e Celestino Lusardi 62 tel. 0344 34128

MERONE via San Girolamo Emiliani 5/C tel. 031 650817
MONTORFANO via Brianza 6/B tel. 031 200859
SALA COMACINA via Statale 14/A tel. 0344 57056
SAN FEDELE TELVELI via Provinciale 79 tel. 031 831944
SAN SIRO
loc. Santa Maria - via Statale Regina tel. 0344 50425
VILLA GUARDIA
via Varesina - ang. via Monte Rosa tel. 031 483200

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CREMONA
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Branch no. 1, piazza Antonio Stradivari 9 tel. 0372 1809100
PANDINO via Umberto I 1/3 tel. 0373 91016
RIVOLTA D'ADDA via Cesare Battisti 8 tel. 0363 370661

PROVINCE OF GENOVA

CHIAVARI
piazza Nostra Signora dell'Orto 42/B tel. 0185 1878300
- ang. via Doria
GENOVA via XXV Aprile 7 tel. 010 5535127

PROVINCE OF LECCO

ABBADIA LARIANA via Nazionale 140/A tel. 0341 701402
BOSISIO PARINI via San Gaetano 4 tel. 031 866865
CALOLZIOCORTE corso Europa 71/A tel. 0341 643184
CASATENOVIO via Roma 23 tel. 039 9207454
COLICO via Nazionale - ang. via Sacco tel. 0341 941260
DERVIO via Don Ambrogio Invernizzi 2 tel. 0341 804447
LECCO
Head Office, corso Martiri della Liberazione 65 tel. 0341 471111
Branch no. 1, viale Filippo Turati 59 tel. 0341 361919
Branch no. 2, piazza XX Settembre 11 tel. 0341 282520
Branch no. 3,
corso Emanuele Filiberto 104 tel. 0341 422748
Branch no. 4, viale Montegrappa 18 tel. 0341 495608
LOMAGNA via Milano 24 tel. 039 9278080
MANDELLO DEL LARIO piazza Sacro Cuore 8 tel. 0341 732878
MERATE via Don Cesare Cazzaniga 5 tel. 039 5983013
NIBIONNO - fraz. Cibrone, via Montello 1 tel. 031 692045
OGGIONO via Papa Giovanni XXIII 45 tel. 0341 263061
PESCATO via Roma 98/E tel. 0341 283964
PRIMALUNA via Provinciale 66 tel. 0341 981151
VALMADRERA via San Rocco 31/33 tel. 0341 582972
VARENNA via Corrado Venini 73 tel. 0341 815239

PROVINCE OF LODI

CODOGNO via Giuseppe Verdi 18/C tel. 0377 436381
LODI via Francesco Gabba 5 tel. 0371 421436

PROVINCE OF MANTOVA

CASTIGLIONE DELLE STIVIERE
piazza Ugo Dallo 25 tel. 0376 672306
MANTOVA
Head Office, corso Vittorio Emanuele II 154 tel. 0376 326095
Branch no. 1, piazza Broletto 7 tel. 0376 288139
SUZZARA piazza Giuseppe Garibaldi 4 tel. 0376 508465
VIADANA piazza Giacomo Matteotti 4/A tel. 0375 780877

PROVINCE OF MILANO

BUCCINASCO via Aldo Moro 9 tel. 02 45716239
CERNUSCO SUL NAVIGLIO
via Correggio 2 tel. 02 95997301
CINISELLO BALSAMO
via Giuseppe Garibaldi 86 tel. 02 66047602
LEGNANO via Alcide De Gasperi 10 tel. 0331 470255
MILANO
Head Office, via Santa Maria Fulcorina 1 tel. 02 85541
Branch no. 1, Porpora,
via Nicola Antonio Porpora 104 tel. 02 70630941
Branch no. 2, Barona, viale Faenza 22 tel. 02 8911115
Branch no. 3, a2a, corso Porta Vittoria 4 tel. 02 76005333
Branch no. 4, Regione Lombardia,
piazza Città di Lombardia 1 tel. 02 603238
Branch no. 5, Bovisa,
via degli Imbrani 54 tel. 02 39311498
Branch no. 6, Corvetto,
via Marco d'Agate 11 tel. 02 55212294
Branch no. 7, Caneva,
via Monte Cenasio 50 tel. 02 33606260
Branch no. 8, Quarto Oggiaro,
via Michele Lessona - ang. via Trilussa 2 tel. 02 39001760
Branch no. 9, c/o A.L.E.R.,
viale Romagna 24 tel. 02 70128148
Branch no. 10, Solari,
via Andrea Solari 15 tel. 02 89404235
Branch no. 11, Università Bocconi,
via Ferdinando Bocconi 1 tel. 02 58301984
Branch no. 12, Baggio,
via delle Forze Armate 260 tel. 02 48915910
Branch no. 13, Repubblica,
viale Monte Santo 8 tel. 02 29003075
Branch no. 14, Palazzo di Giustizia,
via Cesare Battisti 1 tel. 02 76390159
Branch no. 15, Murat,
via Gioacchino Murat 76 tel. 02 6682823
Branch no. 16, Ortomerca,
via Cesare Lombroso 54 tel. 02 5453131
Branch no. 17, Pirelli/Bicocca,
viale Sarca 226 - stabile n. 143 tel. 02 6438400
Branch no. 18, Fiera,
viale Ezio Belisario 1 tel. 02 43995155

Banca Popolare di Sondrio

Branch no. 19, Giambellino, via Giambellino 39	tel. 02 428047
Branch no. 6, Sempione, via Antonio Canova 39	tel. 02 33614132
Branch no. 21, Politecnico, via Edoardo Bonardi 4	tel. 02 23993307
Branch no. 22, Santa Sofia, via Santa Sofia 12	tel. 02 58307969
Branch no. 23, Certosa, viale Certosa 62	tel. 02 3925445
Branch no. 24, Piave, viale Piave 1	tel. 02 76028194
Branch no. 25, Zara, viale Zara 13	tel. 02 66823609
Branch no. 26, Lodi, corso Lodi - ang. via S. Gerolamo Emiliani 1	tel. 02 55019186
Branch no. 27, Don Gnocchi, via Alfonso Capeceletro 66	tel. 02 48714408
Branch no. 28, Corsica, via privata Sanremo - ang. viale Corsica 81	tel. 02 70006638
Branch no. 29, Bicocca, piazza della Trivulziana 6 - edificio 6	tel. 02 66107314
Branch no. 30, De Angeli, piazza Ernesto De Angeli 9	tel. 02 48029994
Branch no. 31, Isola, via Carlo Farini 47	tel. 02 66809662
PERO via Mario Greppi 13	tel. 02 33912478
SEGRATE via Rodolfo Morandi 25	tel. 02 26921747
SESTO SAN GIOVANNI	
Branch no. 1, piazza Martiri di via Fani 93	tel. 02 24417034
Branch no. 2, piazza della Resistenza 52	tel. 02 24839443

PROVINCE OF MONZA E BRIANZA

ALBIATE via Trento 35	tel. 0362 930277
BERNAREGGIO via Michelangelo Buonarroti 6	tel. 039 6093934
BOVISIO MASCIAGO via Guglielmo Marconi 7/A	tel. 0362 559006
CARATE BRIANZA via Francesco Cusani 10	tel. 0362 901072
DESIO via Porticchetto - ang. via Pio XI	tel. 0362 301573
GIUSSANO via Cavour 19	tel. 0362 852171
LISSONE via Trieste 33	tel. 039 2456568
MEDA via Yuri Gagarin - ang. corso della Resistenza	tel. 0362 347832
MONZA	
Head Office, via Galileo Galilei 1	tel. 039 28285111
Branch no. 1, via Alessandro Manzoni 33/A	tel. 039 3902553
NOVA MILANESE via Antonio Locatelli	tel. 0362 451559
SEREGNO	
Head Office, via Cavour 84	tel. 0362 26521
Branch no. 1, via Cesare Formenti 5	tel. 0362 26521
SEVESO via San Martino 20	tel. 0362 640129
VAREDO corso Vittorio Emanuele II 53	tel. 0362 544035
VILLASANTA - fraz. San Fiorano via Amatore Antonio Sciesa 7/9	tel. 039 2051581
VIMERCATE piazza Papa Giovanni Paolo II 9	tel. 039 6084991

PROVINCE OF NOVARA

ARONA via Antonio Gramsci 19	tel. 0322 231958
NOVARA via Andrea Costa 7	tel. 0321 442113

PROVINCE OF PARMA

PARMA via Emilia Est 3/A	tel. 0521 386695
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PROVINCE OF PAVIA

BRONI via Giuseppe Mazzini 1	tel. 0385 250654
CASTEGGIO piazza Cavour 4	tel. 0383 892968
MORTARA via Roma 23	tel. 0384 295744
PAVIA	
Head Office, piazzale Ponte Coperto Ticino 11	tel. 0382 301759
Branch no. 1, corso Strada Nuova 75	tel. 0382 539815
VIGEVANO piazza IV Novembre 8	tel. 0381 692684
VOGHERA via Emilia 70	tel. 0383 369046

PROVINCE OF PIACENZA

CASTEL SAN GIOVANNI corso Giacomo Matteotti 27	tel. 0523 849441
PIACENZA	
Head Office, via Raimondo Palmerio 11	tel. 0523 320179
Branch no. 1, via Cristoforo Colombo 18	tel. 0523 616601

PROVINCE OF ROMA

CIAMPINO viale del Lavoro 56	tel. 06 7919035
FRASCATI via Benedetto Cairoli 1	tel. 06 9417071
GENZANO DI ROMA via Giacomo Matteotti 14	tel. 06 9395195
GROTTAFERRATA via XXV Luglio ROMA	tel. 06 9412168
Head Office, Eur, viale Cesare Pavese 336	tel. 06 5099731
Branch no. 1, Monte Sacro, viale Val Padana 2	tel. 06 8863213
Branch no. 2, Ponte Marconi, via Silvestro Gherardi 45	tel. 06 5573685
Branch no. 3, Prati Trionfale, via Trionfale 22	tel. 06 39742382
Branch no. 4, Bravetta, piazza Biagio Pace 1	tel. 06 66165408

Branch no. 5, Portonaccio, piazza S. Maria Consolatrice 16/B	tel. 06 4394001
Branch no. 6, Appio Latino, via Cesare Baronio 12	tel. 06 78347500
Branch no. 7, Aurelio, via Baldo degli Ubaldi 267	tel. 06 39749875
Branch no. 8, Africana Vescovia, viale Somalia 255	tel. 06 86207268
Branch no. 9, Casal Palocco, piazzale Filippo II Macedone 70/75	tel. 06 50930508
Branch no. 10, Laurentina, via Laurentina 617/619	tel. 06 5921466
Branch no. 11, Esquilino, via Carlo Alberto 6/A	tel. 06 444801
Branch no. 12, Boccea, circonvallazione Cornelia 295	tel. 06 66017239
Branch no. 13, Tuscolano, via Foligno 51/A	tel. 06 70305677
Branch no. 14, Garbatella, largo delle Sette Chiese 6	tel. 06 5136727
Branch no. 15, Farnesina, via della Farnesina 154	tel. 06 36301544
Branch no. 16, Monte Sacro Alto/Talenti, via Nomentana 925/A	tel. 06 8277629
Branch no. 17, San Lorenzo, piazza dei Sanniti 10/11	tel. 06 4465490
Branch no. 18, Infernetto, via Ermanno Wolf Ferrari 348	tel. 06 50918143
Branch no. 19, Nuovo Salario, piazza Filattiera 24	tel. 06 88643496
Branch no. 20, Tuscolano/Appio Claudio, via Caio Canuleio 29	tel. 06 71077105
Branch no. 21, Nomentano, via Fiamiano Nardini 25	tel. 06 86202734
Branch no. 22, <i>c/o World Food Programme - Sportello Interno -</i> via Cesare Giulio Viola 68/70	tel. 06 65192014
Branch no. 23, Ostia, via Carlo Del Greco 1	tel. 06 5638510
Branch no. 24, San Clemente/Colosseo, via di S. Giovanni in Laterano 51/A	tel. 06 70495943
Branch no. 25, Parioli, via dei Parioli 39/B	tel. 06 8088899
Branch no. 26, Tritone, via del Tritone 207	tel. 06 69797092
Branch no. 27, Prati, piazza Cavour 7	tel. 06 6878020
Branch no. 28, Casilino, piazza della Marranella 9	tel. 06 24400032
Branch no. 29, c/o FAO - Sportello Interno - viale delle Terme di Caracalla 1	tel. 06 5741006
Branch no. 30, c/o IFAD - Sportello Interno - via Paolo Di Dono 44	tel. 06 51530238
Branch no. 31, <i>c/o Campus Bio-Medico di Roma - Polidivino,</i> via Alvaro del Portillo 200	tel. 06 5061954
Branch no. 32, Monteverde Vecchia, via Antonio Guglielmi Barrilli 50/H	tel. 06 58303646
Branch no. 33, Trastevere, piazza Sidney Sonnino 40	tel. 06 58523701
Branch no. 34, Gregorio VII, via Gregorio VII 348 - ang. piazza Pio XI 40	tel. 06 66105601

PROVINCE OF TORINO

TORINO via XX Settembre 5	tel. 011 5178754
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PROVINCE OF TRENTO

CLES piazza Navarino 5	tel. 0463 420301
RIVA DEL GARDA viale Dante Alighieri 11	tel. 0464 567425
ROVERETO corso Antonio Rosmini 68 - ang. via Fontana	tel. 0464 900000
TRENTO piazza di Centa 14	tel. 0461 421645

PROVINCE OF VARESE

AEROPORTO DI MALPENSA 2000 Terminal 1 - FERNO	tel. 02 58580083
BISUSCHIO via Giuseppe Mazzini 80	tel. 0332 474991
BUSTO ARSIZIO piazza Trento e Trieste 10	tel. 0331 632394
CARNAGO via Guglielmo Marconi 2	tel. 0331 993137
CASTELLANZA corso Giacomo Matteotti 2	tel. 0331 502934
GALLARATE via Torino 15	tel. 0331 784793
GAVIRATE via Guglielmo Marconi 13/A	tel. 0332 732429
LAVENA PONTE TRESA via Luigi Colombo 19	tel. 0332 523378
LUINO via XXV Aprile 31	tel. 0332 511963
MARCHIROLO via Cavalier Emilio Busetti 7/A	tel. 0332 997395
SESTO CALENDE piazza Giuseppe Mazzini 10	tel. 0331 918501
SOLBIATE OLONA via Vittorio Veneto 5	tel. 0331 376736
SOMMA LOMBARDO via Milano 13	tel. 0331 254973
VARESE	
Head Office, viale Belforte 151	tel. 0332 336022
Branch no. 1, piazza Monte Grappa 6	tel. 0332 242103
Branch no. 2, via San Giusto - ang. via Malta	tel. 0332 238149

PROVINCE OF VERBANO-CUSIO-OSSOLA

CANNOBIO viale Vittorio Veneto 2/bis	tel. 0323 739787
GRAVELLONA TORO corso Guglielmo Marconi 95	tel. 0323 840673

VERBANIA - Intra, piazza Daniele Ranzoni 27	tel. 0323 408064
VERBANIA - Pallanza, largo Vittorio Tonolli 34	tel. 0323 502198

PROVINCE OF VERONA

PESCHIERA DEL GARDA via Venezia 40/A	tel. 045 7552711
VERONA corso Cavour 45	tel. 045 8036436
VILLAFRANCA DI VERONA corso Vittorio Emanuele II 194	tel. 045 6305953

TEMPORARY BRANCH

NEW TRADE FAIR DISTRICT - corso Italia Est Strada Statale del Sempione 38 - Rho/Però	tel. 02 4812910
	tel. 02 4812815

MOBILE BRANCH Autobanca

REPRESENTATIVE OFFICES

HONG KONG* - SHANGHAI* (* with other banking partners)

DESKS ABROAD

ABU DHABI - ATHENS - BRUXELLES - BUDAPEST - BUENOS AIRES - CAIRO - CASABLANCA - CHICAGO - CHISINAU - CIUDAD DE MEXICO - ISTANBUL - LIMA - LISBOA - LYON - MONTEVIDEO - MOSCOW - MUMBAI - PARIS - SAO PAULO - SEOUL - SHANGHAI - TEL AVIV - TOKYO - TORONTO - TUNIS - ULAANBAATAR - WARSZAWA
(c/o different partners)

BANCA POPOLARE DI SONDRIO (SUISSE) SA

SWITZERLAND

www.bps-suisse.ch - contact@bps-suisse.ch

GENERAL MANAGEMENT

LUGANO via Giacomo Luvini 2a	tel. 0041 58 8553000
	fax 0041 58 8553015

HEAD OFFICE

LUGANO via Maggio 1	tel. 0041 58 8553100
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BRANCHES AND AGENCIES

LUGANO via Giacomo Luvini 2a	tel. 0041 58 8553200
LUGANO Cassarate, piazza Bossi 2	tel. 0041 58 8553250
PARADISO Riva Paradiso 2 - Palazzo Mantegazza	tel. 0041 58 8554500
BASEL Greifengasse 18	tel. 0041 58 8553900
BASEL Münsterberg 2	tel. 0041 58 8554400
BELLINZONA viale Stazione 26	tel. 0041 58 8553500
BERN 8 Kramgasse 16	tel. 0041 58 8554450
BIASCA piazza Centrale 1	tel. 0041 58 8554250
CASTASEGNA Farzett	tel. 0041 58 8553750
CELERINA via Maistra 104	tel. 0041 58 8553700
CHIASSO piazza Indipendenza 2	tel. 0041 58 8554000
CHUR Bahnhofstrasse 9	tel. 0041 58 8553850
DAVOS DORF Promenade 154	tel. 0041 58 8554350
LOCARNO piazza Muraccio	tel. 0041 58 8553550
MENDRISIO piazzetta Borella 1	tel. 0041 58 8554200
PONTRESINA via Maistra 184	tel. 0041 58 8554300
POSCHIAVO strada San Bartolomeo	tel. 0041 58 8553650
SAMEDAN Platzet 21	tel. 0041 58 8554550
ST. GALLEN Schmiedgasse 2 - Haus zum Rosenstock	tel. 0041 58 8553800
ST. MORITZ via dal Bagn 9	tel. 0041 58 8553600
ZÜRICH Uraniastrasse 14	tel. 0041 58 8553950

Principality of Monaco

MONACO 3 rue Princesse Florestine	tel. 00377 99996464
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FACTORIT SPA

Factoring of Corporate Receivables

Branches in MILANO, TORINO, PADOVA, BOLOGNA, ROMA and NAPOLI, in addition to 250 foreign correspondents in the main international markets. It operates at the branches of Banca Popolare di Sondrio and at those of the associated banks.

Head Office: Milano, via Cino del Duca 12

tel. +39 02 58150.1 - fax +39 02 58150.205

www.factorit.it - info@factorit.it

PIROVANO STELVIO SPA - The Ski University

Albergo Quarto - Passo dello Stelvio (m 2.760-3.450)
Sondrio, via Delle Presse 8 - tel. +39 0342 210040 - fax +39 0342 514685
www.pirovano.it - info@pirovano.it

"LUIGI CREDARO" LIBRARY

Sondrio, lungo Mallero Armando Diaz 18
tel. +39 0342 562 270 - fax +39 0342 510 825
www.popsu.bibliotecaredaro.it - info@popsu.bibliotecaredaro.it

THE BANKING GROUP IN THE HEART OF THE ALPS

Banca Popolare di Sondrio

BPS (SUISSE)

Factorit

Pirovano Stelvio

SUMMARY OF THE BANK'S GROWTH

(2001/2011)

(in millions of euro)	2001	2006	2011
Customer deposits:			
direct	5,815	11,808	20,568
indirect	9,573	18,734	24,065
Equity (excluding net profit for the year)	731	1,231	1,619
Customer loans:			
cash loans	5,580	10,561	20,606
overdraft facilities	1,372	2,255	3,959
Financial assets	1,613	3,206	3,193
Income from banking activities	298	476	607
Result of ordinary operations	79	182	117
Net profit for the year	46	107	57
Number of branches	163	231	300
Personnel (number)	1,830	2,204	2,549

BANCA POPOLARE DI SONDRIO

Società cooperativa per azioni – Founded in 1871 - Official List of Banks no. 842,
Official List of Cooperative Banks no. A160536,
Official List of Banking Groups no. 5696.0, Sondrio Companies Register
no. 00053810149 - Share capital € 924,443,955 made up of 308,147,985 ordinary shares with a par value
of € 3 each - Reserves € 733,175,003

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary annual general meeting at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 13 April 2012 and, if necessary, on second calling in Bormio (So) at the Centro Polifunzionale Pentagono, via Alessandro Manzoni 22, at 10.30 a.m. on Saturday, 14 April 2012 to discuss the following

AGENDA

- 1) Presentation of the financial statements as of 31 December 2011: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;
- 2) Mandate to the Board of Directors to buy and sell treasury shares in accordance with art. 21 of the articles of association;
- 3) Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group» and information on how these compensation policies were implemented in 2011, as required by the Bank of Italy;
- 4) Approval of the Remuneration Report, as per art. 123-bis of Decree 58/98 (Finance Consolidation Act);
- 5) Determination of directors' emoluments;
- 6) Appointment of five Directors for the three-year period 2012-2014;
- 7) Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2012-2014; determination of their annual emoluments.

Pursuant to arts. 13 and 27 of the articles of association, shareholders are entitled to attend shareholders' meetings and exercise their voting rights if they have been recorded on the shareholders' register for at least ninety days and providing they have delivered to the bank's head office the declaration that the appointed intermediary that holds the shares on deposit has to make to the issuer at least two working days prior to the date of the meeting at first calling. In any case, the provision of art. 83 sexies, para. 4, of D.Lgs. 58/98 (Finance Consolidation Act) will be applied. Shareholders are asked to bring a copy of this declaration to the meeting to facilitate entry formalities.

This declaration is not required from shareholders who have deposited their shares with the bank or with Banca Popolare di Sondrio (Suisse) SA.

Each shareholder has the right to only one vote, however many shares they hold.

Shareholders may be represented at the meeting by another shareholder, by means of a proxy ballot prepared in compliance with Italian law. No shareholder can be a proxy for more than two other shareholders. Proxy forms are available at all branches of the Bank. The communication sent by intermediaries also has a special section that can be used to grant a proxy. Shareholders who are minors can be represented by whoever is their legal representative.

There are 171,823 shareholders with voting rights. Shareholders representing at least one fortieth of the number of members entitled to vote can ask for items to be added on the agenda in accordance with the terms and conditions of art. 135-quinquies of Legislative Decree 58/98 (Finance Consolidation Act). The documentation related to the agenda and required under current legislation will be published and filed at the head office of the Bank and at the offices of Borsa Italiana SpA according to the terms and methods laid down in the related legal and regulatory provisions. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

With reference to point 6) of the agenda of the shareholders' meeting, the text of art. 35 of the articles of association is as follows:

«Presentation of lists of candidates

Directors are appointed on the basis of lists with the same number of candidates as the number of candidates that have to be appointed; on these lists, the candidates are progressively numbered and listed in that order.

The lists have to be deposited at head office at least fifteen days prior to the date set for the Shareholders' Meeting at first calling. Individual shareholders can only contribute to the presentation of one list and each candidate can only be present on one list.

Lists have to be presented by at least 500 shareholders, with the requisites laid down in art. 13.2.

One or more shareholders with the requisites laid down in art. 13.2 and who have a total interest of not less than 0.50% in the share capital can also present lists. Shareholders have to declare the number of shares that they own in total and certify their ownership of this shareholding.

The signature of each shareholder presenting a list has to be authenticated as required by law or by the employees of the Bank delegated for this purpose by the Board of Directors.

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. Candidates should also declare if they have

the requisites of independence as per art. 33.2 and, if they do, this is mentioned in the lists.

Any lists that are deposited without complying with the methods and deadlines laid down in these instructions are considered as though they had not been presented».

With reference to point 7) of the agenda of the shareholders' meeting, the text of art. 49 of the articles of association is as follows:

«Presentation of lists of candidates

The Board of Statutory Auditors is appointed on the basis of lists presented by shareholders, in which candidates have a progressive number. Each list consists of two sections: one for candidates for the position of auditor, the other for candidates for the position of alternate auditor. Each list must indicate three candidates as auditors and two candidates as alternate auditors. The lists must be deposited at the head office of the Bank by the deadline laid down in current regulations.

Individual shareholders can only contribute to the presentation of one list and each candidate can only be present on one list.

Lists have to be presented by at least 500 shareholders, with the requisites laid down in art. 13.2.

One or more shareholders with the requisites laid down in art. 13.2 and who have a total interest of not less than 0.50% in the share capital can also present lists. Shareholders have to declare the number of shares that they own in total and certify their ownership of this shareholding.

The signature of each shareholder presenting a list has to be authenticated as required by law or by the employees of the Bank delegated for this purpose by the Board of Directors.

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. Any lists that are deposited without complying with the methods and deadlines laid down in these instructions and current regulations are considered as though they had not been presented».

Lists for the election of the Board of Statutory Auditors can also be filed electronically by certified e-mail to segreteria@postacertificata.popso.it

Sondrio, 9 March 2012

FOR THE BOARD OF DIRECTORS
The Chairman
(Piero Melazzini)

Note. The figures in this report are in euro; all changes expressed as percentages refer to comparable data from the end of 2010, unless otherwise specified. Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units.

DIRECTORS' REPORT ON OPERATIONS

SUMMARY OF RESULTS

Shareholders,

How many times have we found ourselves faced by the word «crisis» over the last year? The whole world economic and financial system has “danced” to the sound of this word and our currency, the euro, has been, as they say, in the eye of the storm. The European Monetary Union faltered under the blows of unbridled speculation, but also because of the time it took to address the problems.

A wealth of credibility crumbled in a very short period and is hard to recreate. The measures that were finally adopted have left their mark. They will be gradually have to be consolidated with structural measures able to stabilize financial markets, bringing them back to the original role of the real economy. We are sorry to say that the future of entire populations is subject to the unquestionable will of financial speculators.

As for Italy, the task that awaits us is extremely burdensome. If the highest institutions have indicated the way out of this situation, it is now up to all of us to take it as quickly as possible. We can do it providing we avoid petty egoism on the part of individuals or categories and adopt a spirit of service, making sure that the inevitable sacrifices are distributed as fairly as possible. We have to feed hope through action.

Despite the difficult context described above, our bank has continued on the path of development. The increased size of of our capital meant that we could expand our volume of work. Funding reflects the trust that our customers have in us, while the trend in loans offers a measure of the ongoing efforts we are making in favour of local economies, households and businesses in particular.

In consequence, we have stepped up our efforts to ensure highly professional supervision of the various risk profiles.

Profitability has suffered because of heavy losses on securities, offsetting the positive trend in net interest income and commissions. These are the effects of the financial crisis which are becoming increasingly difficult to avoid.

As a result, the net profit for the year has fallen by 57.03% to 57.284 million. Given the bleak international landscape and the provisions and adjustments on loans due to this critical moment in the real economy, this level of profitability is still worthy of applause.

The Banca Popolare di Sondrio stock, which is listed on the MTA, in the Blue Chips segment of the Italian Stock Exchange, has proved to be a valid expression of a solid company that is still managing to expand. Its increase of 0.98% compares well with the -25.20% of the FTSE MIB index and, especially, the -45.13% turned in by the banking index. The increase



RESULT IN BRIEF

(in millions of euro)	2011	2010	Var. %
Balance sheet			
Due from customers	20,606	18,248	12.92
Due from banks	2,201	1,466	50.17
Financial assets	3,193	3,249	-1.70
Equity investments	348	349	-0.29
Total assets	26,983	23,778	13.48
Direct customer deposits	20,568	18,967	8.44
Indirect customer deposits	24,065	23,072	4.31
Insurance premiums	612	610	0.33
Customer assets under administration	45,245	42,649	6.09
Other direct and indirect funding	7,424	6,354	16.83
Equity (excluding net profit for the year)	1,619	1,590	1.87
Income statement			
Net interest income	454	393	15.44
Income from banking activities	607	570	6.44
Result of ordinary operations	117	192	-38.78
Net profit for the year	57	133	-57.03
Key ratios (%)			
Net interest income/Total assets	1.68	1.65	
Balance of financial management/Total assets	1.64	1.88	
Net interest income/Income from banking activities	74.87	69.03	
Administrative expenses/Income from banking activities	55.57	57.47	
Net profit for the year/ Total assets	0.21	0.56	
Profit/Average Equity (excluding net profit for the year)	3.57	8.65	
Non-performing loans/Customer loans	1.28	1.06	
Capital ratios (%)			
Tier 1 capital/Risk-weighted assets (Tier I)	10.42%	11.07%	
Total capital/Risk-weighted assets (Total capital ratio)	14.26%	13.17%	
Free capital	983	747	
Other information			
Number of employees	2,549	2,487	
Number of branches	300	290	

BPS (SUISSE)

www.bps-suisse.ch

Branches in:

- LUGANO Via G. Luvini • LUGANO Via Maggio
- LUGANO Cassarate • PARADISO
- BASEL Greifengasse • BASEL Münsterberg
- BELLINZONA • BERNE 8 • BIASCA • CASTASEGNA
- CELERINA • CHIASSO • CHUR • DAVOS DORF
- LOCARNO • MENDRISIO • PONTRESINA
- POSCHIAVO • SAMEDAN • ST. GALLEN
- ST. MORITZ • ZURICH

Principality of Monaco:

- MONACO



LUGANO, via G. Luvini

The year under review has confirmed the subsidiary's ability to expand retail operations, gradually consolidating its role as a cooperative bank. The significant growth in its balance sheet aggregates is proof of its commercial competitiveness: direct deposits +10%; loans to customers, over three quarters of them mortgages, +16%. Indirect customer deposits, down 10% at current values, have inevitably been affected by the severe contraction suffered by international financial markets. The determination to operate at the service of local economies is also affirmed by the strengthening of its branch network, which in terms of size, is the leading foreign bank in Switzerland. In 2011 the Samedan branch was set up in the Grisons Canton. Also worth mentioning is the transfer of the Berne branch to centrally located offices.



BPS (SUISSE)

General Management: CH - 6900 Lugano - Via Giacomo Luvini 2a - Tel. +41 58 8553000 - Fax +41 58 8553015
Operational office: CH - 6900 Lugano - Via Maggio 1 - Tel. +41 58 8553100 - Fax +41 58 8553115

Factorit



- Branches in:
- Milan • Turin • Padua
 - Bologna • Rome • Naples

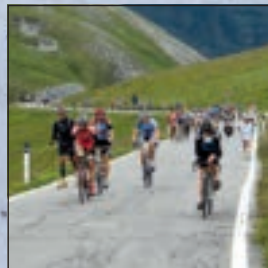
in addition to 250 foreign correspondents in the main international markets.

It operates at the branches of Banca Popolare di Sondrio and banks with which it has special arrangements.



Factorit joined our Group last year and is now successfully integrated, contributing effectively to increase the quality and diversification of the services that can we offer businesses by virtue of its long-standing expertise in the factoring sector. Volumes handled were satisfactory, despite being conditioned by critical economic and financial problems in the system, benefiting from the contribution of other shareholder banks and of the many other banks with which it has special arrangements. Factorit's specific commercial offer, which is comprehensive and flexible, is designed to offer businesses of all sizes effective factoring solutions, aimed at supporting their growth and giving them protection against risks, the latter by guaranteeing collection and efficient management of trade receivables. Constant monitoring of each position and the availability of the related documentation are effectively ensured via Internet through the WebFactoring® application.

Pirovano Stelvio



Last season's results confirmed the increase in the number of visitors, even more so than in 2010, a comforting trend considering that weather conditions were not particularly favourable in July. This positive trend has been supported by the quality of stays and targeted promotional activities, despite a slow market.

This has allowed us to significantly reduce the loss compared with the previous year, while maintaining all the advantages that our "Ski University" ensures, favoured by the incomparable scenery, which, in addition to skiing, permits interesting activities such as cycling, trekking and hiking. Also of importance is the role played by the company in support of the Stelvio area, both economic and in terms of territorial improvement.

in the number of shareholders to 173,383 is also an expression of trust and confidence.

Let's now take a look at the figures, which are the fruit of the intense efforts of our staff, which consists of 2,549 people, Total assets have increased by 13.48% to 26,983 million. Customer deposits and loans have risen to 20,568 million (+5.46%) and 20,606 million (+12.92%), respectively. Net interest income has risen to 454.102 million (+15.44%). Net commission income has also seen a positive trend, 220.055 million (+6.63%). Income from banking activities, even if affected by significant losses on securities, came to 606.548 million (+6.43%).

The increase in expenses has remained within physiological limits, while loan writedowns have grown because of the difficult state of the economy.

Banca Popolare di Sondrio (SUISSE) SA and Factorit spa also had to cope with tricky economic conditions. Both have made a positive contribution to the operational development of the Group, each in their respective sphere of activity.

Based on the results for the year, the Board is of the opinion that a dividend of 0.09 euro per share (-57.14% on last year) marks a fair point of equilibrium between the needs of the shareholders and those of the Bank in terms of self-financing.

TERRITORIAL EXPANSION

Consolidating ties with local communities is best done by strengthening and rationalising the branch network. These are the traditional meeting point with customers and are, above all, a place dedicated to personalising each relationship. Even in the era of telematics and remote operations, it is at the branches that the interaction between bank and customer works best, thanks to the fiduciary relationship that has been created between them at a personal level.

It is fair to say that in our more traditional areas there is a long-established custom of relations between households, entrepreneurs, commercial and institutional operators and our branch network. We make every effort to offer this same model in areas where we have set up more recently, basing it, on the one hand, on depositors' trust and, on the other, on a targeted, professional lending activity.

As regards the first aspect, we introduce ourselves as a solid and reliable institution, interested in working together in the medium/long term to meet the needs of all types of customer. When granting credit, we stand out for our clear intention to support local economies. Said in plain words, those who entrust their savings to us know that they will be used largely to promote the development of the territory to which they belong, rather than being directed to initiatives – even financial speculation – to be realized who knows where in the world and in favour of who knows whom.

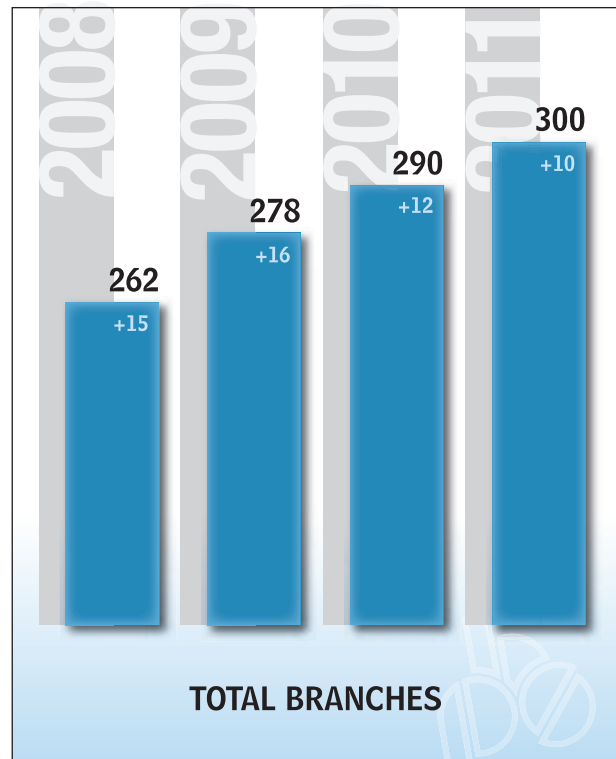
Thanks to this, our presence is generally perceived as an element of enrichment of the areas served, an enhancement of their resources. This can be double checked by seeing the steady rise in our share of work in local markets. On the other hand, it is our strong local roots that have allowed us to maintain this strong link with the real economy, fulfilling our mission as a Cooperative Bank. As part of this vision, the new branches that reinforce our network each year make the bank more dynamic, by developing and diversifying the volumes that we handle, and by expanding the number of shareholders, which is just as important. In the end of the day, as the number of bank branches increases, it is the entire bank that grows and strengthens its relationships with customers and local communities.

During the year under review, our commercial network was enhanced by 10 new branches, giving us a total of 300.

Aosta, the capital city of Val d'Aosta, has raised the number of regions that we serve. An Alpine city with an ancient history, it was already growing fast in Roman times, while in the Middle Ages it followed the fortunes of the House of Savoy, maintaining important relationships with the French world. Today, with around 35,000 residents, plus another 20,000 in the neighbouring towns, it is an agglomerate that contains more than 50% of the population of the whole valley.

The city's driving force is the Region, which plays a key role from a political and administrative point of view, as well as a purely economic role, as well as for the preservation of the local cultural identity, where the environment is an element of prime importance. Being an autonomous region with a special statute, the Regional Authority operates in various sectors, also through its numerous subsidiaries and associated companies: from tourism to energy, infrastructure and transport. Thousands of small businesses revolve around the regional system, mainly family businesses active in construction, handicrafts, commerce, agriculture and, of course, tourism, which has become one of Val d'Aosta's key sectors.

Alessandria, a provincial capital in the southern part of Piedmont, is located on the flood plain between the rivers Tanaro and Bormida. Due to its geographical position, at the centre of the Milan-Turin-Genoa triangle, it is an important rail and motorway hub and plays a role in trading between Piedmont, Lombardy and Liguria. With nearly 100,000 residents, Alessandria is the third largest city in the Region. It has an economy that is mainly focused on trade and services, although agriculture is still very important. Worth mentioning is the «Amedeo Avogadro» University of East Piedmont,



with the faculties of Law, Political Science, and Mathematics, Physics and Natural Sciences.

In Lombardy the new branches in Seriate (Bergamo), Cernusco sul Naviglio (Milan), Erbusco (Brescia) and Sesto Calende (Varese) have made the extensive branch network even denser. Seriate is a town of over 24,000 inhabitants located several kilometres east of Bergamo. Having been an agricultural centre, it became the location for numerous manufacturing complexes after the Second World War. The process of de-industrialization, which took place in the closing decades of last century, has given way to new small and medium-sized businesses, which today operate above all in manufacturing and construction. At the same time, the services sector, both private and public, and commercial activities have assumed increasing relevance.

Cernusco sul Naviglio has a population of 30,000 and is located north-east of Milan, around ten kilometres from Milan. The town, of ancient historical origins, is, as the word «Naviglio» suggests, crossed by the Martesana Canal, which favoured its development over time. Cernusco is today a vibrant manufacturing centre, with several industrial companies operating there, especially in textiles, engineering, printing and plastics. There are also important shopping centres in the immediate vicinity. Large public green areas and high-quality residential neighbourhoods have been created in recent decades to enhance the urban environment.

Erbusco, which has around 8,600 inhabitants, is located in the heart of Franciacorta, about 25 kilometres west of Brescia. The new branch will allow us to put down even deeper roots in an area where we were already active through our branches in Palazzolo, Coccaglio, Ospitaletto and Corte Franca. The local economy is governed by agriculture, with wine-growing as the most important. Indeed, we are in one of the most internationally renowned area for «bubbly». There are also craft and industrial businesses, specializing, among other things, in textiles and engineering.

Sesto Calende is on the left bank of the River Ticino, where Lake Maggiore ends and the river resumes its course. Thanks to its geographical position, it has developed a considerable amount of tourism. It has numerous businesses, including hotels, restaurants and other public establishments. Sesto Calende has also seen a fair amount of urban development in recent decades, which has raised its population to nearly 11,000.

Villafranca di Verona is our third branch in the Veneto Region. This is a town of over 32,000 inhabitants, located midway between Verona and Mantua. Founded in the twelfth century as a fortified outpost to defend Verona and freed from taxes (hence the name), Villafranca is now a bustling economic centre, which has managed to combine agriculture using highly modern techniques, specializing especially in fruit growing, with strong development in business and services. Commercial traditions are also important. Among the facilities worth mentioning in the area, there is Valerio Catullo Airport, which is linked to the major European capitals.

The branch in Castel San Giovanni expands our coverage of this province, where previously we were only present in the capital, Piacenza. Castel San Giovanni, with nearly 14,000 inhabitants, is the main town of Val Tidone; the valley has always been devoted to wine-growing. The economic structure is flourishing and diverse. Alongside agriculture, with prosperous farms producing livestock, cereals and, above all, wine, there are also commercial concerns and public services, including a well-equipped hospital. The industrial sector has many dynamic productive activities, favoured by the nearby highway and the Piacenza-Genoa rail link, thanks to which a major logistics hub has been developed.

In Rome we have resumed the process developing our network with two new branches, no. 33 in Piazza Sidney Sonnino and no. 34 in Via Gregorio VII. The first one brought us to the Trastevere district, which takes its name from being «*trans Tiberim*», i.e. the other side of the River Tiber from the centre of Rome. It is by definition a picturesque neighbourhood, with a large number of restaurants, taverns, pubs, shops and craft shops. It should also be noted in recent decades that Trastevere has been transformed from a working-class neighbourhood into one that is increasingly coveted by the wealthy, which has caused a continuous rise in the tone – and price – of its real estate. Our branch is in a good location. In fact, it is located on what may be regarded as the main access road to Trastevere, less than three hundred yards from the Ministry of Education, University and Research and close to the prestigious Accademia dei Lincei.

The no. 34 branch is located in the Aurelio district, behind the Vatican. This is an area of fairly recent construction, which is characterized by high population density and the heterogeneity of its buildings. They range from the working to upper-middle class, especially in the area that we have chosen, which also has a large number of businesses, offices, professional firms and other economic activities.

Our presence also includes 464 ATMs, of which 23 were added during the year.

Banca Popolare di Sondrio (Suisse) SA is commented on in the part of this report dedicated to it.

FUNDING

Several factors combined to make funding difficult during the year. In a nutshell, we can say that Italians acted less as ants from a savings point of view and less as locusts from a consumption point of view. Perhaps the worst possible combination, as this was not a matter of choice, but one of necessity, the one we call «crisis». A crisis that repeatedly hit the stock market, dominated by nervousness and volatility, also penalising bank's stock prices, far more than could reasonably be foreseen.

A crisis that has led investors and savers to review long-standing behaviour in the light of new scenarios and a heightened aversion to risk,



DIRECT CUSTOMER DEPOSITS

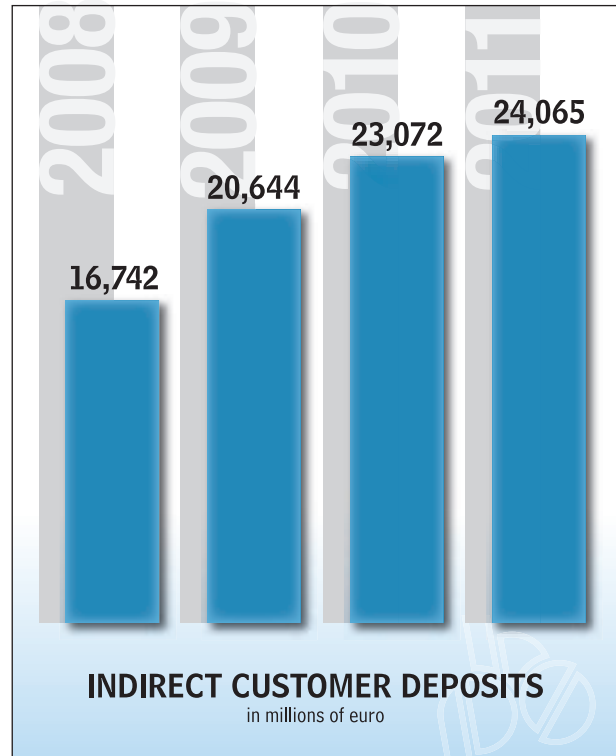
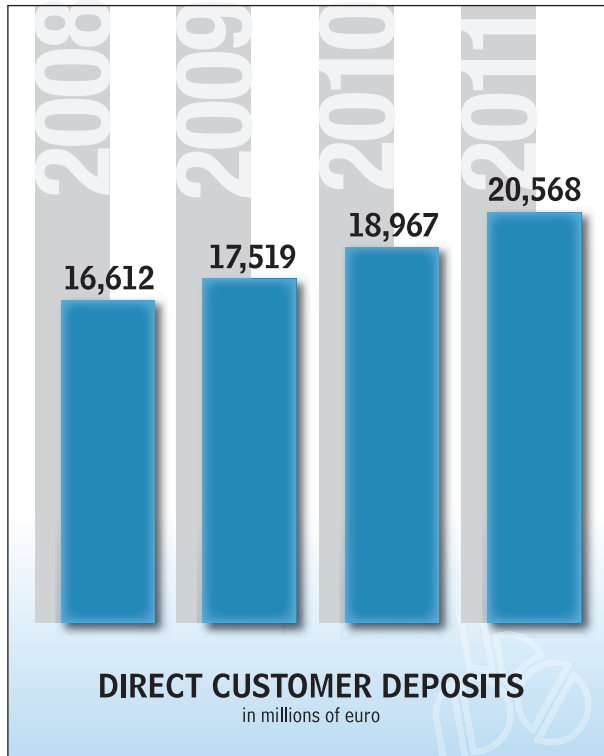
(thousands of euro)	2011	%	2010	%	Change %
Savings deposits	484,978	2.36	547,749	2.89	-11.46
Certificates of deposit	27,784	0.14	30,315	0.16	-8.35
Bonds	2,449,332	11.91	1,827,043	9.63	34.06
Repo transactions	1,272,472	6.19	1,747,431	9.21	-27.18
Bank drafts and similar	106,157	0.52	74,380	0.39	42.72
Current accounts	12,767,550	62.06	13,464,457	70.99	-5.18
Time deposit accounts	2,930,083	14.25	769,615	4.06	280.72
Current accounts in foreign currency	529,319	2.57	505,850	2.67	4.64
Total	20,567,675	100.00	18,966,840	100.00	8.44

TOTAL FUNDING

(thousands of euro)	2011	%	2010	%	Change %
Total direct customer deposits	20,567,675	39.05	18,966,840	38.70	8.44
Total indirect customer deposits	24,065,226	45.70	23,071,829	47.08	4.31
Total insurance-related deposits	612,232	1.16	610,206	1.25	0.33
Total	45,245,133	85.91	42,648,875	87.03	6.09
Due to banks	3,693,891	7.01	2,276,297	4.65	62.28
Indirect funding from banks	3,729,910	7.08	4,077,835	8.32	-8.53
Grand total	52,668,934	100.00	49,003,007	100.00	7.48

sometimes aggravated by irrational and emotional factors that have ended up favouring the speculators.

The reasons are many: from the general slowdown in the global economy to growing concerns about sovereign debt; from the progressive divergence between the Eurozone economies to the repeated manoeuvres to put the national public accounts in order; from ongoing unemployment to the decline in households' purchasing power. This has led to a general sense of disorientation, which, among other things, has tended to shorten the timeframe within which to move, with a strong preference for secure investments at any cost. A difficult situation to say the least, but one that has given us a chance to test the strength of our bond of trust with customers. In times of particular uncertainty, we are in fact perceived and assessed positively, as a bank that is constantly on the side of investors, to whom we offer not only products and services at competitive terms, but above all a relationship based on integrity, professionalism and stability over time. Values that are rooted in the long history of a bank that has built and gradually



consolidated its relationship with the territory. In this way, we have represented an important point of reference in a general situation that is difficult for investors to read, because marked by high instability and serious risk.

These are the assurances that we have given to customers who clearly appreciate a personalised relationship, the desire to understand the needs of each single one and, therefore, the ability to offer tailor-made solutions.

This preamble is meant to emphasize, once again, the importance of the human element, with skills honed in the field of credit. It is fair to say that there is no other organisation offering services to the economy that employs as many people as banking does.

The positive results that we have achieved demonstrate the validity of what we have to offer and the bank's ability to react and adapt to changing scenarios. Direct customer deposits have risen to 20,568 million, +8.44%, a satisfactory increase considering the difficult context in which it took place. Indirect customer, at market value, come to 24,065 million, +4.31%, while insurance premiums have risen to 612 million, +0.33%.

Deposits from banks have risen to 3,694 million, +62.28%, mainly due to the refinancing operation for a total of 1 billion granted by the ECB last December, which is commented on in the chapter on treasury and trading operations.

Securities under administration have fallen to 3,730 million, -8.53%.

Total deposits have therefore grown to 52,669 million, +7.48%. The following table of «Direct customer deposits» shows the various elements in greater detail than table 2.1 in Section 2 Part B of the notes to the financial statements.

As regards the individual elements, current accounts have fallen to 13,297 million, -4.82%, due exclusively to separate disclosure of deposit accounts, which still represent 64.65% of total direct funding.

The shortage of raw material has led to more intense competition and increased the use of time deposit accounts, which come to 2,930 million. These accounts allow customers to take advantage of better conditions in exchange for a limited time restriction.

Repo transactions have fallen to 1,272 million, -27.18%, the mirror image of the rise in time deposits.

There has been a strong trend in bonds, rising to 2,449 million, +34.06%, thanks to the variety of emissions during the year, including a Lower Tier II subordinated step-up loan.

Savings deposits have decreased to 485 million, -11.46%, as have certificates of deposit, 28 million, -8.35%.

Bank drafts amounted to 106 million, +42.72%. In a critical year like 2011, the steady increase in the number of customers is comforting, demonstrating the confidence enjoyed by our bank and the positive trend in our stock. Trust is the first element underpinning the bank; linked to it are the determinants of capital formation. As regards asset management, please see the chapter on treasury and trading activities.

LENDING

If it is true that in recent years Italian banks have kept away from the international crisis as they spoke little English – a fun way of saying that thanks to reduced exposure to foreign markets, they have avoided speculative raids based on derivatives and excessive financial leverage – it is equally true that this year's troubles also spoke Italian.

Italy's banks have, in fact, been penalized not a little by the fall in prices of Italian government bonds and by the persistence, if not by the worsening, of the economic crisis. Focusing on the latter aspect, it must be said that not only non-performing loans have been rising constantly, but the trend in the production cycle has not offered – nor does it offer for the immediate future – any real prospects of an improvement.

In the desolate stagnation of our economic system – burdened with an abnormal tax burden and red tape often with no justification, but now chronically unable to grow like other Euro-zone countries have managed to do – the words of those who say that without growth there can be no remedy to the high public debt sound like a prophecy. If all of this is added to the problems involved in funding and its higher cost, then lending has become an increasingly costly and risky activity for Italian banks.

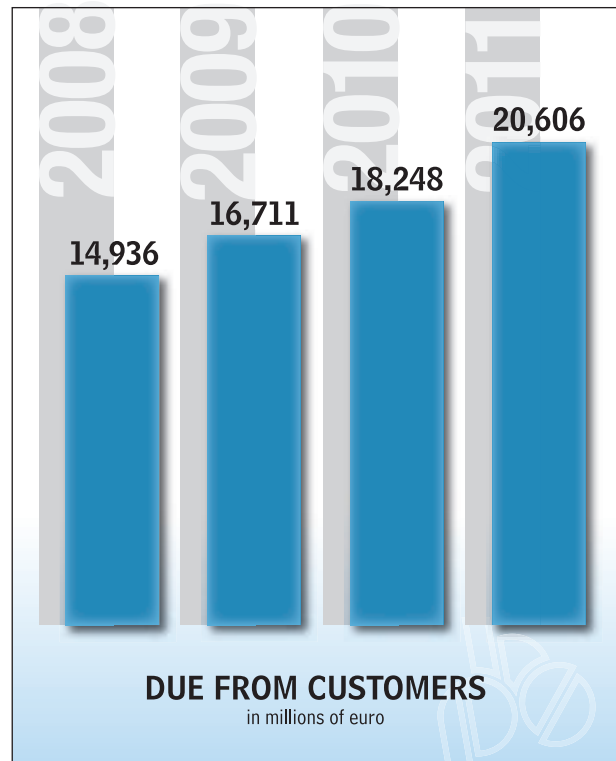
The greatest danger lies in the possible creation of a vicious circle in which a deteriorating economy leads to a credit crunch, which in turn acts as an obstacle to the recovery. A sort of downward spiral that is harmful to all concerned, but to which they unwittingly contribute. The hope is that the

government's emergency measures to save the public accounts do not further depress the economic cycle, but help restore competitiveness to the production system. This, helped by the liberalisation measures taken recently.

Let's go back to the year under review to say that in the general economic scenario briefly described, our bank – as it was for the banking system as a whole – found itself caught in a vice between the need to protect credit quality and the desire to keep giving customers strong financial support. Two apparently conflicting requirements, which came together in the professionalism and care that we applied in granting and managing loans.

Loans are the raw material and the product of the banking business and granting credit is our real purpose as a bank; it has always been at the heart of our day-to-day activities.

We therefore chose to strengthen and refine our professional resources, tools and procedures to administer each risk profile in the best way possible, while maintaining the high quality of the assets on our balance sheet. This



DUE FROM CUSTOMERS

(thousands of euro)	2011	%	2010	%	Change %
Current accounts	7,529,729	36.55	6,484,270	35.53	16.12
Foreign currency loans	1,405,831	6.82	1,507,638	8.26	-6.75
Advances	385,485	1.87	306,781	1.68	25.65
Advances subject to collection	307,879	1.49	260,468	1.43	18.20
Discounted portfolio	12,207	0.06	14,679	0.08	-16.84
Artisan loans	22,176	0.11	24,403	0.13	-9.13
Agricultural loans	31,720	0.15	31,820	0.17	-0.31
Personal loans	111,748	0.54	85,150	0.47	31.24
Other unsecured loans	3,983,004	19.33	3,585,393	19.65	11.09
Mortgage loans	6,227,915	30.22	5,747,996	31.50	8.35
Net non-performing loans	263,183	1.28	192,794	1.06	36.51
Repo transactions	325,505	1.58	6,469	0.04	-
Total	20,606,382	100.00	18,247,861	100.00	12.92

is the first guarantee of prudent and sound management, which is able to maintain the bank's stability and profitability. The idea of credit worthiness has guided us in our examination of the organisational, managerial, financial and production structure of the companies that we lend to, with a medium-term time horizon, taking into account the specific circumstances of the markets in which they operate.

Bank credit, as we conceive it, is fine if it supports customers' production cycles at conditions that they can bear, so that they do not have to spend profits before they have been earned. But the fact is that whatever the form of the various guarantees given, credit transactions all have a common denominator of risk, to a greater or lesser degree.

Applying these principles during the year, we again saw a positive trend in loans, which rose to 20,606 million, an increase of +12.92%.

This result is in itself significant, reaffirming our strong links with the business world, and corroborated by the figures on non-performing loans. Although they are rising, mainly due to the continuation of difficult economic conditions, to say the least, they have in fact stayed at levels that are considerably better than those of the system on average.

This is reflected in the figure for doubtful loans, which has risen to 909 million, +33.89%. Net non-performing loans amount to 263 million, +36.51%, corresponding to 1.28% of total customer loans, compared with 1.06% at 31 December 2010.

Writedowns to cover estimated losses on non-performing loans increased to 228 million, +11.58% to 46.40% of the gross amount of such loans.

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, amount to 358 million euro, +63.71%, or 1.74% of total loans to customers compared with 1.20% the previous year.

Restructured loans amount to 83 million, +32.17%, as companies have been making more use of loan restructuring procedures in accordance with arts. 67 and 182 of the Bankruptcy Law. Impaired past-due loans calculated according to the new rules issued by the Bank of Italy come to 205 million.

Total writedowns amount to 418 million, +19.70%. Of these, provisions made for performing loans amount to 111 million (97 million in the previous year), which is 0.56% of the gross amount of such loans (19,808 million).

Several different technical forms have contributed in varying degrees to the positive trend in loans. These items are shown in greater detail based on other criteria compared with table 7.1 of the Explanatory Notes in Section 7, Part B.

Current accounts are showing considerable growth: 7,530 million, +16.12%. Their incidence on total amounts due from customers comes to 36.55%. The trend in mortgage loans is also positive, +8.35% to 6,228 million, despite a market situation characterized by a lower demand from households, especially in the latter part of the year. Other unsecured loans have in turn increased by +11.09% to 3,983 million. Advances have risen to 385 million, +25.65%, and advances subject to collection came in at 308 million, +18.20%. Foreign currency loans have decreased to 1,406 million, -6.75%, which reflects

the reluctance of the foreign interbank market to finance the Italian system. The rise in reverse repurchase agreements from 6 million to 325 million is significant, depending on temporary cash surpluses.

Our collaboration with the Consorzi Fidi (loan guarantee consortiums) continued in 2011, a privileged way for many companies, especially SMEs, to access soft loans.

In accordance with the terms established by Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that the amount of loans to customers included loans made to central and local government for 31 million, local or state-owned enterprises for 358 million and to various other entities for 160 million.

TREASURY AND TRADING OPERATIONS

In 2011, financial markets were dominated by negative trends that were particularly complex, with a widespread collapse in share prices and excessive volatility, even when hit by speculation. The sovereign debt crisis had its epicentre in the Euro-zone, reaching the point of calling into question the very survival of the single currency.

Over time, the gravity of the illness was marked by the spread, a term that entered common parlance and which, quite apart from its technical meaning (yield differential between fixed-rate ten-year German and Italian bonds), served to measure and express the lack of confidence towards Italy and, with different intensities, towards other European countries with economic and financial difficulties, particularly as regards the sustainability of their public accounts. Hence, with regard to domestic affairs, the need for a government of «national commitment» and a series of burdensome fiscal measures.

After a positive start, stock markets – all except the USA – ended 2011 with heavy losses, dragged down by Europe, with the FTSE Italia All Share Index at -24.29%, still conditioned by the financial sector. The MSCI World International stock market index scored -7.69%; Standard & Poor's 500 index in the USA was unchanged; Europe's Dow Jones Eurostoxx 50 index and Japan's Nikkei index fell by 17.05% and 17.34%, respectively.

Of considerable importance in the bond sector was the impact on the sovereign debt of several European countries that were repeatedly downgraded, despite the massive and repeated interventions by the European Central Bank to provide support, both through the purchase of securities, including Italian ones, and substantial injections of liquidity. The ECB itself took steps towards the end of the year to reinstate an expansionary monetary policy.

The strong preference on the part of investors for government issues deemed reliable, notably German and American, penalised Italian ones, among others. The deterioration of Italy's «country risk» pushed the spread

Stock markets

between ten-year BTPs and German Bunds up to a record high of 575 basis points in November, with yields close to 7.50%, a spread that subsequently decreased, while still remaining high. The impact on CCTs has also been heavy, with the devaluation of medium and long maturities peaking at more than 10%. The MTS CCT index, defined in terms of prices and coupons, closed 2011 at -6.43%.

In a difficult market environment, the central finance department and the peripheral units of the bank worked with professionalism, balance and transparency, in order to help understandably disoriented customers make informed decisions. This above all through the constant pursuit of consistency between investors' profiles, their risk propensity and their investment objectives. The limited number of complaints, which were promptly looked into, and the content of such complaints, confirm that we acted fairly.

The following comments concern important areas of the bank's financial activity: the interbank market and corporate liquidity; the proprietary portfolio and its components.

As regards the first aspect, the crisis of confidence that hit the Euro-zone severely affected interbank movements, reducing the availability of funding for maturities beyond one day. Liquidity dried up especially towards the end of the year, a period that tends to create «technical» tensions even when the market is normal.

In November, the situation became very difficult for the financial system, especially in Italy, sandwiched between the sovereign debt crisis and uncertainties of a political nature.

In this scenario, Decree Law 201 of 6 December 2011, containing measures for the stability of the banking system, represented a fundamental turning point, allowing banks, within the framework of existing European standards and with the joint authorisation of the Bank of Italy and the Ministry of Economy and Finance, to issue liabilities accompanied by a State guarantee.

In the meanwhile, on 8 December, the Central Bank announced important news to promote the circulation of liquidity in the banking system and to restore normal function of lending. In particular, it announced that it would launch two extraordinary auctions (scheduled for 21 December 2011 and 29 February 2012), at which banks could present suitable collateral and obtain «unlimited» liquidity at the ECB interest rate and for a term of up to three years. Like the vast majority of the banking system, we decided to take advantage of the new provisions passed by the Government and the ECB. On the basis of the Decree Law mentioned previously, we obtained approval to issue a certificate of deposit for 1 billion euro guaranteed by the State and fully subscribed by the bank. This instrument, along with other securities owned by the bank for a total of around 300 million euro, was used as collateral at the ECB's three-year auction on 21 December 2011 to obtain additional medium/long-term funding for a total of one billion 300 million euro, to be used in improving the structural liquidity position of the bank.

At 31 December 2011, the net interbank position showed net borrowings of 1,493 million compared with 811 million at the end of 2010. This increase is largely due to the considerable increase in loans to customers, demonstrating a willingness on our part not to deny credit to support our territories, despite the difficult economic situation. It must not be forgotten that in 2011 there was a significant increase in our financial commitment to Factorit (a subsidiary acquired in 2010), which is also at the forefront of supporting the real economy. At the same time, the difficult market environment has caused slow growth in customer deposits, which has also contributed towards the enlargement of this negative balance. Despite the difficult overall environment, our treasury office has worked effectively, thanks to the perception of solidity that the bank has continued to enjoy; it is also reflected in our A- rating from Fitch, which puts us at the top of the Italian banking system. Our interbank transactions were carried out on the e-MID (electronic deposits market) and on the MIC (collateralised interbank market) without counterparty risk on account of the guarantee given by the Cassa di Compensazione e Garanzia. The portfolios of financial assets totalled 3,193 million at 31 December 2011, a decrease of 55 million, -1.70%. The following table shows the balances of the individual assets:

FINANCIAL ASSETS

(thousands of euro)	2011	2010	Change %
Financial assets held for trading (HFT)	2,187,556	2,800,451	-21.89%
<i>of which, derivatives</i>	151,428	98,100	54.36%
Financial assets carried at fair value (CFV)	81,713	91,888	-11.07%
Financial assets available for sale (AFS)	703,657	106,925	558.08%
Financial assets held to maturity (HTM)	220,332	249,304	-11.62%
Total	3,193,258	3,248,568	-1.70%

Information on these various portfolios is given below.

In accordance with the terms established by Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that these portfolios included bonds that form part of the sovereign debt (i.e. issued by local and central governments), for a total of 2,199 million. There are no securities issued by peripheral Euro-zone countries.

Financial assets held for trading

Financial assets held for trading (HFT), amounting to 2,188 million as shown in the following table, have decreased by 21.89%:

The festive and crowded military parade became for Aspari a pretext to depict "Piazza and Palazzo Belgioioso", completed by Piermarini in 1781, that marked the transition in Milan from baroque to rococo. The rhythmic and ordered development of the architecture of the facade is at one with the parading soldiers uniformly arranged in front of it and who symmetrically replicate the linearity, interrupted only in the foreground where life goes on in a lively and irregular manner. Piermarini's majestic architecture is, however, accentuated by the light that hits it frontally, leaving the other buildings in the square in a play of light and shadow.

In the foreground the master builder and architect are having a discussion in front of three stone remains carved with coats of arms, that constitute iconographic elements connecting the new square and building to Milan's previous history. As always with Aspari's work, the representation of the social classes is calibrated on the character of the places depicted. Here, the square, the building and the military parade mark the apotheosis of the city's aristocracy and thus justify the absence of any popular or bourgeois element among the figures shown.



Domenico Aspari
Piazza and Palazzo Belgioioso, 1788
 Etching, 460 x 642 mm

Constructed from a design by Filarete between 1457 and 1465, it was completed in the first half of the 1600s, together with the facade and other buildings in the square, by the Milanese Francesco Maria Richini, the great hospital – "Ca' Granda" as it was called – is presently the location of the State University, remains one of the symbols of Sforza Milan. Aspari depicts it not as simple architecture, but as an element of the city's social life. One sees the procession of pain, with wagons and sedan cabins or chairs transporting the sick and dying towards the entrance, crossing the carriage traffic in the square. The shadow in the foreground enshrouds the group, consisting of the master builder, the architect and the man of God, who are discussing the building work on the hospital (at the end of the 1700s the site was still open for its further expansion), while on the plate behind them one can read the commissioning of the building by the Duke and Duchess of Milan, Francesco Sforza and Bianca Maria Visconti. In this manner, a link was created between the present and the past, between the architecture of the square and its historical roots, which the shadow isolates and almost puts in parentheses compared to the contemporary architectural and urban scene that unfolds in the sunlight.



Domenico Aspari
View of Great Hospital, 1790
 Etching, 455 x 642 mm



Domenico Aspari
Piazza del Duomo, 1791
Etching, 445 x 638 mm

When in 1791 Aspari depicted this view of the Milan Cathedral, the building was still without a facade. For this reason the artist chose a lateral view of the apse and of the right side, which, despite the absence of spires and capstones, was that which best showed the monumental grandeur of the cathedral in the great empty space of the square crowned by only rare passers-by and distant buildings. In 1808, on reprinting Aspari's view, the Vallardis added the spires, the capstones and the flying buttresses that, in the meantime, had been completed and at first they republished it without a title and without indicating the date and author (which is the version presented here) and then with the name of the author and with a new title "View of the side of Milan cathedral", but without the date (1791) that Aspari had used, as it had become anachronistic in respect of the form that the construction had taken on.

In 1808, in fact, the cathedral had been enriched with spires and a new facade and, to present it as bare and unassuming as it had been 17 years before, seemed little suited to the image and aspirations of the capital of the Napoleonic Kingdom of Italy.

Milan, in fact, identified itself by then so much with its cathedral that the Vallardis, instead of completely reprinting Aspari's 16 views, excluded one of them, the one with the Brera courtyard and replaced it with a second view of the cathedral, this time with the facade, being an etching by Pietro Ruga based on a drawing by Argenti.

(thousands of euro)	2011	2010	Change %
Floating-rate Italian government securities	1,469,663	2,184,758	-32.73%
Fixed-rate Italian government securities	183,888	120,008	53.23%
Bank bonds	259,627	191,513	35.57%
Bonds of other issuers	28,464	52,089	-45.36%
Securitisations	42,465	98,993	-57.10%
Variable-yield securities and shares of collective investment undertakings	52,021	54,990	-5.40%
Net book value of derivative contracts	151,428	98,100	54.36%
Totale	2,187,556	2,800,451	-21.89%

The HFT portfolio continued to be made up principally of CCTs (67.18%, although they diminished after substantial sales of securities near to maturity in the first half of the year, realising substantial capital gains. The pressures in financial markets and the spread of the sovereign debt crisis to Italy as well, weighed on prices of government securities, resulting in losses for a total of 105.317 million, of which 66.723 million related to CCTs, compared with gains of only 0.790 million. In 2010, losses of 73.33 million were booked, including 59.5 on CCTs, with capital gains of 8.9 million.

The overall result of the HFT portfolio is negative for 92.803 million.

The previous year it was negative for 58.93 million. «Net trading income», which refers to total fixed-yield securities, includes net trading profits of 8.669 million, losses of 85.509 million and gains of 0.722 million. Then we have to add profits of 3.055 million and net losses of 19.740 million on variable-yield securities and shares of collective investment undertakings. In 2010, on the entire portfolio, we booked: net profits of 5.50 million; gains of 8.90 million; losses of 73.33 million. As already mentioned, the HFT portfolio continues to be made up principally of CCTs (67.18% of it). Corporate bonds amount to 288.091 million, of which 259.627 million relate to bank issues. Securities that are part of securitisations are all senior and have been reduced to 42.465 million as a result of partial reimbursements and sales. Fixed-rate government securities, for a total of 183.888 million, have increased by 53.23% for the purchase of BTPs. Variable-yield securities and shares of collective investment undertakings, which are still marginal, have fallen to 52.021 million, -5.40%; derivatives have grown by 54.36% to 151.428 million.

Financial assets carried at fair value

Financial assets carried at fair value (CFV) amount to 82 million, a decrease of 11.07% due to disposals. They consist of mutual funds and sicavs of various kinds for 55 million and CCTs for 27 million.

Financial assets available for sale

Financial assets available for sale (AFS) come to 704 million, +558.08%, mainly for the purchase of CCTs, BOTs and CTZs, in addition to bank bonds

amounting to 575 million at the end of the year. This increase is due to the decision to include in this portfolio securities intended for repurchase agreements with customers and therefore held with the idea that they will not be sold in the short term. This at least partly in order to contain the impact on the income statement of the volatility posted by the securities portfolio because of the turmoil in financial markets. It also includes 68 million of variable-yield securities and 60 million in shares of collective investment undertakings. Negative valuation reserves have been booked to equity for losses, mainly on Italian government securities, of 43.56 million, net of tax.

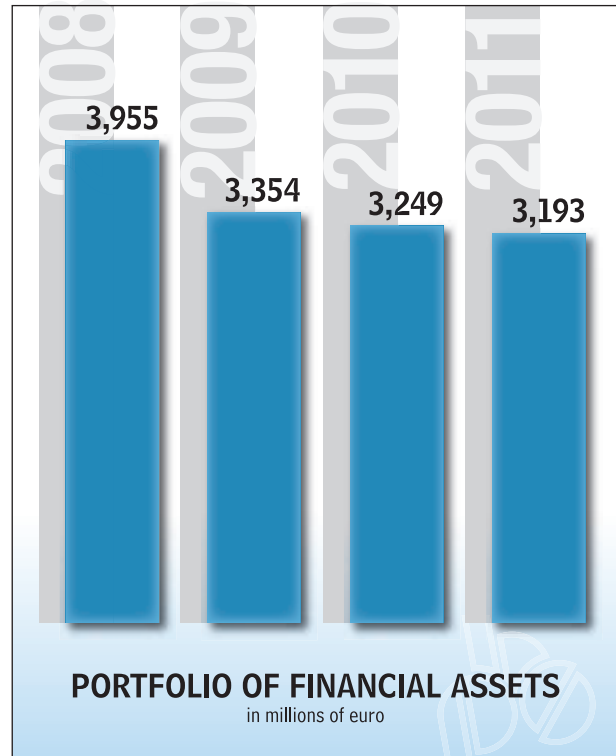
For equity investments with negative valuation reserves, the criteria adopted to identify permanent losses, as explained in the notes to the financial statements in Part A «Accounting policies», made it necessary to carry out an impairment test on certain securities, charging the difference to the income statement.

As regards the changes, please note that: the increase in debt securities of 544.60 million is due to purchases of government securities and bonds; the increase in mutual funds of 48.07 million, mainly due to buying monetary funds; the increase in the interest in the Istituto Centrale delle Banche Popolari Italiane spa of 8.866 million and in CartaSi spa of 6.337 million; the transfer for accounting purposes among equity investments of the interest held in Polis Fondi Immobiliari of Banche Popolari S.G.R.p.A., 2.41 million, including the increase made during the year with an outlay of 1.608 million; the sale to UBI Banca (parent) of the entire stake in Centrobanca spa at a price of 9.354 million, with a gain of 3.027 million. Impairment adjustments, mostly on listed shares, amount to 6.94 million. Among the other decreases, coupons collected for 5.74 million and redemptions of mutual funds for 4.03 million.

The following are comments on the principal minority interests held by the bank as long-term trade investments, particularly in companies that provide products and services that complement our range.

Unione Fiduciaria spa (18.309%). This company was founded and is owned by the cooperative banking movement. It acts as a trustee and provides fiduciary services to banks, financial intermediaries and other businesses.

The subsidiary, which has been in existence for more than half a century, confirms its leading position at a national level in its areas of competence. The development of relationships can be helped by wider know-how and openness to innovation, which are based – together with operational independence – on internal professionalism and external specialist support,



especially in law and tax. Benefits also come from the contribution provided by affiliates based in Lugano, Sofipo SA in particular.

The company also organises conferences and publications, above all to study regulatory issues that affect the banking and financial sectors.

The financial statements should confirm the positive results of operations.

Arca SGR spa (5.872%). This is an asset management company which handles mutual funds, pension funds and institutional investment portfolios.

The turbulence that hit financial markets over the past year has had an impact on the asset management sector which, at system level, showed widespread weakness due to the contraction in prices and a prevalence of outflows over new funding.

In this difficult context, the affiliate, which was inevitably involved in this trend, has been operating with its traditional professionalism and balance, integrating its offer with targeted management lines and an innovative service, «Risparmia & Consolida» (Save and Consolidate), which combines a liquidity fund with a fund-based accumulation plan.

At the same time, Arca SGR SpA has undertaken a corporate restructuring in order to adapt the «machine» to new market scenarios. The policy to make the company more streamlined and flexible involved extraordinary charges that led to negative results for the period.

Istituto Centrale delle Banche Popolari Italiane spa (1.997%, formerly 1.040%).

The company heads up a Group that specializes in banking and diversified financial services, especially in the field of collections and payments.

ICBPI (Istituto Centrale delle Banche Popolari Italiane), whose recognized professionalism and significant operational volumes give it a profile of a highly functional and effective system bank, the national leader in its specific market, has gradually expanded its scope, also acquiring control of companies of proven operational value in this sector. We contribute a considerable amount of work which involves the use of numerous services.

We decided to increase our stake as shown above with an outlay of 8.9 million, as we considered it worthwhile.

We expect to see positive economic results.

CartaSi spa (2%, formerly 0.041%). This is the company that issues and manages CartaSi credit cards. It belongs to the Istituto Centrale delle Banche Popolari Italiane Banking Group.

It is the historical and established operator in this specific market. It has successfully interpreted its evolution, confirming itself as a competitive partner in the interests of the many banks that distribute CartaSi. Our long-standing collaboration also concerns the creation of innovative products that have earned the approval of customers.

Based on these assumptions, we have taken the opportunity, as part of an investment reorganisation, to increase our interest in the company, with an outlay of 6.3 million.

We expect positive economic results.

Etica SGR spa (9.867%, formerly 11.10%). An asset management

company controlled by the Banca Popolare Etica Group, Etica SGR creates and promotes mutual funds with an ethical content, called «Sistema Valori Responsabili» (Responsible Values System), which are also distributed by our network.

The ongoing consolidation of this affiliate certifies its willingness to represent the values of ethical finance in the securities markets, i.e. the ability to make investors more aware of the value of socially responsible investments. Strict selection of issuers and operational transparency are the fundamentals for Etica SGR, which in 2011 was awarded the prestigious Lipper Fund Awards for the third consecutive year, and the High Performance Award sponsored by Il Sole 24 ORE.

The decrease in our share relates to the dilution resulting from an increase in capital that was reserved for the entrance of a sister company. Positive economic results are expected.

Group srl (12.50%, formerly 14.286%). This is a service company that coordinates and assists the cooperative banks that own it, as well as their groups, during the placement of financial instruments that are of proven interest for the quality and size of the issuer.

Market turmoil has not helped issues of this type over the last year, limiting the company's activity. The entry into the capital of a sister company through a dedicated increase in capital diluted the interests of the other shareholders, all of whom now own 12.50%.

Its financial statements should close around break even.

Financial assets held to maturity

At 31 December 2011, financial assets held to maturity (HTM) amounts to 220 million, -11.62 due to reimbursements.

We would remind you, with regards to the content of the portfolio, that in 2008 the anomalous performance of equity and bond markets persuaded the Bank to take advantage of the amendment to IAS 39, issued by the International Accounting Standards Board (IASB) on 13 October 2008 and endorsed by the European Commission with Regulation (EC) 1004/2008 of 15 October 2008, which amended Regulation (EC) 1725/2003. In exceptional circumstances, this measure allows companies to disregard the ban on transferring financial assets (apart from derivatives) from the category of those designated at fair value through profit and loss to another category where securities are booked at amortised cost. As a result, we transferred from the HFT portfolio to the HTM portfolio unlisted bonds that were illiquid and not expected to be sold. These had a par value of 243 million and were carried at 233 million, whereas their fair value at 31 December 2008 was 193 million, generating a theoretical loss, prior to the tax effect, of 40 million.

At 31 December 2011, these securities amount to 163 million, with a decrease of 17.83% following reimbursements compared with 199 million in the previous year. They have a fair value of 143 million. The theoretical loss, before the tax effect, therefore amounts to 20 million.

Asset management

Lastly, as regards asset management, it has to be said that the negative dynamics of financial markets have inevitably impacted this sector as well, leading to a marked prevalence throughout the system of withdrawals compared with subscriptions. Funds have also suffered a deterioration in the prices of the underlying assets. In this difficult environment, our people have worked professionally, according to principles of equilibrium and prudence.

At year-end, the various forms of asset management had total funds of 3,120 million, -11.07%. More precisely, the mutual funds managed by Arca SGR fell to 1,461 million, -7.92%, while those of Etica SGR and the Group sicavs run by Popso (SUISSE) Investment Fund posted smaller decreases. As for the portfolio management schemes run by the bank's central offices, these also fell in value, but they held up better than those in funds, partly thanks to the introduction of new lines of investment, focused, among other things, on the clean energy sector.

EQUITY INVESTMENTS

As in the past, the equity investments held by the bank relate essentially to companies that provide products and services that supplement our own range. These holdings are therefore functional to the business and held on a stable, long-term basis. We give work to these companies and, under the right circumstances, financial support, preferably as part of initiatives implemented together with other cooperative banks.

Below we comment on the investments listed under the specific financial statements item, i.e. those held in subsidiaries and associates, while functional minority interests, which are included in the portfolio of financial assets available for sale (AFS) as required by IFRS, are commented on in the section entitled «Treasury and trading operations».

At 31 December 2011 equity investments amounted to 348.464 million, a decrease of 1.012 million. The main changes refer to:

- strengthening of the share capital of Sinergia Seconda srl;
- transfer of the interest in Polis Fondi Immobiliari di Banche Popolari S.G.R.p.A. from the AFS portfolio following an increase in our holding;
- sale of our 28.571% stake in B. & A. Broker spa to a leading international insurance broker; this was done in agreement with the other shareholders in order to provide an even better service in this field. The sale, which was completed at a price of 1.2 million, allowed us to earn a capital gain of 1 million which was accounted for as a preliminary distribution of reserves;
- writedowns of Pirovano Stelvio spa and of the associates Alba Leasing spa and Banca della Nuova Terra spa.

Subsidiaries:

Banca Popolare di Sondrio (Suisse) SA (100%). This is a Swiss bank based in Lugano, set up in 1995.

The year under review, the 16th from the foundation, has confirmed the subsidiary's ability to expand retail operations in its chosen territories, gradually consolidating its role as a cooperative bank given to it from the start by the Parent Bank. The significant growth in its balance sheet aggregates is proof of its commercial competitiveness:

Direct deposits +10%; loans to customers, over three quarters of them mortgages, +16%. Indirect customer deposits, down 10% at current values, have inevitably been affected by the severe contraction suffered by international financial markets. The bank's determination to work on behalf of local economies is also affirmed by the strengthening of its branch network, confirming the subsidiary as the leading foreign bank in Switzerland in this respect. In 2011 the Samedan branch was set up in the Grisons Canton, bringing the total number of branches to 23. Also worth mentioning is the transfer of the Berne branch to more suitable, centrally located offices.

This expansion in operations has not been duly reflected in the net profit for the year (3,217,141 Swiss francs, -31.56%), mainly because of Swiss market interest rates, essentially close to zero, which conditioned net interest income. Costs, which are kept under tight control, have gone down. The allocation of this net profit to reserves has boosted equity to 231 million Swiss francs.

The professionalism of the staff, 338 people at year end, the investments planned and implemented – in addition to territorial expansion, particular consideration has been given to the IT and organizational infrastructure – and constant updating of products and services, to which Popso (SUISSE) Investment Fund Sicav and Sofipo SA have contributed, are solid foundations on which the subsidiary intends to grow even more. This also in relation to the substantial stability of the Swiss economy which, with the help of political and social stability, has only been partially affected by the widespread crisis.

Factorit spa (60.5%). The company manages and finances, even guarantees, domestic and international trade receivables.

Factorit joined our Group last year and is now successfully integrated, contributing effectively to increase the quality and diversification of the services that we can offer businesses by virtue of its long-standing expertise in the factoring sector. Volumes handled were satisfactory, despite being conditioned by critical economic and financial problems in the system, benefiting from the contribution of other shareholder banks and of the many other banks with which it has special arrangements.

Factorit's specific commercial offer, which is comprehensive and flexible, is designed to offer businesses of all sizes effective factoring solutions, aimed at supporting their growth and giving them protection against risks, the latter by guaranteeing collection and efficient management of trade receivables. Constant monitoring of each position and the availability of the related documentation are effectively ensured via Internet through the WebFactoring® application.

The net profit for the year amounted to 9.8 million.

Pirovano Stelvio SpA (100%). This company manages hotel facilities in the Stelvio Pass, dedicated above all to summer skiing.

Last season's results confirmed the increase in the number of visitors, even more so than in 2010, a comforting trend considering that weather conditions were not particularly favourable in July. This positive trend has been supported by the quality of stays and targeted promotional activities, despite a slow market. This has allowed us to significantly reduce the loss compared with the previous year, while maintaining all the advantages that our «Sky University» ensures, favoured by the incomparable scenery, which, in addition to skiing, permits interesting activities such as cycling, trekking and hiking. Also of importance is the role played by the company in support of the Stelvio area, both economic and in terms of territorial improvement.

For details on the many initiatives in which Pirovano has cooperated, you should read the chapter in this report on promotional and cultural activities.

Sinergia Seconda srl (100%). This is a real estate company.

The company operates mainly on behalf of the bank and the banking group, solving our real estate needs, which is why it has been included in the scope of consolidation. To be more precise, its activity involves the targeted purchase and, if appropriate, management and maintenance of offices and other facilities that are leased to the Parent Bank and its subsidiaries.

During the year we increased its capital from 50 to 60 million, to help finance this activity.

The company's bottom line is negative due to the loss reported by its subsidiary Immobiliare San Paolo Srl, as a result of an extraordinary writedown of fixed assets.

Rajna Immobiliare srl (50%). A real estate company that is jointly owned together with Credito Valtellinese.

This company owns office equipment and part of a condominium in good condition in downtown Sondrio, which is rented to Equitalia Nord spa, a tax collection agency controlled by Equitalia spa. The building's value lies principally in the fact that it has a lot of ground floor space.

The results in the financial statements are positive.

Associated companies:

Alba Leasing SpA (20.95%). This company operates in the financial lease sector and is held jointly with other cooperative banks: Banco Popolare, Banca Popolare dell'Emilia Romagna and Banca Popolare di Milano.

Alba Leasing's operations started in 2010, thanks to commercial agreements with the shareholder banks and the numerous ones with which it has special arrangements. The company has received a satisfactory volume of new business – with a significant contribution from us – though it is conditioned by the well-known dearth of liquidity on the market. Its success is reflected in the fact that it is always one of the top five players in Italy's

equipment leasing sector. Operations are also positive in the automotive, real estate, marine and renewable energy sectors

The difficult economic situation generally and reduced margins have prevented the company from making best use of its structure, which is designed for higher volumes of activity. As a result, it is behind schedule in terms of making a profit. We have therefore considered it appropriate to align the carrying amount of the subsidiary to the corresponding share of net equity.

Banca della Nuova Terra spa (19.50%). This is a bank that specialises in lending to farmers and businesses in agro-industry, environmental protection and alternative energy sources.

Its activities on behalf of the primary sector qualify and distinguish the commercial services offered by the shareholder banks, which are mainly cooperative banks, and others with special arrangements. The benefit goes to our customers in the Po Valley, an area where farms and food processing companies constitute the backbone of local economies, where the bank's penetration is proceeding successfully. The difficult moment on the credit market has also had an effect on the sector in which the company operates: in particular, it became necessary to make substantial loan adjustments, which led to a very negative result for the year. We therefore decided to write down the value of this investment on the basis of our share of net equity.

Arca Vita spa (15.036%). This company is in the life insurance sector and is controlled by Unipol Gruppo Finanziario spa.

The competitiveness of the company's services and its consolidated professionalism have enabled Arca Vita to achieve satisfactory results in terms of premium income, to which we have contributed with a positive balance of settlements/redemptions and new production. These results were corroborated by the trend in the national sector, which showed a marked decline, reflecting the considerable turbulence in financial markets and, more generally, the downturn in the asset management sector. Positive results have also been achieved in accident insurance, which is handled by Arca Assicurazioni.

Updates of both companies' services are summarized in the chapter of this report on commercial activities. Because of the need to strengthen its solvency ratio, the shareholders have been asked to make payments towards a future increase in capital. Along with the other main shareholders, We have paid our share of 9.25 million.

The financial statements have been strongly affected by the sovereign debt crisis, which resulted in significant writedowns and, therefore, a loss.

Polis Fondi Immobiliari di Banche Popolari S.G.R.p.A. (19.60%, formerly 9.80%). This company promotes and manages real estate investment trusts. The SGR's professional expertise, combined with traditional prudence, has allowed it to manage the Polis Fund in the best way possible. This is its main activity, in a housing market that is still in sufferance.

In the past, the Fund has yielded an average annual compound rate of 3.51%, based on a share value calculated by independent experts (€ 2,055.63 at 31 December 2011) and on effective income received. The pressures that financial markets were subjected to in 2011 have inevitably affected the



The original title used by Aspari, General view of the building known as S. Lorenzo, Milan / Ancient spa or baths of which there only remain sixteen columns..., for Vallardi's 1808 edition was drastically simplified to Sidelong view of S. Lorenzo.

The church of San Lorenzo was built between the end of the 1500s and the beginning of the 1600s encompassing the old early Christian basilica that dated back to the 5th century and which was reconstructed in the 12th century.

The distance and the breadth of perspective allowed Aspari to include the Roman colonnade, the houses and the church, not as a chaotic jumble of buildings, but as a sole monumental complex resulting from the layering of different architectural styles, from classic Roman up to the large late sixteenth century dome by Martino Basso. In the foreground, the noble couple revered by the priest, the porters bent under the weight of their loads, the water cart for the distribution of water and the distant coming and going of passers-by and carriages depict a lively social scene that puts the monument into the mainstream of city life.

In the shade on the left, one sees an inscription and the remains of an ancient Roman entablature, historical evidence of antiquarian testimonies that form the roots of architecture and the contemporary urban scene.

Domenico Aspari
Sidelong view of S. Lorenzo, 1791
Etching, 450 x 637 mm



Domenico Aspari
View of S. Lorenzo, 1786
Etching, 460 x 655 mm

The original title, View of the Columns of San Lorenzo, generally believed to be remains of Massimiano Ercoleo's spa, by some reputed to be a work from the time of Alessandro Severo and by others architecture and work of the Century of Augustus, was changed by Vallardi in 1808 to the more synthetic View of S. Lorenzo ancient Roman baths (Bagni di Nerone). In reality, we do not know to which Imperial Roman Mediolanum building the 16 columns belonged to and which were probably transported here in the 14th century, at the time of the construction of the early Christian basilica (then encompassed by the late sixteenth century monumental complex by Martino Basso), as an entrance gate to the vast quadrangle in front of the church, on which were built, over time, the houses that can be seen and which were just in 1935. In the view, the colonnade with the houses and the large dome formed by a sole monumental complex, animated by scenes of life (the three peasants in their costumes, the worker who is pushing the cart, the curate with the group of gentlemen on the left, the lady and the knight on the balcony to the right) that give us a glimpse of Milanese society of the time. What was of interest to Aspari, was not so much the Piranesian aesthetics of the ruins (even if Piranesi's influence is not lacking), but the living relationship that the historical architecture maintains with contemporary urban sociability.

market price of the Fund as well. The increase in our holding relates to the shareholder restructuring following Sopaf spa's sale of its investment; this reorganization involved an outlay of 1.6 million, to which the other four cooperative banks contributed equally.

Positive results are expected.

Servizi Internazionali e Strutture Integrate 2000 srl (33.333%). This is a service company which operates internationally; it is jointly owned together with Banca Popolare dell'Emilia Romagna and Veneto Banca. The representative offices of Hong Kong and Shanghai effectively sustain, with assistance and advice, the shareholder banks and those with special arrangements, enterprises and institutions interested in developing business relationships in the Asian market. The analyses carried out by the Milan office on the assessment of country risk, especially in emerging nations, credit systems and credit institutions are also much appreciated.

The income statement closed with a small profit.

Related party transactions

Transactions with related parties are governed by Consob Regulation, Resolutions 17221 of 12 March 2010 and 17389 of 23 June 2010.

By Board resolution and with the favourable opinion of the «Committee for related party transactions», the Bank adopted and published on its website www.popso.it its internal regulation.

Related party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the Bank's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred. These transactions amount to 9.81% of total loans to customers and banks and financial assets and 3.27% of direct deposits from customers and banks and financial liabilities.

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2011, the Bank's corporate bodies decided the following transactions of greater relevance:

- Alba Leasing spa, associated company; granting of a guarantee of € 12,675,000 repayable on demand; resolution of 25/01/2011;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal/granting of lines of credit totalling € 718,640,197 repayable on demand; resolution of 11/03/2011;
- Banca della Nuova Terra spa, associated company; renewal/granting of lines of credit totalling € 188,000,000 repayable on demand; resolution of 11/03/2011;
- Alba Leasing SpA, associated company; granting of an overdraft facility of € 100,000,000 repayable on demand; resolution of 11/03/2011;
- Alba Leasing SpA, associated company; granting of an overdraft facility of € 50,000,000 repayable on 01/08/2012 and another for the same amount repayable on demand; resolution of 26/07/2011;

- Falck spa, indirectly held by Federico Falck, a director of the Bank; granting of a repo line of credit of € 1,500,000 repayable on demand; resolution of 29/08/2011. The prescribed information document was published in connection with this transaction;
- Factorit spa, subsidiary; granting of an overdraft facility of € 200,000,000 repayable on demand; resolution of 26/09/2011;
- Alba Leasing SpA, associated company; granting of an overdraft facility of € 15,000,000 repayable on 15/03/2012; resolution of 6/10/2011;
- Factorit spa, subsidiary; granting of an overdraft facility of € 100,000,000 repayable on demand; resolution of 21/12/2011;
- Factorit spa, subsidiary; granting of an overdraft facility of € 270,000,000 repayable on demand and of a financial credit limit for guarantees to be given to residents of € 15,000,000 repayable on demand; resolution of 30/12/2011.

No transactions of greater or lesser relevance were carried out with related parties in the period under review, which could have had a significant impact on the Group's balance sheet or results. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Bank's balance sheet or results with regard to related party transactions carried out during 2010; in any case none were atypical, unusual or not on market terms.

In relation with the Consob communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Bank's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related party transactions» includes a table that summarises these figures.

During 2011, there have not been any positions or transactions deriving from atypical or unusual operations. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

In accordance with Article 84-quarter of Consob Regulations 11971 of 14 May 1999, as amended, notably Consob Resolution 18049 of 23 December 2011, we have prepared a separate table reporting the shares of the Bank and its subsidiaries held by Directors, Statutory Auditors, the General Manager and key executives (or by their spouses, unless legally separated, and their minor children), whether directly or through subsidiaries, trust companies or third parties. The notes to the financial statements (Part H, «Transactions with related parties») also show the emoluments paid to Directors, Auditors, the General Manager and key

executives as well as the credit facilities and guarantees issued, in compliance with Article 136 of Legislative Decree 385 of 1 September 1993. As regards changes in the law, on 12 December 2011 the Bank of Italy issued the measure entitled «Risk assets and conflicts of interest in associated entities», under Title V of Circular 263/2006, «New regulations for the prudential supervision of banks», which will come into force on 31 December 2012.

REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE

The «Report on Corporate Governance and the Ownership Structure» required by art. 123-bis of Decree 58/98 (Finance Consolidation Act) is available (in Italian) in the Corporate Information («Informativa Societaria») section of the Bank's website (www.popso.it). This document relates, among other things, the fact that BPS has not adopted the Code of Conduct approved by the Committee for Corporate Governance.

INTERNATIONAL UNIT

The serious financial turmoil that took place during the year inevitably had an impact on international trade. All world regions have been affected by the general uncertainty, some more so, risking a recession, some less so, merely slowing down their rate of growth; indeed, the most widespread and persistent feeling was one of uncertainty.

On the other hand, there are so many risks and unknowns that it could not be otherwise. Suffice to say that doubts were even raised about the survival of the euro, the currency that until a short time ago seemed destined to supplant the dollar for international settlements.

In such circumstances, it has been really hard for anyone to plan their work and manage the situation on a day-to-day basis, without being able to rely on traditional points of reference. Continuing to look beyond the hedge, the ability to adapt and react quickly to change turned out to be a key attribute for survival.

Faced with a never-ending crisis – and too many words about it have already been spent – for many Italian companies only one concept was really valid: seek new markets to take up the slack left by domestic demand that is unfortunately still on a slippery slope. On the other hand, if globalisation has brought us all of the problems of international finance, it also has to be said that globalisation has also given us a chance to access other economies. For our part, we did everything possible, in some cases almost the impossible, to support client companies in their efforts to internationalise. That means supporting activities designed to promote and sell Italian products and make investments for

productive or commercial ventures abroad. Our work has involved developing innovative products and extending the geographical areas that we serve directly.

Business missions abroad, participation in international fairs, bilateral meetings with foreign representatives, highlighting job opportunities, specialized assistance, business information, coverage of country, counterparty and financial risk are the main services that we have made available to companies. They often attracted widespread interest, thanks to the quality and continuity of information with which the various initiatives have been brought to the attention of numerous counterparties.

This is something that we have taken care of for years now with increasing focus and renewed commitment, well aware that direct and constant communication with customers is the foundation of our work and an indispensable tool for developing new opportunities. Sending our much appreciated Newsletters (Business Class, Agriculture of Quality, Soft Finance in Agriculture, Enterprise Europe, Education and Culture) by e-mail has therefore been intensified.

With regard to support material, we have also prepared a new product catalogue; the SEPA Direct Debit Guide and Brochure; an insert in Business Atlas 2011.

We have constantly updated and enriched the www.popso.it/estero section of our website; this section was consulted by more than 100,000 people during the year. Numbers that comfort us in terms of popularity and appreciation of our efforts.

In trade operations, in addition to our traditional partners, we have also used the collaboration of supranational development banks, particularly for the most difficult and delicate geographical areas, where we were able to develop interesting volumes of business.

Our involvement in international markets has been able to count on two representative offices, one in Hong Kong, the other in Shanghai – managed by Servizi Internazionali e Strutture Integrate 2000 Srl – and on 29 desks present in practically every continent to monitor the most dynamic business and financial centres. They act as reference points which are always much appreciated by companies in their efforts to expand into new markets.

Our collaboration with CBE-EEIG, a European Economic Interest Group based in Brussels, has continued. It specialises in information and assistance on EU and international project financing programmes, training activities, search for commercial partners, notice of tenders and contacts with EU institutions. The «Guide to European Instruments for Public Administrations and Local Authorities» was published during the year. We customised it and distributed it to those interested.

As in the past, we have been able to rely on qualified collaborations with major national and international counterparties, who have integrated and completed our range of products and services. Likewise, we have continued to work with SACE Spa to support customers involved in foreign markets.

In the strategic field of payment and collection systems we make use

of an innovative «multi-currency» platform, which has unified and integrated the various activities involved managing this specific segment: SEPA payments in and out; bankers' transfers in Italy and abroad in foreign currency; immigrant remittances and Western Union; collection of trade receivables («SEPA direct debits»). SEPA has the benefits of being streamlined and highly efficient. In addition, we can claim to be one of the few Italian banks ready to handle the 1 February 2014 deadline when SEPA, the Single Euro Payments Area, will be compulsory for 32 European countries.

During the year Det Norske Veritas, the certification agency, carried out its verification activities at the International Unit and at a number of peripheral offices abroad. The three quality certifications already in place have been fully confirmed: payment services, trade finance, repos and OTC derivatives. It is an important confirmation that the corporate structures have absorbed and apply in their day-to-day work rules of behaviour designed to improve the bank's image, optimize its internal organization and develop competitive advantages in the various marketplaces. Credit also has to go to constant staff training, as this is the driving force of our international business and a guarantee of its quality.

The results of our surveys on user satisfaction are comforting, as are the comments and feedback received from individual counterparties. In this regard, we would recall that «Eurogiro News», the monthly magazine of the universal postal system distributed throughout the world, devoted the entire back cover of its May 2011 issue to our international payment systems.

Global Compact

As part of the Global Compact project, which sets out to affirm the ten universal principles announced by the United Nations on economic growth that respects the rights of people and the environment, we have delivered to the offices in New York our annual report on the progress achieved during the year.

Among other things, we explained the role played by our cooperative bank in favour of areas where we operate, which we offer incentives and opportunities to progress not only from an economic standpoint, but also socially and culturally. A broad description is given in the chapter of this report devoted to the «Criteria for mutualistic activities».

The approach taken by the International Unit depends on the quantitative and qualitative importance of its services. We like to point out that a sense of proportion, as a regulator of banking activities, is fundamental also, and above all, in this area.

SERVICES, PROJECTS AND STRUCTURE

Sales and Marketing

Our corporate mission is essentially to offer retail services to households, institutions and small and medium-sized enterprises (SMEs), also focusing

on a few larger companies. The competitiveness of what we offer, which is reflected in our growth in volumes and market shares, favours the development of the areas served, allowing us to exercise our role in the communities where we operate to the full. Having reiterated the centrality of our customers, to whom we dedicate our professionalism and assistance, we turned to savers, bewildered by the turmoil in financial markets, with equilibrium and transparency, confirming our financial support and continuous refinement of IT and organisational procedures for the constant improvement of service quality.

In updating our range of products and services, we aimed to diversify investment opportunities and ensure that they satisfied market trends. The line of management of the GPF Azionaria Clean Energy reflects this objective; the «Euro Corporate Bond» segment of Popso (Suisse) Investment Fund SICAV; the mutual funds of Arca SGR «Arca Cedola Bond Globale Euro III», «Arca Cedola Bond Paesi Emergenti» and «Arca Bond Paesi Emergenti Valuta Locale».

In addition, Arca's «Risparmia & Consolida» service, which combines a liquidity fund with another kind of fund-based accumulation plan of your choice.

For the same purpose, Arca offered its «Arca Vita Energy» and «Valorettempo», which are both insurance policies with guaranteed capital and a guaranteed minimum yield. «Arca SoluzioneStrada» and «RiparaCasa» integrate the non-life insurance policies of Arca Assicurazioni to provide coverage for road accidents and protection of the home.

«Carta +ma» is a prepaid credit card with an IBAN, which allows the holder to carry out the basic transactions typical of a current account. It is an innovative tool designed especially for youngsters. It also meets the needs of those people – pensioners in particular – who, for legal reasons, had to communicate their bank account details to the Public Administration so that they could be credited with the amounts owing to them.

The progressive enrichment of the features of SCRIGNO corporate internet banking, to which we devote attention and resources, includes the development of SCRIGNO Mobile, through which it is possible to recharge prepaid credit cards.

We were the first bank in Italy to issue and pay «work vouchers». Indeed, the entire project was launched on our initiative, in collaboration with INPS (Italian Social Security) and the Central Institute of Italian Cooperative Banks. These vouchers are designed to make life easier for the users, which are businesses and workers, and to increase the effectiveness of the service in terms of providing opportunities for casual labour.

We took part in a tender and were allocated funds by Finlombarda to recapitalize social cooperatives. We are gratified by this success at a regional level and by the cooperation that we have established with various dynamic entities in our territories.

In recognition of our efforts to ensure quality of service, we were awarded the «Value Creators» prize as «Best Bank» at the «Milano Finanza Awards 2011».

Euro Corporate Bond, Arca Cedola Bond Total Euro III, Arca Cedola Bond Paesi Emergenti, Arca Bond Paesi Emergenti Valuta Locale, Risparmia & Consolida

«Arca Vita Energy», «Valorettempo», «Arca SoluzioneStrada», «RiparaCasa»

Carta +ma

SCRIGNO



Central offices

The following comments relate to core services and functions, whose contribution helps to strengthen and upgrade the quality of what we offer.

SOSI

SOSI is the Bank's Organisation and IT Systems Department, which looks after the technological and organisational structure of the Bank; it is a complex and dynamic environment fuelled by professionalism, a desire for innovation, investments and long-term commitment. They have got through such a huge number of projects and interventions that it is impossible to list here everything that they have done and planned for the future.

We would merely point out that attention is paid both to key applications for the banking business – such as branch operations, the payment system, the on-line channel and many other sectors – and to the operational compliance with the regulations governing the various sectors. Collaboration is restricted to companies belonging to our Banking Group, with the aim of increasing the level of functional integration.

Worth mentioning are the activities aimed at ensuring business continuity in the event of a disaster; in this regard, both the fifth global test and the partial ones relating to the server farm and the central computer were carried out during the year and were all successful.

Public Entities and Treasury Offices

The Public Entities and Treasury Offices Department successfully supports the Bank's operations, with the help of adequate technological tools, progressively expanding the number of contracts for the management of the treasury, cashier and collection services. The new contracts acquired in 2011 are important in terms of both quality and quantity.

Institutions, especially public ones, including those of national interest, form an important part of our preferred clientele. The related investments allow us to operate efficiently and competitively for the benefit of the community.

Virtual Unit

The Virtual Unit, which specialises in offering remote services, dedicated mainly to professionals, has consolidated its positions. Its distinctive elements include the efficiency of its staff, who also manage the related call centre with style and a sense of customer care, and its technological supports, which are constantly updated. Elements that help further enhance the reputation of the bank, also at a national level. As the saying goes: technology facilitates relationships, but it mustn't take the place of human contact.

Corporate Finance

The Corporate Finance Department has continued to provide support to the branches in analysing corporate debt restructurings, which have become more and more frequent during the year because of the ongoing crisis in the economy and financial tensions. A service that we have been providing to private contractors and managers of public works and the promoters of renewable energy facilities is the certification of their business plans.

This department has continued to work with other areas of the bank in analysing extraordinary transactions involving affiliated companies and has started a fruitful collaboration with the custodian bank office, particularly with reference to specific checks on closed-end funds.

The Planning and Control Department is the privileged interlocutor of those who, in the exercise of their governance and supervisory functions, are required to ensure the «sound and prudent management» of the bank and hence its stability. In this capacity, the department continuously verifies that the pillars of business management – profitability, risk, liquidity and capitalisation – evolve in a harmonious way.

This involves an assiduous commitment, specialized skills, the use of advanced methodologies and tools, in a challenge that is as onerous as it is stimulating, which the department handles with a sense of awareness and enthusiasm. The most significant efforts have been devoted to annual and long-term planning; estimating future liquidity; enriching the information made available to support preliminary loan investigations and for the monitoring and pricing of credit; assessing capital adequacy also in relation to the introduction of Basel 3; developing a system to measure the risk inherent in working with banking counterparties; monitoring returns on specific marketing campaigns. Considerable energy has been spent on adapting control processes to new prudential regulations over time as they are issued, in order to monitor effectively the areas most exposed to risk.

The Summary Systems Office handles the delicate issue of reporting to the Supervisory Body and was located during the year as part of the Planning and Control Department to ensure consistency of information released to the control agencies. It has seen its workload rise because of the increase in regulatory procedures that have to be complied with. Prudential disclosures have been amended considerably, especially with regard to capital for supervisory purposes and the more important types of risk. At the same time, reporting deadlines have been reduced, because of the need on the part of national and international supervisory bodies to pick up any signs of instability in the financial system more promptly.

Our Technical, Health and Safety Department provides support to the territorial network and the central offices, fitting out new branches and modernising old ones, including maintenance works. In 2011 it completed 42 interventions of this kind; and currently there are 13 sites open where work is continuing. A significant commitment which also aims for functional and aesthetic quality, as well as tight control over costs, while complying with the rules on safety and hygiene in the workplace.

The total floor area of property owned by the Bank covers 134,400 sq.m., of which 8,041 sq.m. held under finance leases, with a total volume of 410,216 cu.m. The surface area of the land owned by the Bank comes to 78,773 sq.m.

The total book value of these properties, net of depreciation, amounts to 82.182 million for those owned and 31.852 million for those being bought under finance leases. Additions to owned property for purchases and restructurings in 2011 amounted to 4.769 million, while decreases for depreciation came to 2.831 million; as regards those being bought under finance leases, there are additions of 0.450 million and reductions for depreciation and redemptions of 1.011 million. The market value of the Bank's property reflects significant unrealised capital gains. We own 44 buildings and 49 units in condominiums. Banking operations are carried on in 63

The view of Trezzo Castle is the only eccentric work, because it is outwith the territory covered by Pictorial and historical journey to the three Lakes: Maggiore, Lugano and Como published by Bernucca in Milan in 1815. But, as the note accompanying the aquatint states, «it was thought that this could be added to the views of the three lakes, since beneath Trezzo, through which flows the Adda, there is the Martesana canal, which provides a means of communication between the capital and Lake Como». The Martesana canal, built initially for irrigation purposes by Francesco Sforza in 1457, was rendered completely navigable, with the completion of the Paderno canal in 1777 by the Austrian government of Maria Teresa. Its inclusion, then, was particularly welcomed by the new government of Lombardy-Veneto, headed at the time by the Count of Bellegarde, who was also a native of Dresden and thus a fellow citizen of Federico and Carolina Lose.

Again at the beginning of the 1800s, the ruins of the castle – where in 1385 Bernabò Visconti, who had constructed it, was imprisoned and poisoned by his nephew Gian Galeazzo – were more or less intact, but “respected by time, they were ruined by the greed of men”, who used them as building materials. Among the ruins, the remains can be seen of the large one-arched bridge that united the bank on the Bergamo side with that on the Milan side and which was pulled down in 1416 by Carmagnola’s troops serving under Filippo Maria Visconti. The Federico Lose view, etched originally and splendidly coloured by hand by his wife Carolina, was sold by Bernucca, together with all the etchings in the album, to the bookseller Gio. Pietro Giegler. The specimen from Bps’s collection forms part of Giegler’s reprint.

FEDERICO AND CAROLINA LOSE

Friedrich Lose (Görlitz 1776 - Milan 1833) and Caroline von Schlieben (Dresden 1784 - Milan 1837), daughter of a counselor of the Court of Appeal, started their courtship during their artistic apprenticeship in Dresden, but when they married, he had already been in Paris for some time, to complete his artistic training. They left Paris in 1805, with the Viceroy of the Kingdom of Italy, Eugenio Beauharnais, for Milan, where Friedrich found a job with the *Bureau Tipografico francese*, while Caroline initially took up sewing fabric decorations. With the fall of Napoleon and the end of the Kingdom of Italy in 1814, they decided to stay in Milan for good, dedicating themselves to drawing and etching urban and landscape views of Lombardy. Federico and Carolina Lose, he with his drawings and she with her etchings and colouring of his views, thus became two artists that, in depicting landscapes, translated the romantic vision of nature absorbed in their youth from the pages of Rousseau.

They signed their first “pictorial views” in 1814 for a Bettalli brothers’ album and for the Artarias of Milan. They also produced a large part of the panels for the *Pictorial and historical journey to the three Lakes: Maggiore, Lugano and Como* published between 1815 and 1821 by Bernucca, but it was in 1823 that the two spouses brought themselves to the attention of publishers and collectors of prints with their *Pictorial journey in the mountains of Brianza*, which was followed the year after by *Pictorial and historical journey to Mount Spluga* by Federico Lose on his own. Again in 1839, when, by then, the two spouses had died, the publisher Carlo Corbetta of Monza republished the *Pictorial journey in the mountains of Brianza* with the title *24 greatest pictorial views in the mountains of Brianza*.

Federico and Carolina Lose

View of the ancient Castle of Trezzo upon Adda, 1815

Aquatint, 160 x 210 mm





Federico and Carolina Lose
Lake Annone in the mountains of Brianza, 1823
Aquatint, 200 x 290 mm

With the publication in 1823 of Pictorial journey in the mountains of Brianza by Federico and Carolina Lose, the romantic discovery of Brianza began, a few years after the first edition of The Betrothed (1827) in which, right from the famous opening words («That branch of Lake Como...»), the Brianza landscape became the setting for high quality literature. It is sufficient to think of Lucia's famous «Farewell mountains...». Of the twenty four views in the album, that of Lake Annone is, deservedly, one of the most famous. The small villages dot the broad scene of nature where all is peace and harmony and where the hunter with his dogs and the small boat in the middle of the lake are enough to give human meaning to the landscape. The outer ends of the mountains in the background close in on the trees in the foreground, but are projected, with a magnificent reflection on the water that mirrors and depicts the sky and the earth. Originally etched and hand coloured by Carolina Lose, Federico Lose's 24 views were republished in 1839 by the Monzese publisher Carlo Corbetta, in a double version, "coloured" and in black. The specimen shown here belongs to this edition.



properties owned by the Bank and in 373 leased premises, including 9 held under finance leases.

Security

The Security Department has increased its efficacy in guaranteeing the physical and IT security for the protection of the Bank's personnel, assets and operations, working together with the other central structures. Attention is paid primarily to the prevention of robberies at the branches, fine-tuning security devices and deterrents, as well as the prevention of computer fraud, a battle that affects the entire system.

Supply Office

The Supply Office supports our operations and development by handling all of the supply and logistics processes for the benefit of the various operating structures, also with a view to holding down costs.

This intense activity is accompanied by the refinement of IT and organizational procedures, aimed at ensuring the efficient administration of purchases, property and archives. Of importance, among other things, is the search for the best insurance solutions in terms of both coverage and price.

Legal and Claims Department

The intense work of the Legal and Claims Department is related essentially to giving advice to the bank's central and peripheral offices, prompt cooperation with the Authorities carrying out various types of inspections and handling debt recovery.

As regards this last activity, which has unfortunately grown because of the negative trends in the economy, we can only reiterate the inefficiency of litigation, especially in terms of time, which inevitably reduces the amount that can be recovered.

Compliance Unit

The Compliance Unit contributes to the system of internal controls, which is designed to prevent legal and reputational risks in relation to compliance with legislation, particularly in defence of certain customer relationships.

The goal is to maintain and, where possible, further consolidate the bank's operational regularity, supporting the traditional corporate culture founded on transparent and correct behaviour on the part of the staff. We are comforted by the limited amount of complaints about our investment services and the transparency of our banking services in general. In any case, all complaints are dealt with promptly.

Of importance are the activities relating to regulatory instructions and specific interventions by the Supervisory Authorities, performed both directly and in collaboration with management.

Anti-money laundering

An AML function was set up during the year in accordance with specific instructions issued by the Bank of Italy. Included in the system of internal controls, this function has unified the management and mitigation of the risk of money laundering and terrorist financing. The new structure, while performing the tasks of planning, coordination and verification in relation to the bank's risk management policies on money laundering, also within the Banking Group, pays attention not only to the effectiveness of its IT and organizational tools, but also to staff training and the updating of documentary supports for the benefit of operators, who also receive adequate assistance.

Internal Audit Department

We end with the Internal Audit Department, previously known as the Inspectorate, which is the structure at the top of the internal control system,

which means that it also has to carry out checks on the other control functions, as well as analysing processes to assess the related risks.

The intense and delicate task of performing such checks continues to cover all of the centralized and peripheral units, through the head office and branch audit offices, with the objective of checking operational regularity in relation to the external and internal legislative framework, which is in constant evolution. In 2011 the department carried out 511 local and remote audit visits, including 99 together with the Board of Statutory Auditors. The new anti-money laundering rules have meant updating the related checklists; of significance in this area are the checks on proper input and management of the Single Computer Archive.

RISK MANAGEMENT

External reporting on risk management has expanded yet again: In addition to the usual tasks of preparing the pertinent sections of the financial statements, publication of various matters to be disclosed to the public on the Bank's website, preparing the Internal Capital Adequacy Assessment Process (ICAAP) Report, reporting to the Bank of Italy on the liquidity situation, updating the questionnaires of the Basel Committee on the impact of the new rules and those of Fitch Ratings for the annual review meeting, Fitch and the Bank of Italy have now added further requirements. And to crown it all, the Bank of Italy carried out its routine inspection from 15 February to 8 July.

As regards liquidity risk, the bank has updated and refined its monitoring tools, in accordance with the instructions of the competent bodies, the directives of the Bank of Italy and the Basel 3 rules. At present, the bank prepares a daily «operational» liquidity position looking forward to the next three months. This is done for the entire banking Group by means of a maturity ladder, which shows the expected cash balances on the basis of outstanding or planned contracts. Monitoring also enables us to produce a detailed report for the Supervisory Authority and for internal use on aspects of the liquidity situation, such as: reserves represented above all by freely negotiable securities; outstanding interbank positions; principal providers of finance; the trend in set market indicators; the contribution of Group entities to the consolidated position.

Alongside the enhancement of daily monitoring, we launched a structured project to adapt the tools for the calculation of the short and long-term liquidity indicators required by Basel 3. The development and updating of software and expansion of the reference database are currently underway for this purpose. On the subject of credit risk, as regards estimating PD (Probability of Default), the Parent Bank uses internally developed rating models, which cover the following segments: Individuals, Small Businesses, Micro-Enterprises, SMEs, Large Companies and Public Enterprises. As regards the rating models for these customer segments, we first launched a project to check the accuracy of the qualitative information gathered for Small Businesses, Micro-Enterprises and SMEs. Greater automation is also now

used in the calculation of extemporary ratings for Large Companies, Public Enterprises and Financial Holding Companies (performed as part of the preliminary investigation or review of relationships). The ratings for these counterparties are then updated automatically on a global basis once a month.

As regards the periodic monitoring of the forecasting ability of internal rating models, we focused on restructuring and refining the methods aimed at controlling their validity on a retrospective basis (known as «back-testing»). Based on the evidence that we gathered, in the second half of the year we carried out a review of the quality models and their rating scales.

In addition, efforts were made to satisfy the growing needs for segment information to be fed into internal rating models. A profound knowledge of reference markets, so as to understand the risk involved in a specific sector in a specific geographical area, is a success factor for any bank. It helps set a proper lending strategy, allowing it to accept customers with the best combinations of risk/return, now and in the future. In this context, we decided to acquire specialist information from a leading national service provider, gradually making it available to the internal structures of the bank.

Lastly, during the year we automated and refined a procedure to assess the value of each credit position or economic-legal group from a risk/return point of view. Using this procedure provides useful elements during investigations and performance monitoring, to help understand the effective value generation of each position. It also allows the bank to intervene, if necessary, to restore an adequate level of profitability.

With respect to market risks (interest rate, exchange rate and stock price), after a first half without any particular problems, from the middle of July there were frequent overruns of the operating limits expressed in terms of daily VaR (Value at Risk), both globally and on the three individual risk factors. As always, together with VaR, the level of capital absorption is also calculated by converting the daily VaR into a prospective VaR, which takes account of the number of working days until the end of the year, and adds to this the absolute value of net losses and any net capital losses incurred on securities since the start of the year. Following the emergence of substantial losses, after the well-known tensions that arose on international financial markets, this capital absorption, with a high of 189.235 million on 25 November, in turn overran, on a couple of occasions, the directional limit (Maximum Acceptable Loss, or MAL) initially set by the Board of Directors at 100 million: On 5 August – 131.033 million when the MAL had already been increased to 130 – and on 9 and 10 November – 180.457 and 176.455 million, respectively, just before the MAL was again increased from 175 to 220 million. Limited exposure to the market risk inherent in derivatives (in the strictest sense) is reflected in a specific average VaR for the year of around 93 thousand euro, with a high of less than 304 thousand. As regards the credit risk (counterparty and issuer) involved in the financial activity, as always, we have carried out daily measurements of capital absorption and maximum capital absorption, which we calculate by weighting drawdowns and lines of credit by means of coefficients linked to the credit worthiness of each counterparty/issuer. The following are also identified: the maximum credit,

weighted as above, granted to individual counterparties/issuers or groups of counterparties/issuers (individual counterparty risk); the total weighted lines of credit granted to the top ten individual counterparties/issuers or groups of counterparties/issuers (concentration risk); the total lines of credit granted to counterparties/issuers from the same nation (excluding Italy), weighted by the macroclass to which that nation belongs (country risk).

This information is set out in the following table

(in thousands of euro)	31/12/2011	Average	Minimum	Maximum	Limit
Capital absorption	103,738	90,290	72,436	122,848	100,000*
Maximum capital absorption	245,719	242,583	240,371	256,466	265,000
Individual counterparty risk	15,000	15,278	15,000	24,450	15,900
Concentration risk	83,697	80,133	78,375	91,665	92,750
Country risk	23,811	24,478	23,811	33,711	26,500

* For capital absorption it is not really an upper limit, rather a threshold of concern.

Please note that «individual counterparty risk» has always originated from the exposure to Banca Popolare di Sondrio (SUISSE) SA, whose values have also been an important component of both concentration risk (as it was always included among the top ten counterparties) and country risk (as it always referred to Switzerland).

If we take a broader perspective, namely the last decade, and compare the growth of the Maximum Acceptable Loss on counterparty and issuer risk (from 250 million in 2002 to 265 today) with the market risk (60 to 220 million) you might think that the bank has greatly accentuated its propensity towards this type of risk. It should be noted, however, that if the exposure to issuer risk does not include any absorption for Italian government bonds, there is no doubt that they are to blame for the losses that instead are attributed to capital absorption for market risk, given that it is not easy to split price changes due to changes in interest rates from those attributable to changes in the creditworthiness of the issuer.

The measurement of interest rate risk on the entire balance sheet is done through the ALM (Asset & Liability Management) procedure that we have been using for many years.

The analysis of average financial duration provides a measure of the immediate change in the net value of assets and liabilities in the event of a 1% increase in interest rates: the monthly analyses for 2011 averaged -49.361 million; the last measurement at 31 December showed a figure of -36.138 million, minimum figure from January 2008. The analysis of mismatches measures the potential change in net interest income for the year in the event of a 1% decrease in interest rates: the monthly analyses for 2011 averaged -19.512 million; the measurement at 31 December showed a figure of -22.778 million. The scenario analysis provides a measurement of the difference between the future net interest margin for the next twelve months after the calculation date in the best and worst case scenarios: the monthly analyses

for 2011 averaged -29.516 million; the measurement at 31 December showed a figure of -69.484 million.

A project to develop a structural maturity ladder is being implemented, focusing specifically on the realization of a meticulous system of squaring and automatic control of the data.

As regards operational risk, the Parent Bank monitors it through a structured control system that uses a combination of quantitative and qualitative information. Regarding the first aspect, work continues on the measurement and recording of operating losses actually suffered, the analysis of the reasons for loss events and the monitoring of the events themselves, paying particular attention to material losses and phenomena that appear irregularly. All of this in order to identify the areas on which to act to reduce the risk.

As regards the «qualitative» aspect – the review of business process analyses and the assessment of the related risks and existing controls – gradually makes it possible to obtain estimates of operational risk that the Group could potentially run, as close as possible to the changing realities of the business.

The internal audit activity has continued on two fronts. On the one hand, it has carried out analyses of risk-based processes to identify operating risks within the individual activities, so as to give a score determined on the basis of two variables, frequency and impact, and to assess the effectiveness of existing controls. All of this with a view to making an overall assessment of the internal control system.

On the other hand, through the more traditional audit activity, it has systematically verified the operational aspects of the branch network and of certain central offices, always with a view to achieving better control over all operational risks.

Lastly, the fifth annual global test of the business continuity plan was carried out successfully in December 2011. The test was conducted at the alternative site, in specially equipped premises at the bank's Lecco branch. In accordance with usual practice, this involved repeating the operations that are typical of certain banking processes. As regards the disaster recovery plan, tests were carried out successfully during the year, with periodic testing of data recovery and the verification of operations relating to the different components of the bank's information system: mainframe services, Internet/intranet systems provided by departmental systems linked to the corporate server farm, local workstations and data transmission networks.

HUMAN RESOURCES

For us, our employees have always been a distinctive factor in relationships with customers. They are the element that has given us an important competitive advantage, allowing us to achieve significant growth thanks to our ability to satisfy changing market needs on a timely basis, in a situation where the regulatory framework is constantly evolving. Equally, the ability to broaden and deepen relationships, gradually increasing market

shares in the new areas that we decide to enter year after year.

A distinguishing factor that the vicissitudes of financial markets and the economic situation did not in any way tarnish.

Indeed, the current difficulties have further highlighted the qualities of our people, able to observe, along with their customary helpfulness and style, the principles of balance, prudence and common sense. This has made it possible, among other things, to achieve the primary objective of allowing customers to make sensible decisions based on their individual profiles. The main objective being long-term relationships based on transparency and fairness.

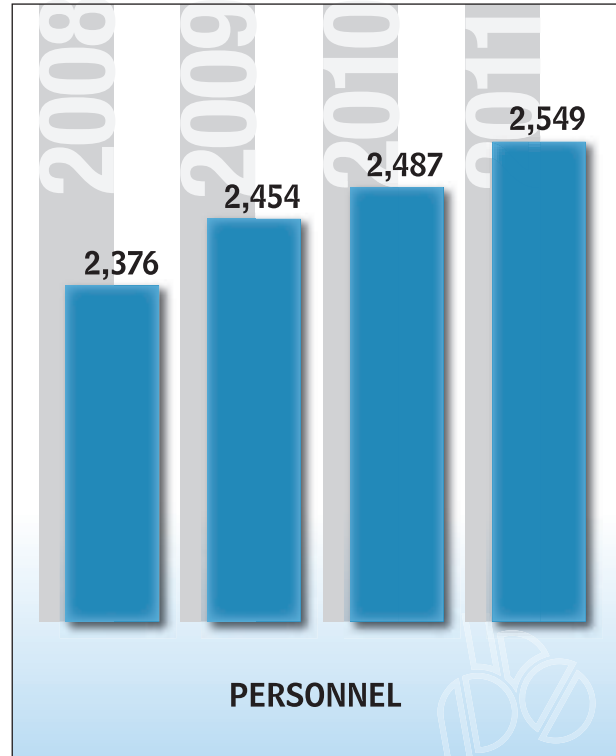
A policy that the bank applies through the selection of new hires, according to internal lines of development, appropriate training programmes and careful management of the staff at each operating units. This also enables us to enhance the various elements of the corporate structure, based on territorial roots

and on the flexibility and strength of the relationship with its counterparts, so as to readily grasp the customer's needs and properly assess their creditworthiness.

At year-end the workforce consisted of 2,549 persons, an increase of 62, +2.49%. 77% of employees worked in the branches and 23% at the central offices. The average age of employees at the year-end was 37 years, while the average period of service was 12 years 11 months, both five months more than a year earlier.

HR management has been focusing essentially on covering the staff requirements of the peripheral and central units, due to the start-up of new branches or the need to reinforce the personnel in a particular unit through internal rotations and the inclusion of new resources. Particular attention has been devoted to the definition of appropriate career paths, especially through performance assessments, recognition of skills and the analysis of potential, as well as organising targeted functional training and on-the-job coaching. This last aspect is inherent in our corporate culture, being implemented in practice thanks to the willingness of the more experienced staff to act as mentors for the younger generation.

These actions were also refined by the HR Department when they reviewed and updated the professional organisation of the branch network. This is based, as mentioned previously, on the recognition of skills, performed with the assistance of managers and employees responsible for the various branch duties, through the evaluation of levels of supervision and operational autonomy on the part of the employee; on the theoretical and methodological knowledge needed to operate; on the ability to activate organizational behaviours that are essential for the position.



Intensive training has been given through a combination of classroom sessions and on-line multimedia courses that are kept constantly updated. Classroom training, which takes place in a climate of open and lively discussion, involved 2,006 participants during 2011, for a total of 64,685 man/hours, whereas 2,470 employees took multimedia courses for a total of 60,585 man/hours.

Attention has been given to training on sector legislation, such as transparency in bank services and on anti-money laundering and anti-terrorism, regulated by D.Lgs. 231/2007, which involved branch managers, their deputies and the relevant contact persons at the branches. In addition, with reference to ISVAP Regulation 5 of 16 October 2006, we also ran courses on insurance brokerage for new-hires and already qualified employees, as well as on business continuity.

Classroom training focused on the key operational areas, the most important being the credit and loans sector with its various technical elements and risk assessment. Attention has again been given to the services of the treasury and cash management department and to refining the level of communication between tellers and customers.

Given the positive feedback in previous years, various editions of the so-called «Development Centre» were organised for new recruits and deputy branch managers. This is an educational tool that is much appreciated, involving case studies and exercises. It gives participants responsibility for their own personal and professional growth, also in terms of self-diagnosis to gain awareness of strengths and areas for improvement.

We dedicated five weekly training modules to new hires, with in-house staff acting as lecturers, concentrating on the key operational areas from a technical and organizational point of view, as well as from that of regulatory compliance. This specific programme involved 380 youngsters and 15 branch managers as tutors, who had already received special training.

The multimedia courses were mainly on the issues of money laundering, transparency of banking services, privacy and the administrative responsibility of companies.

As regards regulatory issues, there was the revision of the rules governing the apprenticeship contract, which have to be implemented on renewal of the National Collective Labour Contract for the banking industry, which expired on 31 December 2010. Negotiations for renewal of the contract continued during 2011 and it has since been signed during the current year.

Relations with the Trade Unions continue to be based on reciprocal respect.

Perhaps we have talked a bit too much about human resources; but for us this is a very important subject and we are very proud of our staff.

PROMOTIONAL AND CULTURAL ACTIVITIES

Investing in culture as well. Making use of resources, a typical aspect of banking, is combined by us with attention to the world of art, history and

traditions. A straightforward choice that has characterized the bank for years, especially our attempt to act in a «popular» key. This means working to attract a wider audience to the cultural events that we organize directly, allowing more and more people to appreciate the often little known treasures of our land. We dedicate special attention to young people, especially in trying to get them used to more frequent contact and familiarity with intellectual and artistic forms of expression. It is a way of enriching the range of opportunities open to them during the educational process. An action of social value, which finds «universal» expression and access through our new website <http://nonsolobanca.popso.it>, which has sections on culture and leisure.

In light of the above, we will now retrace what has been achieved during the past year.

We celebrated forty years of conferences – the first was held on 13 February 1971, when the guest was Professor Libero Lenti – with a full schedule.

On 28 January 2011, we had Professor Guido Tabellini, Rector of the Università Commerciale Luigi Bocconi of Milan, who spoke about «What future for the economy in Europe». On 18 February, Michele Fazioli, a reporter from RSI – Swiss Broadcasting in Italian, entertained the audience on «Information against the light. Beauty and dangers of the media revolution». Professor Sergio Romano, who has spoken to us already in 1998, on 14 May 2011 spoke on the highly topical subject of «A new Mediterranean: the North African uprisings, Italy and Europe».

After the summer break, on 8 September, we hosted Massimo Moratti, President of F.C. Internazionale Milano, who with teamplayer Ivan Ramiro Cordoba entertained a great many fans of «The game of football». This was followed on 29 September by a conference held by Isabella Bossi Fedrigotti, writer and journalist, who spoke of her latest work, «My love, kill Garibaldi». On 7 October 2011, Professor Umberto Eco, the most famous living Italian writer in the world, spoke in his inimitable style «In praise of bibliophiles». Carlo De Benedetti, Honorary Chairman of CIR spa, was our guest for the third time on 17 October 2011, when he spoke on «Protests and inequality».

The series of meetings ended on 18 November 2011 with a round table on the figure of Don Luigi Guanella, founder of the Congregation of the Daughters of Our Lady of Providence and the Congregation of the Servants of Charity, known as the Opera Don Guanella. He was the first saint ever to be born in the province of Sondrio and was canonized by the Pope on 23 October 2011. The talk was introduced by Serena Ciserani, Mother Superior of the Daughters of Our Lady of Providence and Alfonso Crippa, Father Superior of the Servants of Charity. Don Fabio Pallotta, Head of Guanellian Community La Posada del Buen Samaritan (Spain), spoke on the theme «Don Guanella, Valtellinese and Saint»; talks were then given by Sister Franca Vendramin, a Guanellian nun, who spoke on «Don Guanella, from his mountains to the entire world» and Antonio Valentini, a Guanellian secular, who spoke on «Don Guanella: his favourite travelling companions: the disabled».

Shareholders who attended the AGM on 9 April 2011 in Bormio were given a gift box entitled «Valtellina and the Risorgimento», enriched by an



Federico Lose
Campo Dolcino, 1824
Aquatint, 135 x 190 mm

“The earth’s truce”, was how Giovanni Bertacchi called Campodolcino, alluding to its serene gentleness, consistent with its name, with its wide hollow of meadows that opened up at an altitude of over a thousand metres amongst the sombre harshness of Spluga’s solid mass. It is like an expanse of green amongst the peaks and rocks is how Federico Lose described it in this aquatint etched and coloured by him, the same year in which, on completion of the Swiss side, the new Spluga road opened between Chiavenna and Chur, of which his Pictorial and historical journey to Mount Spluga is one of the first testimonies, dedicated to Prince Ranieri, who had wanted the road on the Italian side. The view was taken from the stretch of road that descends from Pianazzo and shows, in the centre, the fraction of Corti, behind which can be seen in the distance the church of S. Giovanni, while on the right, at the foot of the cliff top, can be seen the fractions of Tini and Portarezza.



Johann Jacob Meyer - Rudolf Bodmer (etcher)
Campo Dolcino arriving from Chiavenna, 1826
 Aquatint, 140 x 190 mm

JOHANN JACOB MEYER

(Meilen 1787 - Zurich 1858)

Swiss painter and etcher, a pupil of Heinrich Füssli, he started working drawing prints for the publishers Ostervald of Neuchâtel, but soon affirmed himself for his views of Swiss landscapes, which were masterfully designed and of a refined romantic sensitivity. In the summer of 1823, after the new Spluga and San Bernardino roads had been opened, he stayed for two months in Grisons, where he did his drawings for the 32 aquatints for the album *Die Bergstrasse durch den Canton Graubündten nach den Langen- und Comer-See* ("The mountain road from the Grisons Canton to Lake Maggiore and Lake Como"), an authentic masterpiece of its kind, published by Meyer in Zurich in 1826 with notes by the German doctor and scientist Johann Gottfried Ebel, his travelling companion, author in 1793 of the first and extremely fortunate tourist guide to Switzerland. In 1831 Meyer then published a second album of 36 aquatints dedicated to the new Stelvio road, *Mahlerische Reise auf der neuen Kunst-Strasse aus dem Etschthal in Tyrol über das Stilfer-Joch durch das Veltlin längs dem Comersee nach Mayland* ("Pictorial journey along the new road from Tyrol across the Stelvio and along the Valtellina and Lake Como to Milan"). He was also a renowned author of watercolours, some of which were bought in 1839 by Federico Guglielmo III of Prussia, while others were commissioned in 1842 by the family of the Tsar of Russia. He died in Zurich in 1858.

To give a sense of the soothing gentle landscape of Campdolcino, corresponding to its etymology, Meyer inverted for once the direction of his journey from Chur to the banks of Lake Como along the Spluga pass and chose the stretch of road that, from Chiavenna, arrives at the junction in front of the church of S. Giovanni Battista, before the bridge that crosses the Rabbiosa mountain stream.

To lead the eye into the scene, there are two wayfarers in the foreground, Meyer himself and his travelling companion, Doctor Johann Gottfried Ebel. The small, picturesque church – renovated and extended to three naves in the second half of the 1800s – presents itself as an oasis of tranquillity along the rugged Spluga road. Then the eye looks to the left where one of the most characteristic spots of the Campdolcino hollow opens out, with the group of Corti houses under the spur of the Motta Alps and, in the distance, the summit and the long crest of the Pizzo Tambò glacier that descends to the Spluga pass. From the gentleness of the religious oasis in the foreground and the spreading meadows, the eye then rises to right to the sublime heights of the peaks, with gradually growing sentiment, typical of the romantic soul faced by alpine nature.

authoritative message from the President of the Republic Giorgio Napolitano. This was to commemorate the 150th Anniversary of the Unification of Italy and the 140th Anniversary of our bank's foundation. The box contained reprints of two extremely rare works of art by Valtellina artists from that period. «Observations on the condition of the Valtellina at that time» by Luigi Torelli, patriot and senator; «Summary of political affairs of the Valtellina from March 1848 to 1859» by Antonio Maffei, Archpriest of Sondrio and intellectual. These two booklets are accompanied by a third that contains an essay by the historian and journalist Franco Monteforte, introduced by a qualified contribution by Arturo Colombo, a writer on political doctrines.

The 2010 financial statements of the Parent Bank and its Swiss subsidiary were accompanied by interesting cultural inserts. Namely: a selection of twentieth century paintings and sculptures owned by the bank, introduced by the writer Paola Capriolo and commented on by Franco Monteforte; a monograph devoted to Adriano Olivetti, industrialist, intellectual and politician – the son of Camillo, the founder of Olivetti – who was born in Ivrea in 1901 and died in Aigle, Canton Vaud, in 1960.

This year's promotional material includes the 15th edition of the diary book by Gigliola Magrini, entitled «Writing».

On the occasion of the 10th edition of «Invito a Palazzo», on 1 October 2011, we organised guided tours of the bank's head office, in particular its art collection, the Luigi Credaro Library and the Carlo Donegani Museum at the Stelvio Pass.

Thinking of the young, to celebrate the 87th World Savings Day, we donated to the high schools in the province of Sondrio the volume «Banks and Italy», with an attached DVD entitled: «Banks under the spotlight». Our Credaro library in Sondrio has increased both the amount of material available and the number of visitors. It also hosted high quality exhibitions: a photography exhibition entitled «Salvatore Quasimodo-Worker of Dreams»; an exhibition entitled «Coins and medals that recount the Unification of Italy», as part of the celebrations for the unification of Italy; «Carlo Donegani: a path to follow. Genius and technique on Alpine roads» in collaboration with the High School Donegani of Sondrio, subsequently presented also at our branches in Bormio and Chiavenna.

The Credaro Library has also partnered with the Sondrio Institute for the History of the Resistance and the Contemporary Age and the organisation of a conference «Protagonists, thoughts and projects in the history of united Italy», held in Sondrio, at the Besta hall of the bank, on 2 December 2011, and a meeting on the theme «The formation of man and citizen, between school and family, through the archives of Luigi Credaro and Giulio Spini».

A third event was held in Bormio towards the end of the year dedicated to «Pablo Neruda and the Mountains» on the subject of poetry and music. It was held on 29 December 2011 at the conference hall of the Bormio Thermal Baths, coordinated by Professor Leo Schena and held in collaboration with the town's Cultural Commission.

We willingly contributed to the exhibition «Fragmentations» of the artist Valerio Righini, painter and sculptor, held at our Bormio branch as part of the

19th edition of «Cardiological days in Bormio», under the aegis of Professor Livio Dei Cas. The hall at the Donegani Museum at the Stelvio Pass and, subsequently, the branch of Bormio hosted the interesting exhibition «When Italian soldiers wrote out of the blue. World War II letters from the front», an interesting collection of postcards of that time, collected by Edo Mezzera.

The traditional spirit of friendship and sportsmanship characterised the two interbank ski competitions held at the Stelvio on 21 and 22 October 2011, respectively the 2nd Quadrangular Interbank Meeting – Intesa Sanpaolo, UniCredit, Deutsche Bank, Banca Popolare di Sondrio – and 10th Pirovano Interbank Meeting, with the participation of 138 athletes representing 14 institutions. A book by Bepi Magrin «Words from the Glaciers» was also presented on this occasion. The book recounts episodes of the 1915-1918 war in the mountains between the Stelvio and Gavia, dedicated to Arnaldo Berni, a brave soldier from Mantua.

An interesting collaboration agreement with the IULM University of Milan, of which we are cashiers, to hold lectures and training courses at Pirovano.

Mapei Day, sponsored by Mr & Mrs Squinzi, continues successfully; we contribute to the organisation of this event together with the Bormio Athletics Union and our subsidiary Pirovano Stelvio. The 7th edition, which was held on 17 July 2011, saw the participation, on the demanding route from Bormio to the Stelvio Pass, of about 3,000 athletes, including runners, cyclists – many enrolled for the 26th Re Stelvio, a competitive race – and rollerski specialists.

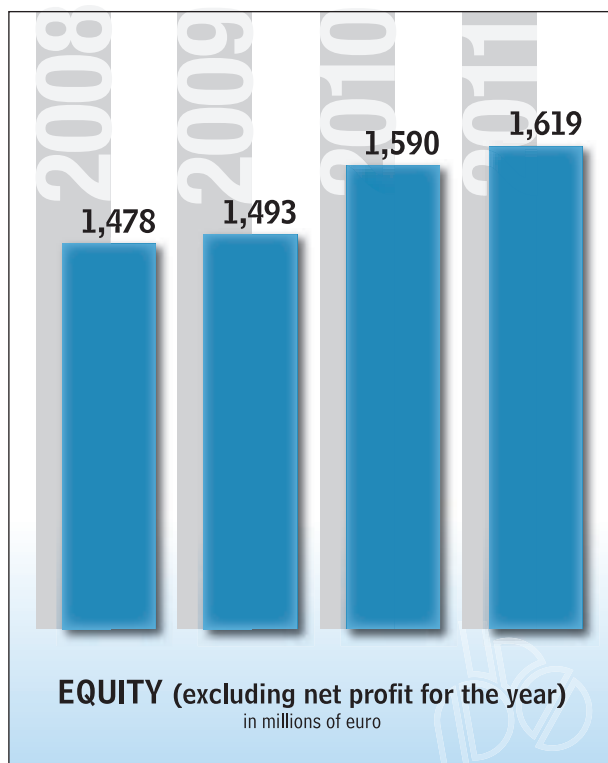
The ski season at Pirovano came to an end at the 12th Snowfestival, an event that has among other things, allowed significant charitable donations in favour of the Ariel Foundation, the Children's Centre for Neuromotor Disabilities and AISLA (the Italian Association Amyotrophic Lateral Sclerosis). Solidarity and charitable initiatives include the Solidarity Current Account, through which we make significant donations each year to ADMO, AIRC, AISLA, AVIS and UNICEF.

Also worthy of a mention is our Staff Recreation Club, which offers a wide variety of cultural events, trips, holidays and sports.

EQUITY

Banking capital was at the centre of attention more than ever this last year. There were many proposed remedies and often harsh solutions were found to deal with a feared shortage of equity. Supervisory authorities, market operators and governments have all tried to resolve this sensitive issue. It is not surprising that the latter, in particular, have tended primarily to defend national interests, at the expense of an overall view of the problem.

On the other hand, it is surprising that ours seems to be the banking system that has been penalized the most, considering that the Italian system was virtually the only one that did not have to be bailed out by the government. Without entering into a controversy that far bigger than us, we tend to share



in full the opinion expressed by the Italian Banking Association. Indeed, creating capital deficits that do not reflect the real risk exposure of domestic banks, forcing them to go through costly recapitalisations, seems totally incongruous with the difficult economic times that the whole of Europe is going through.

If in the past someone has made an excessive, even reckless, use of financial leverage, we do not see why the damage now has to be paid by those who did their job properly, those who stayed within traditional banking parameters. After this general premise, we can rightly say that for our bank the correct amount of capital has always been a central issue, knowing full well that having equity of an appropriate size is, on the one hand, an indispensable condition for developing the business and, the other, a measure of the bank's ability to cope with any adverse events in the future.

Moreover, our focus on the amount capital that was needed was always accompanied by prudent policies on risk-taking. The global financial and economic crisis confirms the need to continue along these lines, tending towards better management of the risk profiles that are inevitably related to banking activities and, at the same time, raising and strengthening capital.

Setting more stringent requirements under Basel 3 for both Tier 1 and Tier 2 capital, with implementation spread over time between now and 2019, reinforces the validity of the decisions made by the bank in previous years and will act as a guide for future action. Our optimism is comforted by the proximity of our shareholder base, who appreciate the value of our cooperative approach on a day-to-day basis. They also understand the importance of gradually adjusting our capital, so that the bank can continue in its role as a generator of economic development in our territories.

With reference to the latter aspect, an important event was the issuance of a Lower Tier II subordinated step-up bond (a loan with increasing interest rates and suitable characteristics to be included in Tier 2 capital for supervisory purposes), which on 23 December 2011 was subscribed for a nominal amount of around 300 million. As reported in the section on subsequent events, the offer period for this loan was then extended to 29 February this year and the operation was finally closed for a nominal amount of 400 million.

At 31 December 2011 capital and reserves amounted to a 1,676 million, with a decrease of 46 million -2.69% – excluding net profit for the year.

The share capital, made up of 308,147,985 ordinary shares with a par value of 3 euro, remained unchanged at 924.444 million. The share premium reserve, 172.511 million, decreased by 1.03% because of the allocation of losses

A vertical image of a wood grain, showing concentric growth rings in shades of brown and tan, serving as a background for the text on the left side of the page.

Growth in the number
of our

SHAREHOLDERS

2011 **173,383**

2010 **168,328**

2009 **163,033**

2008 **158,013**

2007 **154,715**

2006 **143,387**

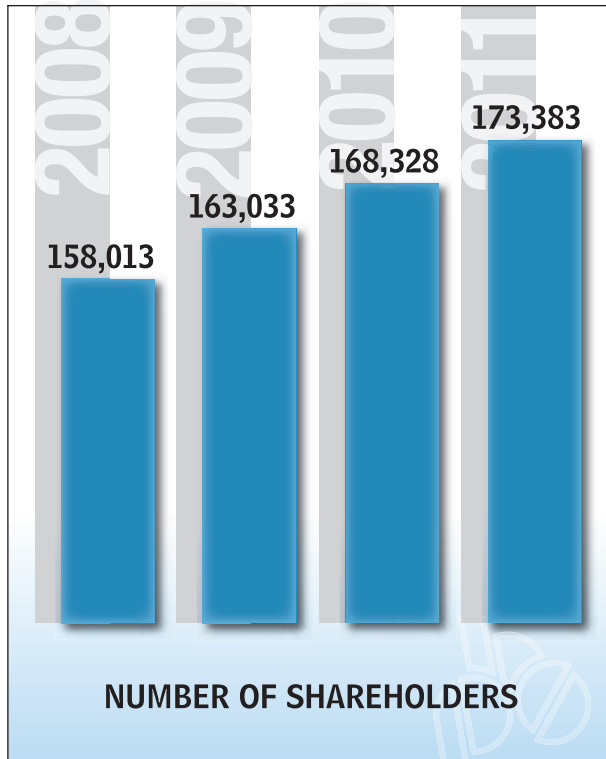
2005 **132,902**

2004 **126,842**

2003 **117,169**

2002 **109,022**

2001 **100,384**



resulting from trading in treasury shares of 1.804 million. The reserves rose to 591,878 million (+13.18%) due to allocation of a large part of the net profit for 2010. This following the resolutions passed by the Shareholders' Meeting on 9 April 2011, which approved the 2010 financial statements and the proposal to distribute a dividend of Euro 0.21 per share. The valuation reserves are negative for 43.565 million, having been positive for 0.614 million, because of the losses reported in the assets held for sale portfolio, mainly due to the sale of Italian Government bonds. As regards treasury shares, the bank held 3,063,000 shares, for a book value of 26,079 million compared with 32,821 at the end of 2010. Purchases were made using the specific provision of 87 million shown in the financial statements under reserves. During the year, trading aimed at favouring the circulation of our shares included purchases of 17,000 shares, for a total of 51,000 euro at par (0.006%

of the share capital) and sales of 804,000 shares, for a total of 2,412,000 euro at par (0.261% of the share capital). The market value of purchases was 0.103 million; that of sales 5.041 million. These trades resulted in a loss of 1.804 million (at average negotiation price), which was booked to equity.

As regards market performance, our stock progressed slightly, +0.98%, which compared with the -25.20% performance of the FTSE MIB index and, above all, the -45.13% of the banking industry index, makes us very proud. With a bit of humour, we could say that it is always better to win a little than to lose a lot. In any case, this is a demonstration of strength, showing the confidence that our stock continues to enjoy on the market and, above all, among our shareholder base. As emphasised by the financial press: «A performance that depends on Banca Popolare di Sondrio's skill in surviving crises with positive results».

The number of our shareholders has increased yet again – by all of 5,055, for a total of 173,383 – which is a sign of our vitality as a cooperative bank, able to involve a growing body of people in its activities, which also leads to more business.

Applications for admission as a member received during the year were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code). In particular, art. 9 of the articles of association states that: «the Board of Directors decides on applications for admission as a member by adopting a suitably-reasoned resolution, having regard for the interests of the bank, the spirit of the cooperative movement and the requirements of the articles of association», taking into account the guidelines laid down by the Board.

Performance of the BPS stock

Proof of the Bank's capital adequacy is also given by the following elements. Risk-weighted assets total 15,689 million. The Bank's individual solvency ratio (ratio of capital for supervisory purposes to risk-weighted assets) is 14.26%, compared with the minimum of 8% required under current regulations for banks that belong to banking groups.

The relationship between capital and the principal financial parameters is summarised below, which confirm congruity.

– *capital/direct customer deposits*

8.15% v. 9.08%

– *capital/customer loans*

8.14% v. 9.44%

– *capital/financial assets*

52.50% v. 53.03%

– *capital/total assets*

6.21% v. 7.25%

– *net non-performing loans/capital*

15.70% v. 11.19%.

INCOME STATEMENT

Commenting on the previous year's trend, we stressed the negative consequences on the business from the situation of general uncertainty and ongoing weakness in the economy.

The same considerations may be proposed again for the year under review, with the aggravating circumstance that the negative effects have been amplified by the sovereign debt crisis, which hit Italy directly.

The effects have been significant for the entire banking system, and even our bank was unable to achieve its desired results, despite confirming its traditional lines of development. The net profit for the year came to 57.284 million, a decrease of 57.03%.

The comparison with the previous year also has to take into account the fact that 2010 benefited from more than 58 million of extraordinary items from the partial sale of the interest in Arca Vita spa and the total sale of Arca Assicurazioni spa. In addition to the lack of significant extraordinary income, other items that contributed to the decline in net profit were net trading result and loan writedowns, the former due to the negative performance of financial markets and the latter due to the effects of current crisis.

Net interest income has risen from 393.367 million to 454.102 million, +15.44%, benefiting from the positive trend in rates, despite the marked increase in funding cost, especially in the latter part of the year following the rise in yields on Italian public debt securities. Net interest income benefited from a good increase in volumes handled, as well as from the steps taken to ensure a fair remuneration for the risks taken on. In addition to meeting the principles of sound and proper management, these steps became even more important for the liquidity crisis that hit the banking

Net interest income

system and led to the depletion of deposits, which are a bank's raw material.

Net commission income has risen from 206.372 million to 220.055 million, +6.63%; good growth mainly because of the commissions on cash loans and endorsement credits, the international/foreign exchange sector, and payments and collections.

Dividends remained substantially stable at 6.393 million, despite the lack of any distribution on the part of Arca Vita spa. The result of financial activities is negative for 74.002 million, versus a negative result of 36.230 million the previous year. Above all, it feels the effects of the sovereign debt crisis, which lowered the price of Italian government bonds and meant booking sizeable losses on them.

Within financial activities, the net trading result, which was already negative for 36.676 million, fell to 71.888 million, essentially because of losses on securities. Analysing its component parts, trading income on securities has increased from 5.501 million to 11.724 million; the difference between gains and losses is negative for 104.527 million, versus a negative balance of 64.435 million the previous year; exchange gains and differences have risen from 16.352 to 16.522 million; lastly, derivatives come to 4.393 million, down from 5.906 million.

The result of financial assets available for sale and held to maturity (HTM) is positive for 4.527 million, mainly thanks to the gain arisen on the sale of the interest held in Centrobanca spa of 3.027 million. Financial assets carried at fair value, which last year made a profit of 0.806 million, was negative for 6.641 million.

Income from banking activities

Income from banking activities went up from 569.877 to 606.548 million, +6.43%. Analysing the elements making up this item, net interest income passed from 69.03% to 74.87%, while the weighting of trading profits and dividends has fallen from 30.97% to 25.13%.

The persistently unfavourable economic environment, which in previous years had a negative impact on credit risk, is also reflected in the loan loss provisions, which remain at a high level. Net adjustments to loans, financial assets available for sale and those held to maturity came to 162.947 million compared with 123.752 million (+31.67%). Of this item, the element relating to customer loans went from 116.646 to 155.293 million, +33.13%, reflecting both the difficulties generated by the ongoing negative cycle in the economy and the prudent valuations made by the Bank's credit committees. Impairment adjustments to securities have gone from 5.106 to 7.154 million and concern certain listed equities and mutual funds for which an objective impairment has been ascertained comparing market prices with their original book values, while adjustments on other financial transactions amount to 0.5 million for the writedown of endorsement credits. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has therefore gone up from 0.64% to 0.75%. The balance of financial management therefore comes to 443.601 million, -0.57%.

Operating costs amounted to 313.980 million, +0.56%. The low increase is due to constant monitoring of the various items. Personnel expenses grow from 164.840 to 165.373 million, +0.32%. Other administrative expenses are

up from 162.674 to 171.683 million, +5.54%. This increase, though generalised, concerns in particular rents, IT and data processing costs, taxes because of the increases that took place during the year and costs for deferred charges. Adjustments to property, plant and equipment and amortisation of software amounted to 21.847 million, +6.44%.

Other operating income, net of other operating expenses, resulted in a positive balance of 40.767 million, +18.62%. This trend is due to an increase in operating income, +11.97%, which was offset by a reduction of 43.34% in operating expenses. The largest item in this caption is tax recoveries, while the related cost is included in other expenses.

Net movements on provisions for risks and charges amount to 4.156 million because of the provisions made during the year of 10.028 million less 14.184 million of prior year provisions that were released during the year.

The ratio of operating costs/income from banking activities was 51.77%, compared with 54.79%.

The operating profit therefore came to 129.621 million, -3.18%.

Profits/losses on equity and other investments show a negative balance

SUMMARY INCOME STATEMENT

(in thousands of euro)	2011	2010	(+/-)	% change
Net interest income	454,102	393,367	60,735	15.44%
Dividends	6,393	6,368	25	0.39%
Net commission income	220,055	206,372	13,683	6.63%
Result of financial activities	-74,002	-36,230	-37,772	104.26%
Income from banking activities	606,548	569,877	36,671	6.43%
Net adjustments to loans and financial assets	-162,947	-123,752	-39,195	31.67%
Balance of financial management	443,601	446,125	-2,524	-0.57%
Personnel expenses	-165,373	-164,840	-533	0.32%
Other administrative expenses	-171,683	-162,674	-9,009	5.54%
Other operating income/expense	40,767	34,367	6,400	18.62%
Net provisions for risks and charges	4,156	1,429	2,727	190.83%
Adjustments to property, plant and equipment and intangible assets	-21,847	-20,525	-1,322	6.44%
Operating costs	-313,980	-312,243	-1,737	0.56%
Operating profit (loss)	129,621	133,882	-4,261	-3.18%
Share of profit (loss) of equity investments and other investments (+/-)	-12,275	57,796	-70,071	
Profit (loss) before tax	117,346	191,678	-74,332	-38.78%
Income taxes on current operations	-60,062	-58,358	-1,704	2.92%
Net profit (loss)	57,284	133,320	-76,036	-57.03%

Notes: the result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.



In the 1800s the Pianazzo waterfall was one of the most spectacular and representative along the Spluga road. Meyer gives us a distant and close up view at the same time, so different from most artists in this era. The Scalcoggia waters precipitate with fearful verticality down the face, releasing a cloud of foam on impact with the rock, wrapping around the mountain in a steamy scene from hell. The image widens out towards the foreground, where the bubbling stream reassumes its normal course and the rocky masses find their counterpoint in the rural scene of the two wayfarers, Meyer and Doctor Ebel, who have abandoned the road for a moment to enjoy themselves on the meadows, between the grazing goats and the spectacle of the waterfall. Their viewpoint, however, is not much further away than that of the observer, measured from the water in the foreground that, running towards him, pulls him into the scene.

Johann Jacob Meyer - Rudolf Bodmer (etcher)
Pianazzo waterfall near Campo Dolcino, 1826
Aquatint, 182 x 145 mm



Johann Jacob Meyer - Rudolf Bodmer (etcher)
Chiavenna arriving from Mount Splügen, 1826
 Aquatint, 135 x 190 mm

Two peasants with a scythe on their shoulder and basket full of freshly cut hay, cross an elegant carriage on which a couple are enjoying their trip in the sun, under the gaze of two people that are watching the scene from a terrace in the shade of a leafy arbor. It is a delightful picture with Mediterranean taste, that, descending from the Spluga, introduces Chiavenna, spread out, with its houses and belfries, in a wide cultivated plain.

The looming mass of Motaccio serves as a powerful backdrop for the scene and divides the serrated ridge of Pizzo di Prata from the

distant peaks of Val Bregaglia. Meyer's image, which certainly differs from the present one, was reworked by various etchers during the course of the 1800s.

Johann Jacob Meyer - Rudolf Bodmer (etcher)
Chiavenna Lakelet, near Riva, 1826
 Aquatint, 138 x 190 mm



Chiavenna Lakelet included in nineteenth century guides was this delightful toponym with its little stretch of water above Riva, the culminating point of Lake Mezzola, or Lake Chiavenna, as the northern part of Lake Como was called, at the edge of the Pian di Spagna swamp. Nothing serves to placate the "Sensucht", the inexhaustible thirst for the infinite romantic soul, more than a peaceful stretch of water in the mountains. It is here, on the spreading banks of Chiavenna Lakelet, among grazing animals, boats that silently glide over the water and clumps of marshy lake vegetation that ends Meyer and Dr. Ebel's pictorial and historical journey along the new Spluga mountain road from Chur to Lake Maggiore and Lake Como, which was to become in the 1800s one of the most important means of communication between England and Europe.



of 12.275 million compared with the positive amount of 57.796 million the previous year. It derives for 0.801 million from the realised gains on the sale of the interest in B. & A. Broker spa; for 8.303 million from the writedown of the interest in Alba Leasing spa; for 4.410 million from the investment in Banca della Nuova Terra spa; for 0.340 million from the writedown of the equity investment in Pirovano Stelvio spa; for 0.023 million from losses on disposal of property, plant and equipment.

Net profit for the year

The result of ordinary operations reached 117.346 million, -38.78%. After deducting income taxes of 60.062 million, up by 2.92%, the net profit for the year comes to 57.284 million, compared with 133.320 in the previous year, -57.03%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, comes to 51.18% compared with 30.45% the previous year, which benefited from the special tax regime applied to gains on sales of equity investments.

Dividend

Based on the Bank's net result, which management considers satisfactory considering the context in which it was made, the Board of Directors would like to propose a dividend of 0.09 euro per share, which takes into account the need to boost capital and the reasonable expectations of shareholders. The previous year it was possible to pay the shareholders a dividend of 0.21 euro.

CRITERIA FOR MUTUALISTIC ACTIVITIES

In accordance with the provisions of art. 2545 of the Italian Civil Code, the following are the criteria followed by management to achieve the Bank's mutualistic goals.

In this matter, points 1 and 2 of our Articles of Association are fundamental points of reference for us; they read: «The company's activities are based on the principles of mutuality and cooperation» and «As part of institutional work to facilitate the development of all productive activities, the company, in consideration of its specific objectives as a cooperative bank, intends to provide specific support for the smaller enterprises and cooperatives present in the territories served; in addition, it will take all appropriate steps to spread and encourage saving». To be a cooperative bank in a year of crisis like 2011 has meant, first of all, not to dry up the sources of financial support for the territory. This assumption of responsibility on our part is reflected in the figures for loans to customers, which rose from 18,248 million to 20,606 million, +12.92%. This means that households and businesses have been able to rely on their bank which, given the necessary requirements, never betrayed its commitment. In fact, our approach is different from that of large financial conglomerates that are moving in the international arena, ready to take advantage of every opportunity to gain and just as ready to seek other opportunities as soon as any difficulties arise. Ours, on the other hand, is a precise, long-term choice of field in a perspective of social responsibility to support the economy of our territories. We want

to develop them alongside large, medium and small businesses, households and public entities that operate locally. Supporting development also means directing it towards quality: for example, giving credit to eco-sustainable initiatives. In this connection, we would recall the loans that we made to spread the use of renewable energy sources and to implement rural development plans. Similarly, we would highlight the social value of the massive funds provided by Finlombarda to recapitalize social cooperatives; in collaboration with INPS (Italian Social Security) and the Central Institute of Italian Cooperative Banks to issue and pay «work vouchers» for casual labour.

In terms of funding, our efforts have been directed towards the protection of savings. It could not be otherwise: the most important need for customers has undoubtedly been to feel guaranteed. The aversion to risk has grown as market uncertainty increased. Product transparency and full awareness on the part of customers regarding their investment decisions have been the key features of our work. As has already been the case for many years, our catalogue also includes instruments of ethical finance which, among other things, showed their validity in terms of return, and supplementary pension products, which are fundamental to guarantee adequate retirement conditions, especially for young people.

We would like to emphasize the attention we have paid to entities and institutions in need of banking assistance. Our offer - delivered through dedicated windows, traditional branches and electronic tools - is designed for both local entities and the numerous other institutions, sometimes nationwide, with which we have been cooperating for some time.

The original principles of the cooperative credit movement are implemented by the constantly expanding membership, which increased by 5,055 during the year to a total of 173,383, which captures well the ability to recruit new players to the cooperative movement. Then there is the fact that most of our shareholders are also customers, which means that they bring work and use the services provided by their bank; which also strengthens relationships.

Our institutional communication adapts to the size and nature of the membership. The directors' report that accompanies the financial statements has always provided a comprehensive overview of the year's events, using language that is, as far as possible, clear and simple. The various interim reports also follow the same approach. Part of this is the traditional letter of the Chairman to the shareholders, halfway through and at the end of the year, with an explanation of the Bank's performance

The Shareholders' Meeting is a fundamental moment in the life of the bank. There were 5,150 registered attendees at the meeting on 9 March 2011, bearing witness to the solidity of their relationship with the bank. As always, they made use of the transport service that we provided and took part in the lunch.

The will to contribute towards the economic and social development of the communities that we serve also manifests itself in the financial support that we give to a vast range of initiatives on their behalf. They are the result

of a solidarity-based vision of the market, where profit is accompanied by other objectives, reflecting a long-term assumption of responsibility towards the social context to which we belong for the enhancement of its identity. Initiatives during the year were as follows:

- running the library in Sondrio named after Luigi Credaro, illustrious compatriot and former Education Minister from 1910 to 1914. In addition to making available to the general public our significant heritage of books and documents, we have also established fruitful contacts with the world of education;
- support for Pirovano Stelvio spa and through it for the tourist complex of the Stelvio and the Upper Valtellina;
- the ongoing effort to obtain recognition from UNESCO of the terraced vineyards in the Valtellina as a World Heritage Site;
- the cultural events we organize on an ongoing basis such as conferences and seminars, as well as the publications we edit and publish, and the sporting events that involve a large number of participants;
- the traditional celebration of World Savings Day;
- the contributions paid in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services;
- donations – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

SIGNIFICANT EVENTS

The following information on significant events that have taken place subsequent to year end is provided in accordance with regulatory requirements.

Following the decisions taken by Fitch Ratings, since 6 February our bank has the highest level of rating in Italy, thanks to confirmation of our Issuer Insolvency Rating of A-, the same as Intesa Sanpaolo, UniCredit and Banca di Desio e della Brianza. The Lower Tier II subordinated step-up bond (a loan with increasing interest rates and suitable characteristics to be included in Tier 2 capital for supervisory purposes), which at 23 December 2011 had been subscribed for a total nominal amount of 300 million, was raised to 400 million and fully subscribed at the new closing date on 29 February. The bank took part in the ECB's second three-year auction on 29 February 2012, receiving fresh liquidity of 500 million.

OUTLOOK FOR OPERATIONS

The latest trend in international markets seems to suggest that there may be a gradual stabilisation of the global financial situation. The next few

months will confirm or refute what for now are mere hopes. In any case, the national banking system will have to cope with a situation of economic difficulty for a while yet, which will have a knock-on effect on the quality of credit.

In this scenario, our bank expects net interest income to remain more or less stable, burdened, on the one hand, by the rising cost of funding and a slight decline in interest rates, facilitated, on the other hand, by the trend in volumes handled.

As regards fees and commission, we estimate a slight, physiologically increase, apart from unwelcome uncertainty in the regulatory framework. The result of financial activities should invert the trend of the last two years, thanks to the recovery in Italian government bond prices. Credit quality, and therefore the amount of writedowns and provisions, will inevitably be linked to the persistent unfavourable trend in the national economy. The rationalization of the cost structure, which has been going on for years, should help keep them under control. As a result, the bottom line ought to grow at a reasonable rate.

* * *

Shareholders,

The 2011 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which show a net profit for the year of € 57,283,707, have been audited by KPMG spa.

BALANCE SHEET

Total assets	€	26,983,110,146
Liabilities	€	25,306,637,447
Valuation reserves	€	-43,564,776
Share capital	€	924,443,955
Share premium reserve	€	172,510,523
Treasury shares	€	-26,078,736
Other reserves	€	591,878,026
Total liabilities and equity (excluding net profit for the year)	€	26,925,826,439
Net profit for the year	€	57,283,707

ALLOCATION OF NET PROFIT FOR THE YEAR

In line with legal requirements and the articles of association, we propose the following allocation of net profit for the year:



- to the legal reserve 10%	€	5,728,370.70
- to the statutory reserve 30%	€	17,185,112.10
- dividend to shareholders of € 0.09 per share	€	27,733,318.65
- to the reserve for treasury shares	€	6,000,000.00
- to the reserve for donations	€	400,000.00
- to the legal reserve, a further	€	236,905.55
Total	€	57,283,707.00

EQUITY

If you concur with our proposals, equity will be made up as follows:

- Valuation reserves	€	-43,564,776
- Share capital - 308,147,985 shares, par value € 3 each	€	924,443,955
- Share premium reserve	€	172,510,523
- Treasury shares	€	-26,078,736
- Reserves	€	621,028,414
Total	€	1,648,339,380

Shareholders,

After outlining the accounting data for 2011, we now have to turn our thoughts to those who were close to us and those who gave us their preference, allowing us to achieve positive results.

Firstly, we would like to thank our shareholders and customers - an inseparable combination for corporate growth and part and parcel of our legal status as a cooperative bank - for their constant contribution.

Our appreciation for the efforts of the Board of Statutory Auditors which, valiantly chaired by Egidio Alessandri, has performed its broader and delicate functions with, as ever, dedication and professionalism. Recognition too for the work of the Advisory Committee, which is always willing to help.

We also thank the members of the Supervisory and Discount Committees for their experience and knowledge, with a special mention for those based in Milan.

We are grateful to the boards and employees of our group companies, with particular reference to those at Banca Popolare di Sondrio (Suisse) SA and Factorit spa, the Italian Banking Association, the National Association of Cooperative Banks, to our Italian and foreign correspondents, and to our sister cooperative banks; in particular, Banca Popolare di Fondi, with which we have collaborated successfully for many years.

We express our respect and profound gratitude to the staff of the Bank of Italy, from the Governor to the Members of the Directorate. To the new Governor, Ignazio Visco, formerly Deputy General Manager, our sincerest best wishes for this high and delicate office. To Mario Draghi, who preceded him, a special thought and our best wishes for his new prestigious post of

President of the European Central Bank. All the very best also to the new Deputy General Manager, Salvatore Rossi. Thanks also to the Chief of Supervision and his staff, to the general officers and the directors of the main offices and branches located in the provinces where we are present. We also salute Giuseppe Sopranzetti, Manager of the Milan head office of the Bank of Italy, Paolo Galiani, Manager of the Rome head office, and Carmela Lanza, Manager of the Sondrio office.

The Bank of Italy has honoured us by sending to the bank an efficient and cohesive inspection team led by Giuseppe Monaco. To him and his collaborators Pietro Gobbo, Ermanno Napoli, Roberto Bellotti, Giovanni Battista Piergentili and Ornella Dolce, we reiterate our gratitude for their style, suggestions and advice.

Many thanks too for the constant collaboration of the directors, managers and staff of Consob, the Italian Exchange Office and Borsa Italiana, which also manages the MTA, the screen-based market where our shares are traded. Our gratitude also goes to FINMA, the federal supervisory authority for financial markets based in Berne, for their supervision of our Swiss subsidiary, and to the Bank of France, which supervises the French banking system and therefore the branch of «Suisse» located in the Principality of Monaco.

Our heartfelt thanks to all our staff for their intelligent, passionate and loyal collaboration. Our best wishes for a long, healthy and serene retirement go to Giovanni Bagiotto, Luigi Castagnetti, Giacomo Cerri, Fabrizio Cervellieri, Franco Ciapponi, Adriano Della Valle, Gianni Dell'Avanzo, Mario Dioli, Fiorenzo Moschetti, Domingo Pasello, Agostino Scarinzi, Claudio Valenti Obino. Forgive us if we have, unintentionally, forgotten anyone. Our appreciation goes to those who, nevertheless, have helped us with their friendly advice, information and criticisms.

Shareholders,

In presenting the 2011 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the report of the Board of Statutory Auditors – to adopt the following resolution:

«The ordinary meeting of the shareholders of Banca Popolare di Sondrio, meeting today, having heard the directors' report on operations during 2011 and the proposed allocation of net profit for the year, which includes the payment of a dividend to the shareholders of € 0.09 per share; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approves:

- the directors' report on operations;
- the financial statements at 31 December 2011, comprising the balance sheet, income statement and related explanatory notes; the financial statements

that show a net profit for the year of € 57,283,707. The Shareholders' Meeting therefore specifically approves the allocation of net profit for the year of € 57,283,707 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolves:

- a) to allocate:
- | | |
|--------------------------------|-----------------|
| – 10% to the legal reserve | € 5,728,370.70 |
| – 30% to the statutory reserve | € 17,185,112.10 |
- b) to pay a dividend of € 0.09 to each of the 308,147,985 shares in circulation at 31/12/2011 with dividend rights as from 1/1/2011, transferring to the statutory reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of
- | | |
|--|-----------------|
| | € 27,733,318.65 |
|--|-----------------|
- c) to allocate to the reserve for treasury shares
- | | |
|--|----------------|
| | € 6,000,000.00 |
|--|----------------|
- d) to allocate the residual net profit:
- | | |
|-----------------------------------|--------------|
| – to the reserve for donations | € 400,000.00 |
| – to the legal reserve, a further | € 236,905.55 |

Point 2) on the agenda: mandate to the Board of Directors to buy and sell treasury shares in accordance with art. 21 of the articles of association.

Shareholders,

art. 21 of the Articles of Association provides that: «The Board of Directors may acquire the Bank's shares in accordance with art. 2529 of the Italian Civil Code, to the extent of the specific reserve established out of distributable profits allocated for this purpose at the shareholders' meeting. The shares purchased can be re-sold or cancelled».

In implementation of this rule, the Board would like to invite the Meeting to pass the following resolution:

“The Ordinary Meeting of the Shareholders of Banca Popolare di Sondrio, met today, having heard the proposal made by the Board of Directors:

hereby resolves:

to set at Euro 93,000,000 – shown in the financial statements under «Reserves» – as the amount made available to the Board of Directors to make purchases of the Bank's own shares in accordance with art. 21 of the Articles of Association, within the limit of this amount and whatever part of it is made available by subsequent sales of the shares purchased; all as part of an activity that is compliant with current regulations and designed in particular to facilitate circulation of the shares.

Purchases and sales of treasury shares – namely the ordinary shares of Banca Popolare di Sondrio of par value Euro 3 each – will have to be carried out on organised markets according to operating methods that ensure parity of treatment between shareholders and which do not permit direct matching of purchase and sale offers. Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2012 financial statements. Purchases will have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of 93,000,000 euro and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 4% of the shares making up the share capital. Sales will have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 93,000,000.

Any cancellations of treasury shares will have to take place in compliance with the law and the articles of association, using the reserve for treasury shares to cover any differences between their par value and purchase price.

The Board of Directors, and the Chairman and Deputy Chairman, separately, on its behalf, is also granted all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that run the market.”

Point 3) on the agenda: Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group» and information on how these compensation policies were implemented in 2011, as required by the Bank of Italy.

Shareholders,

In implementation of the «Supervisory Instructions on the Organisation and Corporate Governance of Banks» issued by the Bank of Italy on 4 March 2008 and art. 29 of the Articles of Association, the Shareholders' Meeting held on 29 March 2010 approved the document containing the «Compensation Policies of Banca Popolare di Sondrio».

The information on implementation of these «Policies» was provided at the Shareholders' Meeting of 9 April 2011. During that meeting, the Board of Directors also announced to the shareholders that: «On 30 March 2011 the Bank of Italy issued new «Rules on remuneration policies and practices and incentives in banks and banking groups» which bring in a number of important changes. Management will evaluate this complex legislation and make sure that it is implemented gradually over time, taking into account the nature of the cooperative and mutualistic goals that we pursue». These rules were published in the Official Gazette of 7 April 2011.

At the board meeting of 19 July 2011, the Directors then approved the «Compensation Policies of the Banca Popolare di Sondrio Banking Group», sending all of the related documentation to the Bank of Italy on 27 July.



Giuseppe Elena
Brivio Castle, 1836
 Litograph, 137 x 194 mm

GIUSEPPE ELENA

(Codogno 1801-Milan 1867)

Painter, poet and writer of mediocre talent, Giuseppe Elena was, in the Lombardy of the first half of the 1800s, the enthusiastic apostle of lithography, the technique definitely more suited to his skills as a fresh, quick and skilful drawer. Of the 350 lithographs with which between 1835 and 1856 he illustrated tens of volumes, the more noted are certainly the 133 (out of 200) that he did for *Pictorial Lombardy or Drawings of what renders it more interesting for the arts, history, and nature*, as recreated by Giuseppe Elena / With related text especially written by professors Cesare Cantù and Michele Sartorio.

The work - published in Milan between 1836 and 1838 in 50 instalments making up two volumes by Antonio Fortunato Stella (the first) and by Andrea Ubicini (the second) - in addition to its documentary value, it remains of fundamental importance for having spread images of Lombardy in the first half of the 1800s.

Giuseppe Elena
Galbiate and the mountains of Lecco, 1836
 Litograph, 137 x 197 mm



The two views, that of Galbiate and that of Brivio Castle, show how, with his lithographs, Elena tended to reproduce the same effects as a pencil drawing. This is the aim, in fact, of the large backgrounds in graduated greys employing a more or less intense "chiaroscuro" technique that defines not only the distribution of the light, but also the effects of distance and closeness, leaving, for the rest, the more minutely descriptive tasks to the white zones and the black lines.

The intention of Elena was to demonstrate that the lithograph, considered in Milan to be a poor relative of etchings, had an artistic dignity not inferior to that of etchings and aquatints and could have the same effects in pictorial renderings, that is, in a view in which man, history and nature merged into one image.

In Brivio Castle, for example, as well as the sage framing perspective that captures the castle within a large natural landscape, it is worth noting the picturesque movement of the boats and the clothes in the sun at the foot of the first tower. The hill on which Galbiate stands, with its high steeple, stands out with picturesque evidence in the foreground at the foot of the remote mountains of Lecco, from which it is separated by the wide basin of Lake Annone and Lake Pusiano.

The two images, in short, hark back to the "vedutistic" art form of coeval etchings, but in doing so, however, the documentary intent that inspired all of the Pictorial Lombardy album ends up taking precedence over the more properly artistic sentiment of romantic etchers.



Gaetano Fiorentini
Campo Dolcino, 1836/1838
 Litograph, 135 x 190 mm

In the images of the two volumes of Pictorial Lombardy, nature always puts the history of a place into its context, summarised by a monument that has a central function in the representation. As was the case with Elena's Brivio Castle, it was also such with this lithograph by Gaetano Fiorentini (1816-60), which was among the 67 not signed by Elena. In a different manner from Lose and Meyer, who with Campodolcino gave us all the soothing gentleness of the hollow through which the Spluga road passed, the focus here is on the old and characteristic arched bridge, on the road that rises to Fraciscio of the Rabbiosa stream. The bridge, wrongly called Roman, was constructed in 1692 and, after being repaired in 1927, still has its original form today. Fiorentini depicts it on the Spluga road and accentuates the linear and asymmetric geometry that is detached from the rugged, natural landscape that surrounds it.

Domenico Landini
General view of Chiavenna on the Spluga road, 1833
 Aquatint, 122 x 196 mm



The aquatint is from Travels to Italy by Francesco Gandini, a detailed geographical, historical, pictorial, statistical, postal and commercial description of Italy, in eight volumes, published in Cremona by Luigi Micheli (but printed in Milan by Fanfani) between 1830 and 1835, for which Landini etched most of the 262 prints that illustrate it. Domenico Landini (Parma 1783 - Milan 1835), a dealer in prints, was an etcher who was very active in Lombardy around 1830. He collaborated with various printers and publishers, such as Artaria, the Bettalli brothers and Luigi Micheli of Cremona, for whom, as well as the aquatints for Gandini's Travels to Italy, he etched a series of illustrations for The Betrothed based on drawings by Antonio Bottazzi. This view of Chiavenna, which is rather cold and summary like all etchings done without direct knowledge of the place in question, is deeply indebted to the view of the same subject by Meyer in 1826. Compared to the large natural setting within which Meyer places Chiavenna, Landini gives us a more compressed and close-up view of the locality, totally out of scale as can be seen from certain details that are bundled in (the Acqua Fraggia waterfalls on the left, the profile of the Paradiso's rock in the centre, etc.) and with an unlikely profile of the mountains in the background.

The «Compensation Policies of the Banca Popolare di Sondrio Banking Group» were integrated at the board meeting of 9 March 2012, without touching the substance, but merely describing the process by which they were prepared.

The general objective of the regulations established by the Bank of Italy is to achieve remuneration systems that are aligned to the long-term strategies and objectives of the bank and linked to its results, suitably adjusted to take into account all of the risks, consistent with the levels of capital and liquidity needed to carry on the bank's activities and, in any case, such as to avoid distorted incentives that could lead to regulatory violations or excessive risk-taking.

As far as we are concerned, the compensation system - also at Group level - has always been inspired by moderation, based on principles of sound and prudent management. While taking general market logic into account, also to be able to attract, maintain and motivate the best human resources, we have always respected certain fundamental principles: attention to the sustainability of compensation policies over the medium to long term, overall balance, meritocracy, gradualism and the desire to create relationships that will last over time.

These principles are also contained in our new «Compensation policies» which relate to the whole of the Banca Popolare di Sondrio Banking Group, in accordance with the Bank of Italy's instructions,. It has to be said, though, that the profound differences that exist between the Italian and Swiss legal systems regarding labour relations and pay structures and practices make it difficult to extend the rules laid down in that document automatically to the Swiss subsidiary. In any case, Banca Popolare di Sondrio (SUISSE) SA has adopted the same policies as the Parent Bank.

Implementing the Bank of Italy's rules, we have set up Remuneration Committee as part of the Board of Directors, adopting special regulations that govern its composition, powers and mode of operation.

A detailed process of self-assessment has also been carried out to identify «key personnel», i.e. those whose work has or could have a significant impact on the risk profile of the bank. One of the key principles of the supervisory regulations is the «criterion of proportionality», according to which banks are required to observe the provisions «in a manner appropriate to their characteristics, size and the complexity of their business activities».

We have made use of this principle based on a consideration of some substance: in our situation, the size of the variable portion of staff salaries has always been fairly limited - historically around 8-9% of total salaries - in any case, not large enough to have an impact on the balance sheet or income statement. There follows from this a basic fairness of approach that we believe is worth continuing. In keeping with this line, a fixed compensation was confirmed for all members of the Board of Directors, which of course is up to the Shareholders' Meeting to determine. This in accordance with our traditionally conservative style of management and also because of the mutualistic nature of our institution and the spirit of service that has always characterized the members of the Board in carrying out their functions. This principle is also applicable to the other Group companies.

As for the members of General Management, we have decided to maintain the existing system. Moreover, within the variable part of their remuneration, which can be maximum 35% of total compensation, we have identified a component that is linked to quantitative results, in addition to a qualitative component which is pre-eminent. This is an innovation which we have adopted to apply the principle laid down by the Bank of Italy, namely to take actual, risk-adjusted results into account in the remuneration of top management.

This also applies to all other managers, except for those in charge of control functions. They continue to be excluded from incentives linked to economic performance. As for the employees in the categories of officials and professional staff, the variable element of remuneration is maintained, but with a conservative approach: it is generally of a limited amount and made up of a productivity bonus that is envisaged in collective labour contracts and a one-off annual award based on the incentive system adopted to date. This system provides for the payment of an amount related to a number of factors linked to individuals' ability to interpret the role assigned to them in the best way possible, by implementing policies aimed at achieving the bank's strategic objectives, with a sense of belonging and sharing our corporate principles and values.

The pay system as a whole is well balanced, able to ensure the bank and the group the professionals that they need, in line with prudent risk management. It is the result of established practices gradually updated to accompany and support the overall expansion of our operations. The results obtained to date, the team spirit, the sense of duty, the virtue of moderation and the excellent climate within the firm certify the validity of this approach, suggesting that it should be continued in the future.

In implementing the provisions Bank of Italy's instructions and art. 29 of our current articles of association, we submit for your approval the document containing the «Compensation policies of the Banca Popolare di Sondrio Banking Group» which has been distributed to all those present. The Compliance Unit was involved in the process of validating the compensation policy and the pay system, concluding that they were perfectly in line with the legal and Supervisory Authorities' requirements.

VALUATION ON A RETROSPECTIVE BASIS

Shareholders,

The Bank of Italy's instructions on compensation policies and practices require that the Shareholders' Meeting be given information on how such policies were implemented during the year, i.e. in 2011.

To start with, we would point out that the Internal Audit Department has carried out the necessary checks to ensure that our compensation practices comply with the approved policies and with the Bank of Italy's regulations. The analyses carried out showed that there were no anomalies in applying the rules and that the current policies and practices are consistent with the said regulations.

For its part, the Remuneration Committee, created on 19 July 2011, has held a total of 6 meetings, in which all of its members have always participated, fulfilling the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors. In conducting its work the Committee has, in particular, served in an advisory role, making proposals to the Board of Directors, especially with regard to the compensation of corporate officers and those in charge of internal control functions; it has monitored correct application of the rules relating to the remuneration of these people in charge of internal control; it has expressed its opinion on the achievement of performance goals and qualitative objectives to which payment of the variable remuneration of the members of general management, other managers and those in charge of internal control functions is linked, bearing in mind that they are excluded from incentives linked to economic performance. The Remuneration Committee has found no anomalies in the application of the compensation policies during the exercise of its functions.

The following is the detailed quantitative information required by the Bank of Italy's instructions.

Directors

Under the Group's compensation policies, the gross remuneration received by members of the Board of Directors of the Bank and its subsidiaries only consists of the following fixed elements:

Banca Popolare di Sondrio (15 directors)

- Total gross compensation of 555,000 euro as established by the Shareholders' Meeting;
- Attendance fees and forfeit expense reimbursements as established by the Shareholders' Meeting for a total of 123,615 euro.

The following gross compensation was awarded to specific positions held in accordance with the articles of association (Chairman, Deputy Chairmen, Senior Director) for a total of 1,025,000 euro.

The total gross compensation of the directors of the Parent Bank therefore amounted to 1,703,615 euro.

Factorit spa (7 directors)

- Total gross compensation of 200,000 euro as established by the Shareholders' Meeting;
- Attendance fees and forfeit expense reimbursements as established by the Shareholders' Meeting for a total of 31,600 euro.

The total gross compensation of the directors of Factorit therefore amounted to 231,600 euro.

Banca Popolare di Sondrio (SUISSE) SA (5 directors)

- Total gross compensation of 315,178 euro as established by the Shareholders' Meeting.

Sinergia Seconda Srl

- The company's sole director does not receive any compensation.

The total gross compensation of the Group's directors therefore amounted to 2,250,393 euro.

Statutory auditors

Under the Group's compensation policies, the gross remuneration received by members of the Board of Statutory Auditors of the Bank and its subsidiaries only consists of the following fixed elements:

Banca Popolare di Sondrio (3 statutory auditors)

- Total gross compensation of 140,000 euro as established by the Shareholders' Meeting;
- Attendance fees and forfeit expense reimbursements as established by the Shareholders' Meeting for a total of 77,100 euro.

The total compensation of the statutory auditors of the Parent Bank therefore amounted to 217,100 euro.

Factorit spa (3 statutory auditors)

- Total gross compensation of 35,000 euro as established by the Shareholders' Meeting;
- Attendance fees and forfeit expense reimbursements as established by the Shareholders' Meeting for a total of 18,400 euro.

The total remuneration of Factorit's statutory auditors was therefore equal to 53,400 euro.

Banca Popolare di Sondrio (SUISSE) SA

A board of statutory auditors is not required under Swiss law.

Sinergia Seconda srl (3 statutory auditors)

- Total compensation of 30,606 euro as established by the Shareholders' Meeting.

The total compensation paid to the statutory auditors of the Group amounted to 301,106 euro.

Key personnel

The remuneration of «key personnel,» as identified in the Compensation Policies, is summarised in the following table:

	Number	Total compensation	Fixed compensation	Subjective variable compensation	Objective variable compensation
Directors with executive roles in BPS	5	392,790	392,790	-	-
General managers and heads of major lines of business	6	2,729,576	1,881,080	774,056	74,440
Managing Director of Factorit	1	54,800	54,800	-	-
Internal control functions in BPS	5	781,485	626,485	155,000	-

The compensation figures are expressed in euro.

The compensation structure of the Parent Bank's General Management was established on the basis of a fixed element, which is pre-eminent, and a variable portion of up to a maximum of 35% of total compensation.

The variable portion of compensation is based primarily on an element that is related to individual qualitative performance targets set by the Compensation Policies with a medium/long-term timeframe.

The qualitative part of the variable compensation can be maximum 80% of the variable element.

The element linked to quantitative parameters set by the Compensation Policies cannot be more than 20% of the variable element. The remuneration of the Chairman of the Board of Banca Popolare di Sondrio (SUISSE) SA is in line with the principles laid down in the Group's compensation policies.

The variable portion of the compensation of the General Manager of Banca Popolare di Sondrio (SUISSE) SA does not exceed 50% of his total compensation, as laid down in the Group's compensation policies.

For those in charge of control functions at the Parent Bank, their compensation is adequate considering the responsibilities and commitment involved in that position, whereas, in compliance with the Bank of Italy's instructions, they do not receive any incentives linked to economic performance. The fixed portion of their compensation is pre-eminent. The variable element - up to a maximum of 35% of total remuneration - is linked to the achievement and maintenance of individual and functional qualitative objectives laid down by the Compensation Policies.

The variable payments to «key personnel» were made without the use of financial instruments or corrective mechanisms (so-called «claw-back clauses”).

Managers not belonging to the category of «key personnel»

The gross compensation paid to Group Managers, excluding those belonging to the category of «key personnel», is summarised in the following table:

	Number	Total compensation	Fixed compensation	Subjective variable compensation	Objective variable compensation
Managers	18	3,407,418	2,415,208	918,067	74,143

The compensation figures are expressed in euro.

The 18 Managers include the General Manager of Factorit spa, who currently also holds the post of Managing Director of the company and as such is a «key person».

The Managers' compensation structure was determined on the basis of a fixed element, which is pre-eminent, and a variable element of up to a maximum of 35% of total compensation.

The variable portion of compensation is based primarily on an element

that is related to individual qualitative performance targets set by the Compensation Policies with a medium/long-term timeframe.

The qualitative part of the variable compensation can be maximum 80% of the variable element. The element linked to quantitative parameters set by the Compensation Policies cannot be more than 20% of the variable element.

Officials and professional staff

The gross salary paid to officials and other staff of the Group is summarized in the following table:

	Total compensation	Fixed compensation	Variable portion (incentive system)	Variable portion (productivity bonus)
Officials and professional staff	133,384,896	121,892,498	4,052,520	7,439,877

The compensation figures are expressed in euro.

As foreseen, the compensation structure of officials and professional staff consists of a fixed portion, which is pre-eminent, and a variable portion.

The fixed portion remunerates the skills and responsibilities involved in the position held, favouring professional abilities and experience, as well as the level of commitment shown. This remuneration then varies according to staff promotions and grades, as well as additional merit bonuses. The variable portion is designed to reward a professional performance of particular importance, over and above the line of duty and able to produce long-term results for the Bank. Generally speaking, the emphasis of our compensation policy has been on the fixed element. This means that in practice the variable portion has been limited to the maximum amount established in the individual remuneration policies, i.e. 35% of total compensation. The overall figures for the Group show that the incidence of the variable element on total salaries paid to employees in 2011 stood at 9.62%, in line with the previous three years.

In absolute terms, the Group's total payroll amounted to 140 million. The variable portion, however identified, was 13.5 million euro, of which 7.5 million for productivity bonuses agreed with the Trade Unions.

Point 4) on the agenda: Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Finance Consolidation Act).

Shareholders,

Consob resolution no. 18049 of 23 December 2011 gave effect to art. 123-ter of the Finance Consolidation Act, which governs the Remuneration Report. In accordance with this law, at the board meeting on 9 March 2012, the Directors approved the Remuneration Report, which consists of two

sections: the first section explains the bank's compensation policies for Directors, the General Manager and Managers with strategic responsibilities, with reference to at least the next financial year; also the procedures for the adoption and implementation of this policy. The second section explains, with diagrams and tables, the compensation for the period paid to the Directors and Statutory Auditors, the General Manager and Managers with strategic responsibilities. Under art. 123-ter, paragraph 1, of the CFA, the «Remuneration Report» was distributed and made available to the public in the manner and terms established by current legislation. Under art. 123-ter, paragraph 6, of the CFA, we submit for your approval the first section of the Remuneration Report that has been distributed to those present. It is up to the Shareholders' Meeting to decide «for or against» with a «non-binding» resolution.

Point 5) on the agenda: Fixing the remuneration of the directors.

Shareholders,

The Shareholders' Meeting is responsible for fixing the remuneration of the directors, according to the current Compensation Policies of the Banca Popolare di Sondrio Banking Group. The directors will propose the amounts concerned.

Point 6) on the agenda: Appointment of five Directors for the three-year period 2012-2014.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The mandates of the following directors have expired: Claudio Benedetti, Attilio Piero Ferrari, Giuseppe Fontana, Adriano Propersi and Renato Sozzani. To this end, the notice of calling includes the entire text of Article 35 of the Articles of Association, which governs the presentation of lists of candidates.

Point 7) on the agenda: Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2012-2014; determination of their annual emoluments.

Shareholders,

In accordance with the Articles of Association, the Shareholders' Meeting is called upon to elect the entire Board of Statutory Auditors for the three-year period 2012-2014.

The mandates of the following statutory auditors have expired: Egidio Alessandri, Pio Bersani and Piergiuseppe Forni, auditors, and Marco Antonio Dell'Acqua and Mario Vitali, alternate auditors. To this end, the notice of calling includes the entire text of Article 49 of the Articles of Association, which governs the presentation of lists of candidates.

The Shareholders' Meeting is responsible for fixing the annual remuneration of the statutory auditors for the entire three-year period. The directors will propose the amounts concerned.

Sondrio, 9 March 2012

THE BOARD OF DIRECTORS

In the first half of the nineteenth century, Bellano Ravine became one of the most well known spots in the Lombardy landscape due to the irresistible charm that emanates from the narrow rocky gorge through which, for millennia, the Pioverna waters dug their course, providing a grandiose image of the primitive and savage uncontaminated nature. This incision by the Tuscan Francesco S. Corsi – published in 1845 in the first volume of Illustrative Atlas that accompanied the monumental Historical and statistical physical chorography of Italy by Attilio Zuccagni-Orlandini, recreates in drypoint, the aquatint of the Ravine drawn by G. B. Bosio and etched by G. Bigatti, published in 1815 by Francesco Bernucca among the 56 views in Pictorial and historical journey to the three Lakes: Maggiore, Lugano and Como. There are very few differences (the two persons above on the bridge and the two below on the walkway are replaced here by a man on a horse and by a spectator), but the sense of the image is identical and in the drypoint this gains in descriptive power. Man remains small in front of nature that is gigantic and surrounds all, as is ingeniously highlighted by the very low viewpoint, which makes us descend, it may be said, into this infernal spectacle of nature.

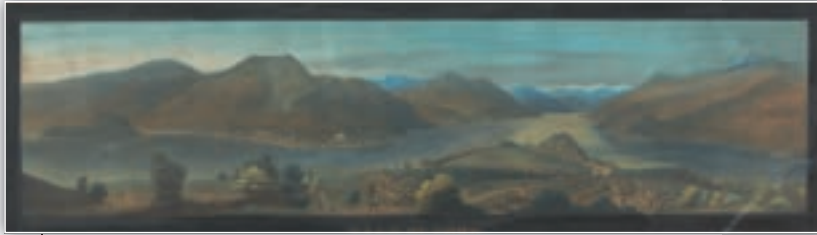


Francesco S. Corsi
View of Bellano Ravine, Lake Como, around 1845
 Drypoint on copper, 194 x 282 mm

The Bormio Baths, around 1860
 Print on steel, 145 x 100 mm

The Stelvio road, completed in 1825 from a project by Carlo Donegani, acted as a stimulus to the Bormio area for the redevelopment of hotels and the thermal spas, in particular. After the construction of the road, construction started on the new Baths, which were completed in 1836. A 1835 lithograph by Pietro Martire Rusconi shows us the new Baths' building still under construction. This print, made around 1860, shows, instead, the building, not only fully completed, but within a much changed landscape scene with the area in front turned into a garden, an extension to the complex with the service buildings behind and, above all, the road and the bridge towards the old Baths that stand on a summit in front of the church of S. Martino and the new road that rises towards a lengthy crossing of the Stelvio. Man's architectural and engineering work is thus integrated with admirable equilibrium within the mountain scenery in a harmonious counterpoint of nature and culture. The abbreviation beneath "Bibl. Inst.", probably stands for Bibliografisches Institut Hildburghausen, in the publications of which the prints appear to have been reproduced several times, with slightly varied crops and sizes.





Lake Como, around 1850
Hand coloured daguerreotype, 270 x 930 mm

The daguerreotype vogue started spreading in Milan already in 1840, the year after its discovery, when they were published by Artaria, with the title *Daguerreotypes*, a series of prints of the cities and lakes of Lombardy, no longer produced from an etched metal plate, but from copper plates covered by a layer of silver rendered, by iodine vapours, light sensitive to outside images taken and filtered by a lens. The new discovery would have paved the way for photography, but etchers immediately saw the possibility, by retouching the plates by adding persons and other details, of obtaining sharp, realistic images, while on the market, between 1840 and 1850, the ephemeral vogue of coloured panoramas and cosmoramas started spreading, obtained by using watercolours on a daguerreotype image. Various painters, usually down-and-outs, dedicated themselves thereto and in most cases they did not even sign their work. This genre encompasses this hand coloured daguerreotype with a wide panoramic view of the central part of Lake Como, where it splits into its two branches. From the point where Bellagio is, the eye goes to the left to the opposite bank towards Cadenabbia and Tremezzina, while, on the right, one can see Varenna and the entrance to the tunnel.

The matrix for this view is an aquatint from a daguerreotype by Cherbuin, *Panorama of Lake Como*, published in Milan in 1850, with a detailed description of the sites.

The etching on a steel plate by the Englishman William French (around 1815-1898), from a drawing by the German painter Franz Lauterbach, was published by Albert Henry Payne (London 1812 - Leipzig 1902) in a volume of the encyclopaedic Payne's *Universum*, published in Leipzig and in London between 1843 and 1844, the landscape images of which were then included in Payne's *Orbis pictus* (Dresden/Leipzig 1851). A painter, etcher and a singular figure as publisher, in 1838 Albert Henry Payne moved to Leipzig, where in 1843 he founded the English Kunstalt, the English Art Institute with which he started publishing and trading in prints by English and German artists, among which, were, in fact, Franz Lauterbach and William French.

Lauterbach, a modest and little known landscape painter originally from Cologne, had travelled in those years in Italy between Tyrol and Lombardy, creating a series of drawings, of idyllic romantic inspiration, almost all of which were etched by French, as commissioned by Payne.

This view of Lecco is one of his best efforts, not only for the diffuse romantic tone, but for the original viewpoint that harmoniously captures the village, from the mouth of the River Caldone, with the harbour, the boats, the banks and the ferry arriving full of tourists, framed within an alpine lake scene. Moreover, the perspective recalls the beautiful View of Lecco depicted in 1829 by Marco Gozzi.

Franz Lauterbach - William French (etcher)
Lecco, am Comer See, around 1850
Etching, 140 x 210 mm



REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Shareholders,

Pursuant to art. 153 of Decree Law 58/98, we hereby submit to you the report on our supervisory work carried out during 2011. In doing this, we complied with the rules of conduct issued by the Italian Accounting Profession (represented by the *Ordine dei Dottori Commercialisti e degli Esperti Contabili*). We can also confirm that in 2011 our work benefited from the chance to compare our assessments with those made by the inspectors of the Bank of Italy at the end of their inspection in the first half of last year. The comparison showed a substantial overlap between the respective evaluations, which has obviously comforted us from all points of view, particularly in the correctness of management and the adequacy of the bank's organizational and operational structure.

We verified, to the extent required of us, the correctness of management, i.e. the observance of laws and the articles of association and compliance by management's measures with correct principles of administration. We carried out our work by attending all the meetings of the corporate bodies held during the year (8 meetings of the Board of Directors and 93 meetings of the Chairman's Committee), in addition to a suitable interaction with the control functions and the independent audit firm. We then carried out appropriate operational regularity audits at the head office and branch network of the Bank in cooperation with the Internal Audit Department, as part of the analysis of the adequacy of the organizational structure.

Together, these activities have enabled us to ascertain the conformity of the decisions taken by the governing bodies with the law and the articles of association. In addition, it allowed us to ascertain the correctness of the process followed for the assumption of individual decisions and, therefore, compliance with the correct principles of administration (especially in relation to underlying risk factors), as well as smooth implementation of these decisions at an operational level. During our work, we did not come across any transactions that were unrelated to the corporate purpose, nor operations that were manifestly imprudent or excessively risky, such as to compromise the integrity of the Bank's capital. We can assure you that all meetings of the Board of Directors and of the Chairman's Committee held last year and the Shareholders' Meeting in April 2011 were convened and run in accordance with the rules that govern them.

You should make reference to the report on operations and explanatory notes for information on related-party transactions carried out in 2011. In any case, we can assure you that they were all at market conditions, or, in their absence, using adequate reference parameters, at cost, and that, in all case, we considered their congruity and compatibility with the bank's resources and the capital that it has available. We can also assure you that, in carrying out such transactions, the directors complied with the Internal Procedures adopted by the Board of Directors in November 2010 in accordance

with the Regulations issued in this regard by Consob with resolutions no. 17221 and no. 17389 of 2010 and that the rules of transparency have been observed.

The adequacy of the organisational structure has always been a key element in ensuring to any enterprise, whether a bank, industry or commercial concern, the ability to develop and implement correct and effective management of its activities. So it is not surprising, for the functions performed by banks and the public interests associated with them, the adequacy of the organization has always been closely monitored by the supervisory bodies and that this monitoring has continued to intensify, especially in recent years, in view of the weaknesses brought to light by the financial crisis that began in 2008. Eloquent in this regard are the guidelines issued last September by EBA, the European Banking Authority on internal governance and the document issued on 11 January 2012 by the Bank of Italy on the organisation and corporate governance of banks. This document, which incorporates the basic principles of the guidelines set by EBA, supplements the previous provisions relating to corporate organisation and governance, especially in relation to the role of corporate bodies and the activities of control and risk management. Needless to say, in preparing ourselves to provide you with our valuations on the subject, we critically reviewed the results of our work during the year in light of the provisions contained in the document of 11 January. Based on this analysis, we can reassure you about the substantial adequacy of the organisation of the bank and its internal control system. This statement is based on the fact that, in performing our audit work in these areas, we have established:

- that there is a proper division of the strategic supervision, management and control functions between the corporate bodies;
- that the individuals making up these bodies are professionally competent;
- that decisions were made and implemented by people who had been given suitable powers to do so;
- that there is a complex system that regulates the various functions and underlying processes;
- that transactions involving a conflict of interest were correctly handled;
- that the administrative-accounting system can be relied upon to record and represent operations correctly;
- that the system of internal control is substantially valid in functional terms, especially in relation to the safeguards that have been put in place to cover the various types of risk to which the bank's activity is exposed;
- that the Bank exercises management control and coordination over the subsidiaries in a proper manner.

Again in relation with to the document of 11 January, we would point

out that the bank is implementing the measures contained in it on a timely basis, to ensure proper functioning of its governing bodies. This is the reasoning behind the process of self-valuation of the qualitative and quantitative composition and functional and organisational adequacy of the Board of Directors and its Sub-Committees, a process likely to be repeated periodically in line with the objectives of these measures.

Even though the bank has not adopted the Code of Conduct promoted by Borsa Italiana because of the bank's particular characteristics, the model of corporate governance approved by the Board on 9 March 2012 largely reflects this Code. As part of a continuous refinement of the model and in execution of the provisions gradually adopted by the supervisory bodies, the bank has set up a Related-Party Transactions and Remuneration Committee, as well as a Supervisory Board pursuant to Legislative Decree 231/2001. In addition, although more specifically aimed at strengthening control functions, in 2011 the bank set up an Anti-Money Laundering Function in accordance with the Bank of Italy's instructions.

To complete the above, we would point out the successful update of the articles of association, which is necessary to adapt them to the new Consob regulation on the presentation of lists for the appointment of statutory auditors; in addition, what is undoubtedly emblematic for you, the sense of appreciation that the Board has shown in implementing the recommendations of the Bank of Italy's inspectors at the end of their inspection.

Returning to the theme of the interaction between our activities as the Statutory Auditors and the second and third level control functions, we wish to emphasise the intensity that it has had and continues to have, as these functions are the operational arm through which we perform a large part of our activities to monitor compliance with the rules and procedures, as well as the adequacy and effectiveness of the internal control system as a whole and, in particular, versus the management and control of risks.

In this perspective, we have interacted with:

- the compliance function, with regard to the prevention of legal and reputational risk related to any breach of regulations governing the bank's activities. Specifically, we paid particular attention to compliance with the rules concerning investment services, transparency and privacy;
- the Risk Management Function, as it is directly involved in measuring and controlling risk exposure. We have examined and discussed the results of activities carried out by the Function, and with its help, we have monitored and evaluated the functionality and effectiveness of those responsible for managing and mitigating operational risk. In so doing, we did not neglect the procedures and tools in place to specifically manage and control market risks and, of the financial risks inherent in the business, above all counterparty risk;
- the internal audit department, which has to check continuously the proper functioning of the internal control system and its compliance with current organisational and regulatory dispositions;

- the Anti-Money Laundering Function, as regards the monitoring of the activities carried out by its company and, in particular, certain aspects of particular importance, such as the measures taken with regard to due diligence, the preparation of the single archive for documents, and the reliability of the power systems for the Single IT Archive.

In this process of interaction, we have not neglected to supervise the system by which information circulates within the company and, in particular, the information flows generated by the control functions for the corporate bodies.

As regards our joint activity with the Internal Audit Department, we would like to specify that it was not limited to checks on operational regularity, but also covered the Department's broader functions, such as:

- evaluating the effectiveness and efficiency of the processes and safeguards for the management and mitigation of risks (special attention was given to the credit and loans process and the accounting and administrative process);
- formulating proposals for the improvement of processes and operating procedures;
- assisting other second-level functions under specific service contracts;
- last but not least, the outsourced internal audit activity for Factorit Spa and, within the constraints imposed by the Swiss Supervisory Authority, that carried out for the Swiss subsidiary on the Parent Bank's behalf.

In addition to these activities, there were also the audit checks performed at the branches (97 in 2011), designed to ascertain their operational correctness, from a regulatory and procedural point of view, also with regard to their compliance with directives on organizational, counterparty, and legal and reputation risk. These checks did not reveal any anomalies, irregularities or weaknesses worthy of note. Lastly, we have not neglected to keep in contact with the Supervisory Board established pursuant to Legislative Decree 231/2001. In saying that the substantial work done in 2011 did not reveal critical elements, we would reiterate that in the performance of its mission, the Supervisory Board has paid particular attention to staff training on the contents of the decree, to the introduction of the Code of Ethics, to the definition of information flows to and from the Board, and to the establishment of a similar body at Factorit Spa

We have already acknowledged that the Bank exercises management control and coordination properly over the subsidiaries. This statement also rests on evidence emerging from the monitoring activities carried out by us, within the limits of our powers as the Parent Bank's control body. More precisely:

- as regards Banca Popolare di Sondrio (SUISSE) SA, we have maintained the necessary relationships with its top management, receiving all of the information that we requested; we examined and discussed the outcome

of our checks, in accordance with the limits set by the federal supervisory authority for financial markets, by the bank's Internal Audit Department which also read and discussed the results of the checks performed by the Swiss subsidiary's own internal auditors. We have also read the opinion issued by KPMG SA, the Independent Auditors, after their audit of the 2011 financial statements;

- as regards the Italian subsidiaries Factorit Spa, Synergia Seconda Srl and Pirovano Stelvio Spa, supervision is carried out mainly by being members of their boards of statutory auditors (chairman and one auditor on the board of Synergia Seconda Srl and Pirovano Stelvio Spa, one auditor on the board of Factorit Spa). We are also in touch with the respective audit firms: KPMG Spa for Sinergia Seconda Srl and Pirovano Stelvio Spa, because they have been the auditors of these companies since 2011; Deloitte & Touche Spa as the auditors of Factorit Spa;

Without wanting to overlap the work of KPMG spa, which by law has exclusive responsibility for auditing the financial statements, in carrying out our duty we have monitored, to the extent required of us, compliance on the part of the directors with the rules of the Civil Code and the instructions issued by the Supervisory Authorities with regard to the format and contents of the financial statements. In doing so, we were obviously also in touch with KPMG SpA as the bank's auditors. In this regard, we can confirm that:

The financial statements for 2011 reflect the balances on the books of account and have been prepared in accordance with the IAS/IFRS adopted by the European Commission and applied according to the principles and methods explained in the Notes.

These principles and methods are consistent with those used when preparing the previous year's financial statements.

- the report on operations can be considered exhaustive and is consistent with the figures and other information provided in the financial statements and explanatory notes. The report on operations, together with the explanatory notes, provides complete disclosure of transactions with related parties, such as subsidiaries and associates, and of all of the major transactions that took place during the year, as well as those that were carried out after the end of the year.
- from our examination, and above all from the audit work carried out by KPMG Spa, no serious problems worth mentioning here have emerged. In this regard, KPMG SpA has also confirmed that, in light of the contents of the directors' report on operations and accompanying notes, there will be no need to highlight any matters in the audit report.

In addition, we would like to add that:

- during 2011, the bank received 16 complaints about investment services, all of which can be considered settled;

- we did not receive any complaints or petitions under art. 2408 of the Civil Code;
- we did not issue any opinions apart from those required by law.

As regards the remuneration paid to KPMG spa for their activities during 2011, in addition to the audit fee of € 213 thousand, they were also paid € 5 thousand for a due diligence carried out as a separate engagement. In addition, KPMG spa has received € 10 thousand and € 20 thousand respectively for the audit work carried out at Pirovano Stelvio Spa and Sinergia Seconda Srl.

With reference to the bank's approach to mutualistic activities, we can confirm that it continued to be faithful to its corporate mission as a cooperative bank. In line with this mission, the bank continued to sustain local economies in all their forms, particularly households and small and medium-sized enterprises. This mission, which is confirmed by the increase in total loans during 2011 (+12.9%), takes on special significance when one considers, for example, the support given by the bank to eco-sustainable projects, collaboration with Finlombarda for the recapitalisation of social cooperatives and working with INPS and the Central Institute of Cooperative Banks to issue and pay «work vouchers» for casual labour.

The bank has never failed in its commitment to the protection of savings. Indeed, its efforts in this area have been intensified in light of the increasing risk aversion triggered off by market uncertainties and trends. As a result, the bank's offer has continued to be characterized by transparency and simplicity, in line with the investment choices of customers. Significant in this respect is the inclusion in the bank's catalogue of instruments of ethical finance and supplementary pension fund products. For a more detailed explanation of the various social and economic initiatives undertaken in 2011, we would refer you to the specific section of the directors' report.

In confirming the comprehensiveness of the report, we have emphasised that it presents the more important events and transactions that took place during the year, as well any events of interest that took place after the year end. Of the events that occurred during the year, three matters that we would highlight are: the launch of the Lower Tier II subordinated step-up bond with increasing interest rates for a nominal amount of 400 million, whose subscription was closed successfully on 29 February of this year; participation in the ECB's first three-year auction at the end of 2011, for an amount of € 1,300 million; participation in the ECB's second three-year auction at the end of February, for an amount of € 500 million.

To conclude, we would reiterate that our supervisory work did not reveal any reprehensible situations, omissions or irregularities that are worthy of note, so to the extent that it concerns us, we express our opinion in favour of you approving the 2011 financial statements and the proposed allocation of the net profit for the year.

Lastly, we would remind you that the term of office of five members of the Board of Directors and of the entire Board of Auditors expires at today's Meeting. We would therefore invite you to take suitable measures. Thank you for your confidence in us.

Sondrio, 27 March 2012

THE BOARD OF STATUTORY AUDITORS

Egidio Alessandri, Chairman


Pio Bersani, Auditor

Piergiuseppe Forni, Auditor



COOPERATIVE IN NAME AND DEED
EQUITY INVESTMENTS
INTERNATIONAL UNIT
MULTICHANNEL BANK
LOANS TO HOUSEHOLDS
LOANS TO BUSINESSES
THE BANK AND YOUNG PEOPLE
CARTA +MA
ASSET MANAGEMENT
BANCASSURANCE AND SUPPLEMENTARY
PENSION SCHEMES
PUBLICATIONS
CONFERENCES
CULTURAL ACTIVITIES
GIFTS TO SHAREHOLDERS





Points 1 and 2 of our Articles of Association are fundamental points of reference for us; they read: «The company's activities are based on the principles of mutuality and cooperation» and «As part of institutional work to facilitate the development of all productive activities, the company, in consideration of its specific objectives as a cooperative bank, intends to provide specific support for the smaller enterprises and cooperatives present in the territories served; in addition, it will take all appropriate steps to spread and encourage saving». To be a cooperative bank in a year of crisis like 2011 has meant, first of all, not to dry up the

sources of financial support for the territory. This assumption of responsibility on our part is reflected in the figures for loans to customers, which rose from 18,248 million to 20,606 million, +12.92%. This means that households and businesses have been able to rely on their bank which, given the necessary requirements, never betrayed its commitment. Ours is a precise, long-term choice of field in a perspective of social responsibility to support the economy of our territories. We want to develop them alongside large, medium and small businesses, households and public entities that operate locally.

Cooperative
in name and deed



SUBSIDIARIES

BANCA POPOLARE
DI SONDRIO (SUISSE) SA

FACTORIT SPA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL

RAJNA IMMOBILIARE SRL

ASSOCIATED COMPANIES

ALBA LEASING SPA

BANCA DELLA NUOVA TERRA SPA

ARCA VITA SPA

POLIS - FONDI IMMOBILIARI
DI BANCHE POPOLARI SGR PA

SERVIZI INTERNAZIONALI
E STRUTTURE INTEGRATE 2000 SRL





MINORITY INTERESTS HELD FOR OPERATIONAL PURPOSES

UNIONE FIDUCIARIA SPA

ARCA SGR SPA

ICBPI SPA

CARTASi SPA

ETICA SGR SPA

GROUP SRL

As in the past, the equity investments held by the bank relate essentially to companies that provide products and services that supplement our own range. These holdings are therefore functional to the business and held on a stable, long-term basis. We give work to these companies and, under the right circumstances, financial support, preferably as part of initiatives implemented together with other cooperative banks.

Equity investments



SCRIGNO

forex



SCRIGNO

Trade Finance



DESKS OUTSIDE ITALY

- ABU DHABI • ATHENS • BRUXELLES
 - BUDAPEST • BUENOS AIRES
 - CAIRO • CASABLANCA • CHICAGO
 - CHISINAU • CIUDAD DE MEXICO
 - HONG KONG • ISTANBUL • LIMA
 - LISBOA • LYON • MONTEVIDEO
 - MOSCOW • MUMBAI • PARIS
 - SAO PAULO • SEOUL • SHANGHAI
 - TEL AVIV • TOKYO • TORONTO
 - TUNIS • ULAANBAATAR • WARSZAWA
- (c/o different partners)



If globalisation has brought us all of the problems of international finance, it also has to be said that globalisation has also given us a chance to access other economies. For our part, we did everything possible, in some cases almost the impossible, to support client companies in their efforts to internationalise. That means supporting activities designed to promote and sell Italian products and make investments for productive or commercial ventures abroad. Our work has involved developing innovative products and extending the

geographical areas that we serve directly. Business missions abroad, participation in international fairs, bilateral meetings with foreign representatives, highlighting job opportunities, specialized assistance, business information, coverage of country, counterparty and financial risk are the main services that we have made available to companies. They often attracted widespread interest, thanks to the quality and continuity of information with which the various initiatives have been brought to the attention of numerous counterparties.



International unit

www.popso.it/estero

Multichannel bank

www.popso.it

SCRIGNO
mobile 

SCRIGNO*mobile*: to operate with ease anywhere and at any time. Operations:

- List of movements and current account balance
- Balance of securities held in custody
- Prepaid phone cards
- Mobile phone top-ups

Will also be available soon as an *App*.





SCRIGNO Internet Banking: the simple, convenient and safe solution for operating online with more advantageous conditions than physical channels.

Correspondence on line: a service which replaces the delivery of paper documents with electronic documents, thus respecting the environment and reducing customer charges.

SCRIGNO IdentiTel: an innovative high security instrument for the authentication of online operations by simply calling a toll free number from a mobile phone.

SCRIGNO
Internet Banking

SCRIGNO
IdentiTel



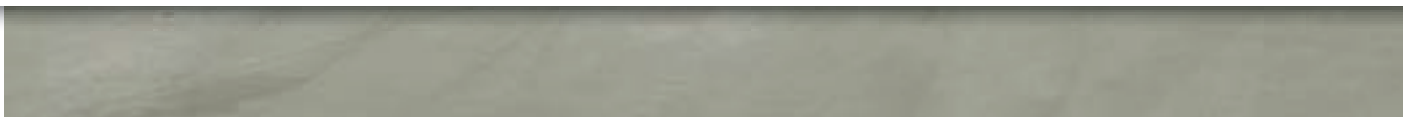
Loans to households



Lending activity is undoubtedly the essence of our operations. Even in a difficult economy such as that being experienced, the bank has continued to provide support to households either by lending directly, or through collaboration with specialised providers of consumer credit, as well as by granting mortgage loans for house purchases.



Loans to businesses





Loans are the raw material and the product of the banking business and granting credit is our real purpose as a bank; it has always been at the heart of our day-to-day activities. We therefore chose to strengthen and refine our professional resources, tools and procedures to administer each risk profile in the best way possible, while maintaining the high quality of the assets on our balance sheet. This is the first guarantee of prudent and sound management. The idea of credit worthiness has guided us in our examination of the organisational, managerial, financial and production structure of the companies that we lend to, with a medium-

term time horizon, taking into account the specific circumstances of the markets in which they operate. Bank credit, as we conceive it, is fine if it supports customers' production cycles at conditions that they can bear, so that they do not have to spend profits before they have been earned. But the fact is that whatever the form of the various guarantees given, credit transactions all have a common denominator of risk, to a greater or lesser degree. Applying these principles during the year, we again saw a positive trend in loans, which rose to 20,606 million, an increase of +12.92%.



The Bank and young people

With respect to young customers, the women and men of tomorrow, we are ever attentive: from made to measure accounts that will accompany the youngsters as they grow, to simple and flexible investment plans for the management of savings and supplementary pensions. Among the successful products we mention the *Conto 44 gatti* for the youngest, which combines the advantages of a savings book with the popular schemes exclusively for holders of the *Gattimatti* card. The very low cost products, *1° Conto POPSOWeb* and *Conto Student POPSOWeb* continue to be very much appreciated.



Carta +ma





The range of banking services offered to consumers has been enhanced in recent years by a new service, an “advanced” prepaid payment card, commonly known as an “account card”. This product is capable of effectively satisfying basic banking needs and of responding in a more adequate manner to needs that were not fully met by the previous offering (the traditional prepaid card). The innovation consists of having an unequivocal IBAN code associated with each card, thus allowing different services to be incorporated into a single instrument: crediting of salary or pension, receipt and payment of bank transfers,

recharging mobile phones, direct debits for utilities, as well as being able to carry out all the payment operations that are typical of credit and debit cards. Banca Popolare di Sondrio, always attentive to new trends and customer needs, has launched during the course of 2011 its own product called Carta +ma that comes with pleasant graphics and with interesting innovations in terms of functionality like, for example, MasterCard PayPass technology, which allows contactless payments to be made on enabled POS terminals. Carta +ma is also available for minors of 14 years old upwards.



**ASSET
MANAGEMENT**



Popso (SUISSE)
Investment
Fund SICAV



MUTUAL FUNDS



ETHICAL MUTUAL FUNDS

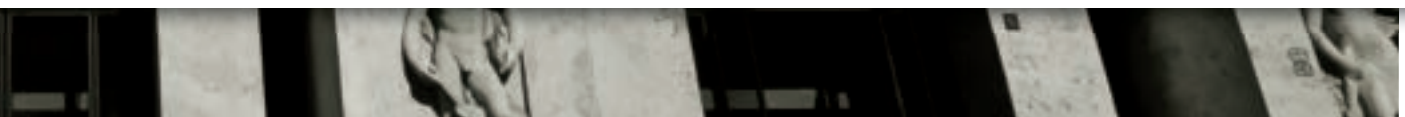


Asset management

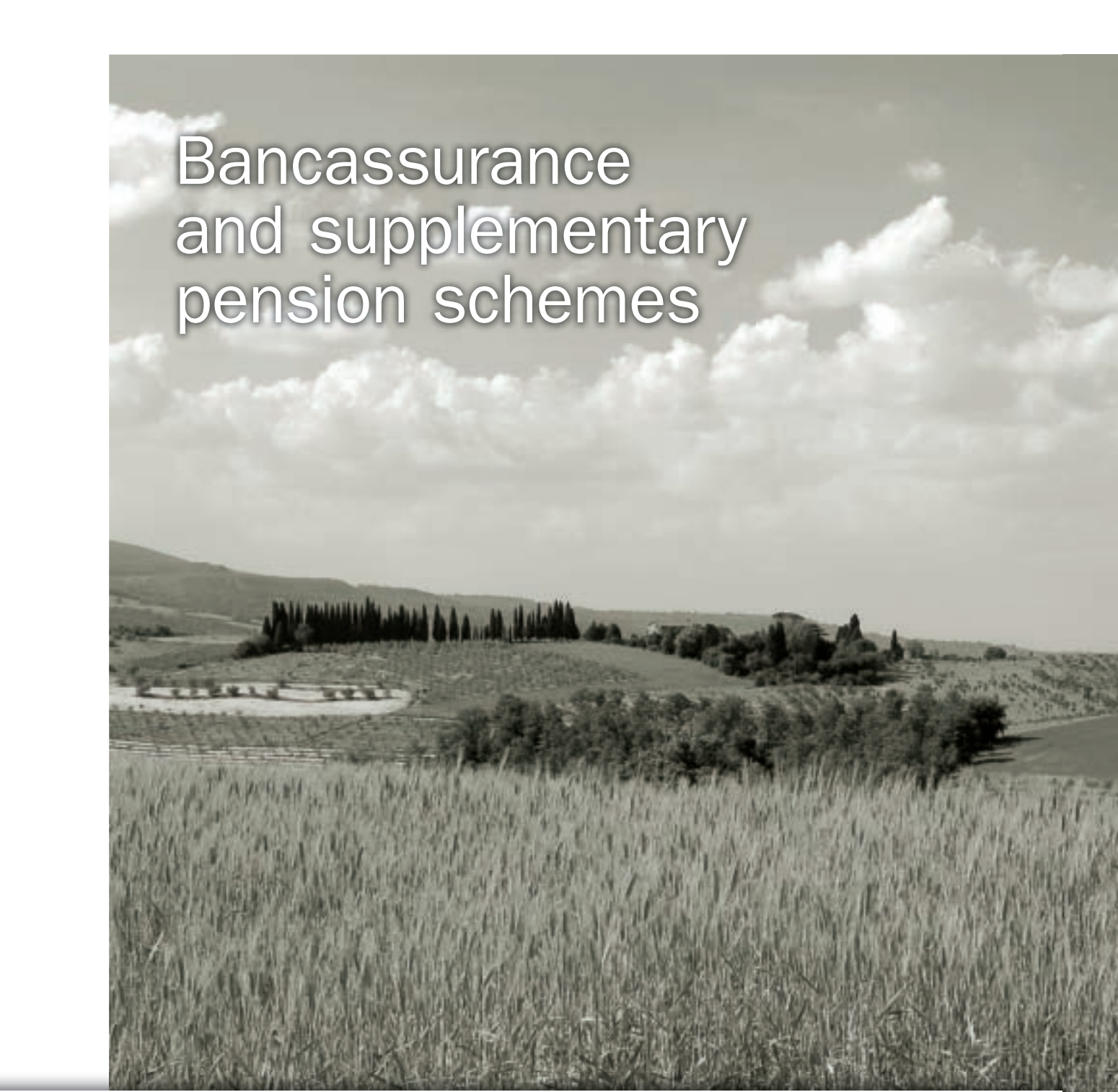


In 2011 the investee Arca SGR enhanced its range by marketing so-called “coupon funds” and by promoting the innovative service Arca Save & Consolidate, which allows investments to be made, gradually, in equity funds by means of an accumulation plan with contributions made from a monetary fund. Similarly, in May 2011, Popso (Suisse) investment Fund Sicav launched a new fund called Euro

Corporate Bond, which invests mainly in corporate bonds in Euros. What the bank proposes in the asset management sector also extends to ethical mutual funds promoted by the ethical asset management company, which invests in securities of businesses and governments selected on the basis of criteria of social and environmental responsibility, without sacrificing potential returns.




Palazzo Mezzanotte, premises of the Milan Stock Exchange



Bancassurance and supplementary pension schemes

In terms of insurance premiums collected, our efforts have been directed towards the protection of savings. It could not be otherwise: a customer's most important need has undoubtedly been to feel protected. With this aim, *Arca Vita Energy* and *Valore Tempo* have proposed, Arca Vita insurance solutions with guaranteed capital and minimum yields. *Arca Soluzione Strada* and *RiparaCasa* integrate the non-life insurance policies of Arca Assicurazioni to provide coverage for road accidents and protection of the home.

As has been the case for years, the product offering has also comprised products related to supplementary pensions, which are fundamental to guarantee adequate retirement conditions in the future, especially for young people. Arca SGR's open pension fund Arca Previdenza is aimed at all those who intend setting up a supplementary pension for themselves, benefiting, at the same time, from the tax deductibility of contributions. Employees in the private sector also have the possibility of joining a pension fund by contributing their accruing severance indemnities.







Publications





Investing in culture as well. Making use of resources, a typical aspect of banking, is combined by us with attention to the world of art, history and traditions. A straightforward choice that has characterized the bank for years, especially our attempt to act in a “popular” key. This means working

to attract a wider audience to the cultural events that we organize directly, allowing more and more people to appreciate the often little known treasures of our land. This year’s promotional material includes the 15th edition of the diary book by Gigliola Magrini, entitled *Writing*.



Conferences



GUIDO TABELLINI
28 January 2011



MICHELE FAZIOLI
18 February 2011



**ALESSANDRO
QUASIMODO**
21 January 2011



SERGIO ROMANO
14 May 2011



MASSIMO MORATTI
8 September 2011



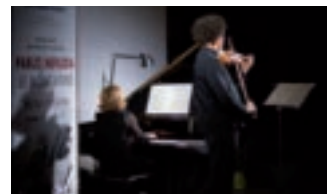
ISABELLA BOSSI FEDRIGOTTI
29 September 2011



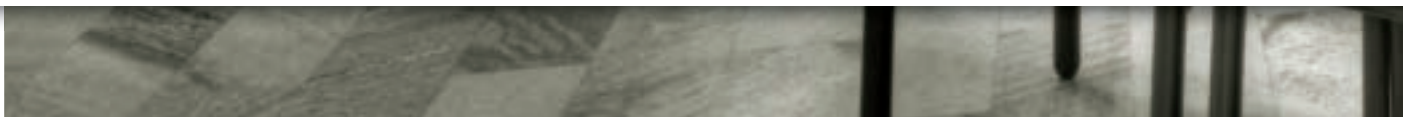
UMBERTO ECO
7 October 2011



CARLO DE BENEDETTI
17 October 2011



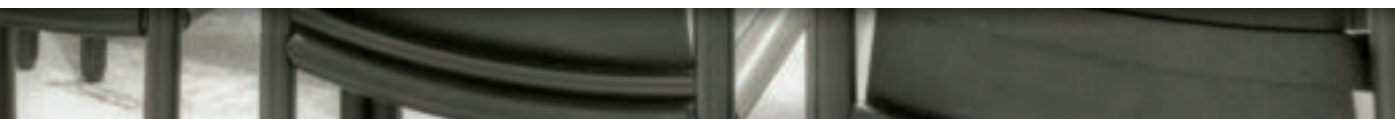
PABLO NERUDA AND THE MOUNTAINS
Bormio, 29 December 2011





On 21 January 2011 the actor Alessandro Quasimodo remembered his poet father in the event *Salvatore Quasimodo-Operaio di Sogni*. On 28 January Professor Guido Tabellini, rector of Bocconi University, Milan, spoke on *Which future for the economy in Europe*. On 18 February, Michele Fazioli, an RSI journalist, focused on *Information against the light. Beauty and dangers of the media revolution*. On 14 May Professor Sergio Romano covered the subject *A new Mediterranean: the North African riots, Italy and Europe*. On 8 September, Massimo Moratti, President of F.C. Internazionale Milano, with teamplayer Ivan Ramiro

Cordoba, entertained a great many fans of *The game of football*. On 29 September Isabella Bossi Fedrigotti, writer and journalist, gave a talk on her work *My love, kill Garibaldi*. On 7 October Professor Umberto Eco, the world famous Italian writer, covered the subject *In Praise of bibliophiles*. On 17 October, the "Cavaliere del lavoro" (knighthood for services to industry) Carlo De Benedetti, honorary chairman of CIR spa, gave his thoughts on *Protests and inequalities*. On 29 December in the Terme Bormiesi conference centre, Pablo Neruda and the Mountains was held, an event on poetry and music.





22 January - 19 February 2011



12-30 March 2011



28 May - 18 June 2011



1 October 2011



Stelvio Pass, 6-28 July 2011



Bormio, 21 April - 13 May 2011



Sondrio, 2 December 2011



Cultural activities



On the occasion of the 10th edition of *Invito a Palazzo*, on 1 October 2011, we organised guided tours of the bank's head office, in particular its art collection, the Luigi Credaro Library and the Carlo Donegani Museum at the Stelvio Pass. The Luigi Credaro Library in Sondrio has increased both the material available and the number of patrons and the "G. Spini Fund" has been moved thereto. The premises have hosted some important exhibitions: *Salvatore Quasimodo-Operaio di Sogni*; *Coins and medals that recount the Unity of Italy*; *Carlo Donegani, a way forward*, with this also having been held in the conference rooms of the Bormio and Chiavenna branches.

In collaboration with ISSREC, the conference *Protagonists, thoughts and projects in the history of united Italy*, was held in Sondrio on 2 December 2011, on the topic *The formation of man and the citizen, between school and home*, using the archives of Luigi Credaro and Giulio Spini. The Donegani room in the museum of the same name at the Stelvio Pass and, later, the Bormio branch hosted *When the Italian soldiers wrote on the blue. World War II letters from the front, collection of postcards of the era*. Again in the conference rooms of the Bormio branch, *Fragmentations* was held, an exhibition of the work of the artist Valerio Righini.

Don Luigi Guanella

a Valtellina Saint



Sondrio, 18 November 2011.

An effigy of Valtellina's first saint appears on the facade of the Banca Popolare di Sondrio's head office.



To those who participated in the Shareholders' Meeting of 14 April 2012 in Bormio, we gifted the volume *St. Luigi Guanella, the voice of the last*, a monograph dedicated to the first Saint of the Province of Sondrio, canonised by Benedict XVI on 23 October 2011.

The body of the work consists of the transcription of the authoritative interventions that took place during the open round table held on 18 November 2011, dedicated to the figure and work of Don Luigi Guanella, founder of the Congregation of the Daughters of Our Lady of Providence and the Congregation of the Servants of Charity. The meeting, which closed last year's cycle of conferences, attracted a packed audience and was followed with particular attention. To accompany the reflections of Father Alfonso Crippa, Superior General of the Servants of Charity and of Mother Serena Ciserani, Superior General of the Daughters of Our Lady of Providence, as well as those of the speakers Don Fabio Pallotta, head of the "Camino de Santiago Foundation" (Spain), Sister Franca Vendramin, a Guanellian Sister and Antonio Valentini, a lay Guanellian, there were other contributions by leading names in religious, scientific and cultural fields. The result is a book in which, with thanks also to the following – Cardinal Angelo Scola, Archbishop of Milan, Monsignor Diego Coletti, Bishop of Como, Professor Vittorino Andreoli, psychiatrist and writer, Professor Davide Rondoni, director of Bologna University's Centre for contemporary poetry, Professor Claudio Besana, researcher in economic history at the Catholic University of Milan, Angelo Forti, journalist, the Guanellians Don Mario Carrera, Don Adriano Folonaro, Don Gabriele Cantaluppi and Fabrizio Fabrizi of the Guanellian Studies Centre –, not only the singular existential and spiritual story of the Saint is highlighted, but also his great morality, with the intention of keeping the memory alive over time.



**FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2011**



BALANCE SHEET

(in euro)

ASSET ITEMS		31-12-2011	31-12-2010
10.	CASH AND BALANCES WITH CENTRAL BANKS	81,545,810	80,243,283
20.	FINANCIAL ASSETS HELD FOR TRADING	2,187,555,666	2,800,451,233
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE	81,712,732	91,887,524
40.	FINANCIAL ASSETS AVAILABLE FOR SALE	703,657,507	106,925,415
50.	FINANCIAL ASSETS HELD TO MATURITY	220,331,824	249,303,845
60.	DUE FROM BANKS	2,200,794,344	1,465,507,138
70.	DUE FROM CUSTOMERS	20,606,382,386	18,247,861,145
100.	EQUITY INVESTMENTS	348,463,978	349,475,661
110.	PROPERTY, PLANT AND EQUIPMENT	133,570,510	131,656,194
120.	INTANGIBLE ASSETS	10,180,339	10,837,065
130.	TAX ASSETS	79,583,759	63,417,459
	a) current	-	20,240,556
	b) deferred	79,583,759	43,176,903
150.	OTHER ASSETS	329,331,291	180,270,601
TOTAL ASSETS		26,983,110,146	23,777,836,563

THE CHAIRMAN
Piero Melazzini

THE BOARD OF STATUTORY AUDITORS
Egidio Alessandri, Chairman
Pio Bersani - Piergiuseppe Forni



EQUITY AND LIABILITY ITEMS		31-12-2011	31-12-2010
10.	DUE TO BANKS	3,693,891,267	2,276,296,738
20.	DUE TO CUSTOMERS	17,984,401,732	17,035,101,728
30.	DEBT SECURITIES IN ISSUE	2,583,272,886	1,931,738,258
40.	FINANCIAL LIABILITIES HELD FOR TRADING	143,837,997	90,855,961
80.	TAX LIABILITIES	25,479,801	12,749,514
	a) current	12,456,077	-
	b) deferred	13,023,724	12,749,514
100.	OTHER LIABILITIES	727,637,055	557,740,390
110.	RESERVE FOR TERMINATION INDEMNITIES	36,000,213	35,734,387
120.	PROVISIONS FOR RISKS AND CHARGES	112,116,496	114,789,552
	a) post-employment benefits	77,830,629	77,216,339
	b) other provisions	34,285,867	37,573,213
130.	VALUATION RESERVES	(43,564,776)	614,271
160.	RESERVES	591,878,026	522,958,256
170.	SHARE PREMIUM RESERVE	172,510,523	174,314,662
180.	SHARE CAPITAL	924,443,955	924,443,955
190.	TREASURY SHARES (-)	(26,078,736)	(32,820,863)
200.	NET PROFIT (LOSS) FOR THE YEAR (+/-)	57,283,707	133,319,754
TOTAL LIABILITIES AND EQUITY		26,983,110,146	23,777,836,563

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti



INCOME STATEMENT

(in euro)

ITEMS	2011	2010
10. INTEREST INCOME AND SIMILAR REVENUES	747,595,789	571,663,367
20. INTEREST EXPENSE AND SIMILAR CHARGES	(293,493,896)	(178,296,266)
30. NET INTEREST INCOME	454,101,893	393,367,101
40. COMMISSION INCOME	233,648,218	218,601,016
50. COMMISSION EXPENSE	(13,593,127)	(12,229,180)
60. NET COMMISSION INCOME	220,055,091	206,371,836
70. DIVIDENDS AND SIMILAR INCOME	6,393,497	6,367,943
80. NET TRADING INCOME	(71,887,626)	(36,675,920)
100. GAINS/LOSSES ON DISPOSALS OR REPURCHASES OF:	4,526,564	(360,031)
b) financial assets available for sale	2,959,402	(327,473)
c) financial assets held to maturity	123,588	-
d) financial liabilities	1,443,574	(32,558)
110. NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE	(6,640,809)	805,938
120. INCOME FROM BANKING ACTIVITIES	606,548,610	569,876,867
130. NET IMPAIRMENT ADJUSTMENTS:	(162,946,761)	(123,751,620)
a) loans	(155,292,598)	(116,645,555)
b) financial assets available for sale	(7,154,163)	(5,106,065)
d) other financial transactions	(500,000)	(2,000,000)
140. BALANCE OF FINANCIAL MANAGEMENT	443,601,849	446,125,247
150. ADMINISTRATIVE EXPENSES:	(337,056,477)	(327,514,220)
a) personnel expenses	(165,373,195)	(164,839,951)
b) other administrative expenses	(171,683,282)	(162,674,269)
160. NET PROVISIONS FOR RISKS AND CHARGES	4,155,695	1,428,761
170. NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(12,059,409)	(12,106,233)
180. NET ADJUSTMENTS TO INTANGIBLE ASSETS	(9,787,567)	(8,419,344)
190. OTHER OPERATING INCOME/EXPENSE	40,766,712	34,367,311
200. OPERATING COSTS	(313,981,046)	(312,243,725)
210. SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS	(12,252,465)	57,987,583
240. PROFIT/LOSS FROM DISPOSAL OF INVESTMENTS	(22,518)	(191,748)
250. PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES	117,345,820	191,677,357
260. INCOME TAXES ON CURRENT OPERATIONS	(60,062,113)	(58,357,603)
270. PROFIT (LOSS) ON CURRENT OPERATIONS AFTER INCOME TAXES	57,283,707	133,319,754
290. NET PROFIT (LOSS) FOR THE YEAR	57,283,707	133,319,754

STATEMENT OF COMPREHENSIVE INCOME

Items/Amounts	2011	2010
10. Net profit (loss) for the year	57,283,707	133,319,754
Other income items net of income taxes		
20. Financial assets available for sale	(44,179,047)	1,127,241
110. Total other income items net of income taxes	(44,179,047)	1,127,241
120. Comprehensive income (item 10+110)	13,104,660	134,446,995



STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2010	Change in opening balances	Opening balance at 1.1.2011	Allocation of prior year results	
				Reserves	Dividends and other allocations
Share capital					
a) ordinary shares	924,443,955	-	924,443,955	-	-
b) other shares	-	-	-	-	-
Share premium reserve	174,314,662	-	174,314,662	-	-
Reserves					
a) from earnings	522,958,256	-	522,958,256	68,919,770	-
b) other	-	-	-	-	-
Valuation reserves	614,271	-	614,271	-	-
Equity instruments	-	-	-	-	-
Treasury shares	(32,820,863)	-	(32,820,863)	-	-
Net profit for the year	133,319,754	-	133,319,754	(68,919,770)	(64,399,984)
Equity	1,722,830,035	-	1,722,830,035	-	(64,399,984)

A dividend from the results for 2010 of € 0.21 per share, totalling € 64.711 million, was paid from 21 April 2011. The directors have proposed a dividend of € 0.09 from the results for 2011. This dividend is subject to approval by the shareholders and, accordingly, has not been reported as a liability in these financial statements.

The proposed dividend is payable from 26 April. The payout envisaged totals € 27. 733 million.

STATEMENT OF CHANGES IN EQUITY

	Opening balance 31.12.2009	Change in opening balances	Opening balance 1.1.2010	Allocation of prior year results	
				Reserves	Dividends and other allocations
Share capital					
a) ordinary shares	924,443,955	-	924,443,955	-	-
b) other shares	-	-	-	-	-
Share premium reserve	176,084,564	-	176,084,564	-	-
Reserves					
a) from earnings	433,237,067	-	433,237,067	89,721,189	-
b) other	-	-	-	-	-
Valuation reserves	(512,970)	-	(512,970)	-	-
Equity instruments	-	-	-	-	-
Treasury shares	(40,211,189)	-	(40,211,189)	-	-
Net profit for the year	190,674,454	-	190,674,454	(89,721,189)	(100,953,265)
Equity	1,683,715,881	-	1,683,715,881	-	(100,953,265)

Changes in the year

Equity transactions

Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	Equity at 31.12.2011
-	-	-	-	-	-	-	-	924,443,955
-	-	-	-	-	-	-	-	-
-	(1,804,139)	-	-	-	-	-	-	172,510,523
-	-	-	-	-	-	-	-	591,878,026
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(44,179,047)	(43,564,776)
-	-	-	-	-	-	-	-	-
-	6,845,348	(103,221)	-	-	-	-	-	(26,078,736)
-	-	-	-	-	-	-	57,283,707	57,283,707
-	5,041,209	(103,221)	-	-	-	-	13,104,660	1,676,472,699

Changes in the year

Equity transactions

Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	Equity at 31.12.2010
-	-	-	-	-	-	-	-	924,443,955
-	-	-	-	-	-	-	-	-
-	(1,769,902)	-	-	-	-	-	-	174,314,662
-	-	-	-	-	-	-	-	522,958,256
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,127,241	614,271
-	-	-	-	-	-	-	-	-
-	9,920,209	(2,529,883)	-	-	-	-	-	(32,820,863)
-	-	-	-	-	-	-	133,319,754	133,319,754
-	8,150,307	(2,529,883)	-	-	-	-	134,446,995	1,722,830,035



CASH FLOW STATEMENT (indirect method)

	31-12-2011	31-12-2010
A. OPERATING ACTIVITIES		
1. Cash generated from operations	424,302,410	326,709,596
- net profit for the year (+/-)	57,283,707	133,319,754
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	109,895,205	59,824,894
- net hedging gains (losses) (-/+)	-	-
- net impairment adjustments (+/-)	175,621,924	106,836,055
- net adjustments to property, plant and equipment and intangible assets (+/-)	21,846,976	20,525,576
- provisions for risks and charges and other costs/revenues (+/-)	1,553,860	188,968
- unpaid taxes and duties (+)	60,062,113	58,357,603
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	-	-
- other adjustments (+/-)	(1,961,375)	(52,343,254)
2. Cash generated/absorbed by financial assets	(3,470,131,558)	(1,674,589,386)
- financial assets held for trading	551,757,622	27,877,717
- financial assets carried at fair value	3,647,915	7,426,686
- financial assets available for sale	(646,572,894)	2,534,704
- due from banks: sight	(190,733,624)	(40,336,298)
- due from banks: other receivables	(542,981,924)	(131,241,294)
- due from customers	(2,518,912,124)	(1,636,721,101)
- other assets	(126,336,529)	95,870,200
3. Cash generated/absorbed by financial liabilities	3,119,644,308	1,543,691,016
- due to banks: sight	(544,493,973)	547,167,168
- due to banks: other payables	1,964,096,556	(516,902,746)
- due to customers	930,364,467	1,137,836,277
- debt securities in issue	649,648,746	299,807,704
- financial liabilities held for trading	28,307,527	7,828,567
- financial liabilities carried at fair value	-	-
- other liabilities	91,720,985	67,954,046
Net cash generated/absorbed by operating activities	73,815,160	195,811,226

	31-12-2011	31-12-2010
B. INVESTING ACTIVITIES		
1. Cash generated by	27,844,231	139,513,004
- sales of equity investments	1,166,000	106,964,424
- dividends collected from equity investments	2,644,400	2,994,527
- sales and reimbursements of financial assets held to maturity	24,000,000	29,500,000
- sale of property, plant and equipment	33,831	54,053
- sale of intangible assets	-	-
- sale of business divisions	-	-
2. Cash absorbed by	(41,142,746)	(242,188,776)
- purchases of equity investments	(11,608,464)	(203,238,717)
- purchases of financial assets held to maturity	(6,377,410)	(12,778,936)
- purchases of property, plant and equipment	(14,026,032)	(13,895,538)
- purchases of intangible assets	(9,130,840)	(12,275,585)
- purchases of business divisions	-	-
Net cash generated/absorbed by investing activities	(13,298,515)	(102,675,772)
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	4,937,989	5,620,424
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	(64,399,984)	(100,953,335)
Net cash generated/absorbed by financing activities	(59,461,995)	(95,332,911)
NET CASH GENERATED/ABSORBED IN THE YEAR	1,054,650	(2,197,457)

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31-12-2011	31-12-2010
Cash and balances with central banks at beginning of year	80,243,283	81,250,810
Total net cash generated/absorbed in the year	1,054,650	(2,197,457)
Cash and balances with central banks: effect of change in exchange rates	247,877	1,189,930
Cash and balances with central banks at end of year	81,545,810	80,243,283

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with International Financial Reporting Standards*

Banca Popolare di Sondrio s.c.p.a. declares that these financial statements have been prepared in accordance with the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2011 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4 para 1 and 2 of Decree 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation 1606/2002 concerning international accounting standards».

The format of the financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by D.Lgs 38/2005, taking account of the update issued on 18 November 2009.

Section 2 *Basis of preparation*

The financial statements have been prepared in accordance with the following general criteria described in IAS 1:

- 1) **Going concern:** The financial statements have been prepared on a going concern basis and, accordingly, assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention, that this assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations. Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Bank monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the problems involved in sovereign debt in recent months, management is of the opinion that there are no critical areas that could negatively influence the Bank's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
- 2) **Accruals basis:** Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
- 3) **Consistency of presentation:** Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless change is required by an international accounting standard or related interpretation, or unless it is clear that a different presentation or classification would be more appropriate for the meaningful and reliable presentation of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, unless this is not feasible, and the nature of the reclassification is explained together with the



related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 (1st update of 18 November 2009).

- 4) Significance and grouping: Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
- 5) No offsetting of balances: Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
- 6) Comparative information: Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the financial statements for the current year.

The financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 87/92, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

The figures in the notes are shown in thousands of euro.

Section 3 *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 9/3/2012 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 4 *Other aspects*

The accounting policies applied during the year under review are consistent with those of the previous year.

The financial statements, accompanied by the directors' report on operations, consist of the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the financial statements.

Preparing financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets, on the basis of business continuity and excluding forced sales of assets. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements. The Bank defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2011, as required by prevailing accounting standards and relevant regulation. These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the

assumption of a forced sale. The outcome of this work supports the carrying amount of these items at 31 December 2011. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, featuring abnormal volatility in all financial measures used for valuation purposes, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used for verifying the values mentioned above have been heavily affected by the particularly uncertain macroeconomic and market environment which could, like during the year, experience currently unforeseeable rapid changes, with a consequent impact, including materially, on the amounts reported in the financial statements at 31 December 2011.

The financial statements are audited by KPMG spa in accordance with the shareholders' resolution of 29 March 2008 which appointed them as auditors for the nine year period from 2008 to 2016.

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

1. Financial assets held for trading

Classification

This caption comprises fixed-yield and variable-yield securities and units in mutual funds held for trading. It also includes derivative contracts with a positive fair value, excluding hedges but including those recorded separately from the underlying structured financial instrument, when the requirements for making this distinction are met. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index; it is settled on maturity and requires a limited initial net investment. A derivative is separated from a complex financial instrument when its economic characteristics and risks are not strictly related to the characteristics of the underlying contract, when the embedded instruments comply with the definition of a derivative even after separation, and the hybrid instruments to which they belong are not measured at fair value through the income statement.

Recognition

Assets held for trading are recorded at the settlement date with reference to their fair value, usually represented by the consideration paid, while the transaction costs and revenues are reflected directly in the income statement.

Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recording, trading financial instruments are stated at their fair value at the reference date. With regard to instruments listed on active markets, fair value is represented by their official bid price at the close of trading, while the fair value of instruments not listed on active markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.



If the fair value of equity instruments cannot be determined on a reliable basis, they are stated at cost.

Recognition of components affecting the income statement

The components of income generated by financial instruments held for trading are recognised in the income statement for the period in which they arise as «Net trading income». An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. The original value is not reinstated, even if the losses no longer exist.

Realised gains and losses from the sale or reimbursement and unrealised gains and losses deriving from the change in the fair value of the trading portfolio, as well as the impairment of financial assets carried at cost are booked to the income statement under «net trading income».

Interest income and dividends are reported in the income statement under «Interest income and similar revenues» and «Dividends and similar income» respectively.

Derecognition

Financial assets held for trading are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

2. Financial assets available for sale

Classification

This caption comprises financial assets that are not derivatives and which are not classified as Receivables, Financial assets held for trading or Assets held to maturity. In particular, this caption includes securities not held for trading and equity interests, also not held for trading, that do not represent investments in subsidiary companies, associated companies or companies under joint control.

Recognition

The assets classified in this caption are recorded on the settlement date.

Available-for-sale securities are initially recognised at their fair value, which is usually represented by the fair value of the consideration paid to acquire them, as adjusted by any directly-related transaction costs and revenues.

Aside from the exceptions allowed under IAS 39, it is not possible to transfer assets from the available-for-sale portfolio to other portfolios, or vice versa. The value recorded on any reclassification from Assets held to maturity reflects the fair value of the asset concerned at the time of transfer.

Accounting policies

Subsequent to initial recording, financial assets available for sale are stated at their fair value, determined on the basis described in relation to Financial assets held for trading.

Variable-yield securities whose fair value cannot be determined reliably are stated at cost. These comprise equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Bank operates. These instruments show that equities represent the majority in this portfolio. The fair value of these investments cannot be reliably determined, given that the valuation techniques applied to them would have to make significant use of discretionary, non-market factors.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

The rules adopted by the Bank prescribe that an impairment test has to be carried out on variable-yield securities in one of the following cases:

- a cumulative reduction in the fair value exceeding 20% of the original cost gives rise to the need to evaluate the presence of other characteristics which might make it necessary to carry out an impairment test. In any case, a cumulative reduction in fair value exceeding 50% of the original cost automatically leads to an impairment test.
- a cumulative reduction in the fair value of the instrument for at least 9 months gives rise to the need to evaluate the presence of other characteristics which might make it necessary to carry out an impairment test. In any case, a cumulative reduction in the fair value of the original cost for more than 18 months automatically leads to an impairment test.

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the amortisation of transaction costs and the difference between cost and redemption value, is recorded in the income statement.

Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; the accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment.

Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

Derecognition

Financial assets available for sale are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

3. Financial assets held to maturity

Classification

These are almost entirely unlisted fixed-yield securities that the Bank has the capacity and the willingness to hold to maturity.

Recognition

Assets due to be held to maturity are initially recorded on the settlement date at their fair value, which normally coincides with the amount paid by the bank, including transaction costs.

Any assets booked under the terms of the amendment to IAS 39 regarding the application of fair value, as adopted by the European Union with EC Regulation 1004/2008 of 15/10/2008 are measured at their fair value as of 1 July 2008, providing they were on the books as of 31 October 2008; those booked subsequently are shown at their fair value at the date of reclassification.



Accounting policies

After initial recognition, they are measured at amortised cost using the effective interest method, subjecting such assets to impairment testing if there are any signs of a deterioration in the solvency of the issuers.

Recognition of components affecting the income statement

Components affecting the income statement are recognised according to the process of financial amortisation.

Derecognition

Financial assets held to maturity are derecognised on expiry of the contractual rights over the related financial flows.

4. Receivables

4.1 Cash loans and deposits

Classification

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, are not listed on an active market.

Recognition

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently. Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them. The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans without a specific repayment date and loans repayable on demand are booked at their historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this value. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

The following categories of impaired loan are subjected to specific analysis:

- a) non-performing loans;
- b) watchlist loans;
- c) restructured loans.

Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. Recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- a) value of contractual cash flows net of any expected losses, estimated with reference to the ability of borrowers to meet their obligations and the value of any secured or personal guarantees obtained;
- b) expected timing of recoveries, considering the progress made by recovery procedures;
- c) internal rate of return.

The specific analysis of non-performing loans takes the following parameters into account:

- a) recoveries forecast by the account managers;
- b) expected timing of recoveries based on historical-statistical data;
- c) original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

The specific analysis of watchlist loans takes the following parameters into account:

- a) recoveries forecast by the offices concerned;
- b) expected timing of recoveries based on historical-statistical data;
- c) original discounting rates represented by the actual contractual rates applying at the time the loans were added to the watchlist.

The specific analysis of restructured loans takes the following parameters into account:

- a) plans for the recovery and/or restructuring of the loans, considering the assessment made by the offices concerned;
- b) discounting rates represented by the actual or contractual interest rates applying prior to reaching agreement with the borrowers.

Past due/overdrawn loans determined in accordance with the latest rules introduced by the Supervisory Authority are valued on the basis of a series of adjustment percentages that depend on historical loss statistics recorded for the same type of transaction.

Performing loans that do not show any objective signs of impairment are valued on a collective basis. Such loans aggregated in homogeneous classes with similar characteristics have applied to them impairment coefficients that are estimated on the basis of statistical data and expressed as the probability of default (PD) by the customer and the extent of the loss given default (LGD).

Recognition of components affecting the income statement

Interest on loans is shown under «Interest income and similar revenues».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement.

Any writebacks do not exceed the (specific and overall) impairment adjustments recorded previously.

Derecognition

Loans are derecognised when substantially all the related risks and benefits have been transferred and no control over them is retained.



4.2 Endorsement loans

Classification

Endorsement loans consist of all secured and unsecured guarantees given for third-party obligations.

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form loan, taking into account the creditworthiness of the borrower.

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under «fee and commission income». Impairment losses, and subsequent write-backs, are booked to the income statement under «net impairment adjustments to other financial assets» with the contra-entry to other assets.

5. Financial assets carried at fair value

The portfolio of «Financial assets carried at fair value» comprises the securities for which the «fair value option» has been applied. The recognition, measurement and derecognition criteria applied are the same as those adopted in relation to financial assets held for trading.

The income elements relating to instruments classified as financial assets carried at fair value booked to the income statement in the period when they arise to «net change in financial assets and liabilities carried at fair value».

6. Hedging transactions

Classification and recognition

The portfolio of hedging derivatives comprises the derivative instruments used by the Bank to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- a) fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- b) cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

A transaction can be recorded as a «hedge» if it satisfies the following conditions: a) the hedging relationship must be formally documented; b) the hedge must be effective at its inception and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end. If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio.

Hedging instruments are recorded using the «contract date» method.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- 1) hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value

of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;

- 2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item.

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- 1) derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
- 2) the hedged item continues to be valued on the basis applicable to the category concerned.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out of terminated early, or when they cease to satisfy the recognition criteria.

7. Equity investments

Classification

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. It is assumed that control exists when more than half of the voting rights are held directly or indirectly, or if there is a dominant influence. A company is an associated company if the Bank exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

- a) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;
- b) the Bank takes part in the decision-making process, including decisions regarding dividends;
- c) there are significant transactions between the parent company and the affiliate;
- d) there is an exchange of managers;
- e) essential technical information if being provided.

There is joint control when the voting rights and control over the affiliate are split equally with others.

Recognition

Equity investments are initially recorded at cost on the settlement date, which normally coincides with the amount paid, including transaction costs.



Accounting policies

Equity investments are subsequently valued at cost. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

Dividends are accounted for in the year they are collected and shown under «dividends and similar income».

Impairment losses, as well as profit/losses on disposal, are booked to the income statement under «share of profit/loss of equity investments».

Derecognition

Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

8. Property, plant and equipment

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery.

As required by IAS 17, assets held under finance leases are also classified in this caption.

Recognition

Property, plant and equipment are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Accounting policies

Following initial recognition, property, plant and equipment are stated at cost net of accumulated depreciation and any permanent impairment of value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, plant and equipment are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying value with respect to their recoverable value is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and writebacks are recorded in the «net adjustments to property, plant and equipment» caption of the income statement.

Derecognition

Property, plant and equipment are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

9. Intangible assets

Classification

This caption comprises identifiable, intangible, non-monetary assets that will benefit future years.

Recognition

Intangible assets are recorded at purchase cost, as adjusted for any related charges, only if it is probable that the future economic benefits attributable to them will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned.

Accounting policies

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment in value.

Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned.

If there is evidence of impairment at the reporting date, the asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «net adjustments to intangible assets» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

10. Non-current assets held for sale and discontinued operations

Non-current assets are only included in this item when it is considered very probable that they will be sold.

They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due

(current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes. Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to equity; in this case, the matching entries are also recorded within equity.

12. Provisions for risks and charges

This caption comprises the following provisions:

- a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of the reserve for termination indemnities; once again, the actuarial gains and losses deriving from actuarial estimates are booked to the income statement.

They consist of:

- 1) Post-employment benefits. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank has not adopted the «corridor» method allowed by IAS 19. The Bank is responsible for any unfunded liabilities.
- 2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».

- b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined. They are recorded when the following conditions are met:

- 1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
- 2) it is likely that settlement of the obligation will involve the use of economic resources;
- 3) a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

13. Payables and debt securities in issue

Classification

Amounts due to customers and banks and debt securities in issue comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions.

Recognition

These financial liabilities are recorded using the settlement date method. They are

initially recognised at their fair value, which is usually represented by the amount collected by the bank. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest expense and similar charges».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses on disposals or repurchases of financial liabilities».

Derecognition

Financial liabilities are derecognised when they expire or are settled.

Funding liabilities that are subsequently repurchased by the bank are eliminated from the financial statements.

14. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

15. Financial liabilities at fair value

The financial statements do not include any financial liabilities at fair value.

16. Currency transactions

Classification

They include all assets and liabilities denominated in currencies other than Euro.



Recognition

Assets and liabilities denominated in currencies other than the euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

Exchange differences on assets defined as available for sale are recorded under valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

17. Termination indemnities

Termination indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out each year by an independent actuary. As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements. The actuarial gains and losses arising from adjustments to the actuarial estimates are recorded in the income statement with reference to the estimated residual period of service of employees.

18. Other information

All assets sold have been eliminated from the financial statements.

The Bank has not established any stock option plans.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection.

Dividends are recorded upon collection.

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.



A.3 INFORMATION ON FAIR VALUE

A.3.1 Transfers between portfolios

A.3.1.1 Reclassified financial assets: book value, fair value and the impact on comprehensive income

Type of financial instruments (¹)	Portfolio of origin (²)	Portfolio destination (³)	Book value at 31.12.2011 (⁴)	Fair value at 31.12.2011 (⁵)	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation (⁶)	Others (⁷)	Valuation (⁸)	Others (⁹)
A. Debt securities	HFT	HTM	163,343	142,904	(11,082)	3,162	1,654	3,162

Income items include securities service employees' post-employment benefits.

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those transferred.

As in the previous year, the Bank did not carry out any reclassifications of financial assets. A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments. The table shows the profits and losses that would have been made if the Bank had not taken advantage of this possibility.

A.3.2 Fair value hierarchy

Amendment to IFRS 7 approved by EU Regulation European 1165 of 27/11/2009 introduced the obligation to classify value measurements on the basis of a hierarchy of levels that reflect the reliability of the inputs used in valuing financial instruments. These levels are:

- prices (without adjustments) on active markets - according the definition of IAS 39 - for the assets and liabilities being measured (level 1);
- inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
- inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

A.3.2.1 Accounting portfolios: breakdown by level of fair value

Financial assets/liabilities carried at fair value	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	1,697,834	483,244	6,477	2,400,634	391,112	8,705
2. Financial assets carried at fair value	27,937	53,776	-	31,002	60,886	-
3. Financial assets available for sale	513,270	180,693	9,694	15,943	79,148	11,834
4. Hedging derivatives	-	-	-	-	-	-
Total	2,239,041	717,713	16,171	2,447,579	531,146	20,539
1. Financial assets held for trading	70	143,768	-	203	90,653	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total 70	143,768	-	203	90,653	-	-

There were no significant transfers between the various levels during the year.

A.3.2.2 Changes during the year in financial assets carried at fair value (level 3)

	FINANCIAL ASSETS			
	held for trading	carried at fair value	available for sale	for hedging
1. Opening balance	8,705	-	11,834	-
2. Increases	211	-	2,713	-
2.1. Purchases	-	-	1,674	-
2.2. Income booked to:	63	-	1,039	-
2.2.1. Income statement	63	-	-	-
- of which gains	63	-	-	-
2.2.2. Equity	-	-	1,039	-
2.3. Transfers from other levels	-	-	-	-
2.4. Other increases	148	-	-	-
3. Decreases	2,439	-	4,853	-
3.1. Sales	-	-	-	-
3.2. Reimbursements	2,273	-	-	-
3.3. Losses booked to:	30	-	825	-
3.3.1. Income statement	30	-	-	-
- of which losses	30	-	-	-
3.3.2. Equity	-	-	825	-
3.4. Transfers to other levels	-	-	-	-
3.5. Other decreases	136	-	4,028	-
4. Closing balance	6,477	-	9,694	-

A.3.2.3 Changes during the year in financial liabilities carried at fair value (level 3)

There are no financial liabilities carried at a level 3 fair value.

A.3.3 Information on the so-called «day one profit/loss»

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».



PART B *Information on the balance sheet*

Assets

Section 1 *Cash and balances with central banks - line item 10*

1.1 1.1 *Cash and balances with central banks: analysis*

	31/12/2011	31/12/2010
a) Cash	81,546	80,243
b) Unrestricted deposits with central banks	-	-
Total	81,546	80,243

Section 2 *Financial assets held for trading - line item 20*

2.1 *Financial assets held for trading: breakdown by sector*

Items/Amounts	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Fixed-yield securities	1,654,199	323,431	6,477	2,355,267	283,389	8,705
1.1 Structured securities	-	15,961	2,120	-	16,439	2,037
1.2 Other fixed-yield securities	1,654,199	307,470	4,357	2,355,267	266,950	6,668
2. Variable-yield securities	39,979	1,796	-	43,066	1,754	-
3. Mutual funds	3,584	6,661	-	2,277	7,892	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	1,697,762	331,888	6,477	2,400,610	293,035	8,705
B. Derivatives						
1. Financial derivatives:	72	151,356	-	24	98,077	-
1.1 for trading	72	151,356	-	24	98,077	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	72	151,356	-	24	98,077	-
Total (A+B)	1,697,834	483,244	6,477	2,400,634	391,112	8,705

The other debt securities shown under level 3 are made up of a bond deriving from the securitisation of loans. The valuation of this instrument was made using internal valuation models based on discounting future cash flows and applying an average credit spread for Italian ABS with a corresponding rating.

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

Items/Amounts	31/12/2011	31/12/2010
A. Cash assets		
1. Fixed-yield securities	1,984,107	2,647,361
a) Governments and central banks	1,653,656	2,329,167
b) Other public entities	30	-
c) Banks	259,628	191,513
d) Other issuers	70,793	126,681
2. Variable-yield securities	41,775	44,820
a) Banks	14,597	19,216
b) Other issuers:	27,178	25,604
- insurance companies	3,224	3,930
- financial companies	407	1,228
- non-financial companies	23,547	20,446
- other		
3. Mutual funds	10,245	10,169
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	2,036,127	2,702,350
B. Derivatives		
a) Banks	94,421	62,497
- fair value	94,421	62,497
b) Customers	57,007	35,604
- fair value	57,007	35,604
Total B	151,428	98,101
Total (A + B)	2,187,555	2,800,451

Mutual funds are made up of: funds and sicavs for € 9.972 million and real estate funds for € 0.273 million.



2.3 Cash financial assets held for trading: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
A. Opening balance	2,647,361	44,820	10,169	-	2,702,350
B. Increases	5,399,097	107,799	14,591	-	5,521,487
B.1 Purchases	5,331,692	104,771	14,288	-	5,450,751
B.2 Positive changes in fair value	722	67	1	-	790
B.3 Other changes	66,683	2,961	302	-	69,946
C. Decreases	6,062,351	110,844	14,515	-	6,187,710
C.1 Disposals	5,744,250	91,080	12,589	-	5,847,919
C.2 Reimbursements	186,074			-	186,074
C.3 Negative changes in fair value	85,509	19,426	1,922	-	106,857
C.4 Transfer to other portfolios	-	-	-	-	-
C.5 Other changes	46,518	338	4	-	46,860
D. Closing balance	1,984,107	41,775	10,245	-	2,036,127

Other increases consist of net trading income and accrued interest coupons and premiums. Other decreases consist of net trading losses and the amount of coupons collected.

Section 3 Financial assets carried at fair value - line item 30

3.1 Financial assets carried at fair value: breakdown by sector

Items/Amounts	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	26,754	-	-	29,224	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	26,754	-	-	29,224	-	-
2. Variable-yield securities	-	-	-	-	-	-
3. Mutual funds	1,183	53,776	-	1,778	60,886	-
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	27,937	53,776	-	31,002	60,886	-
Cost	31,259	57,297	-	32,592	58,826	-

This portfolio includes all securities, other than those booked to the trading portfolio, which the bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

3.2 Financial assets carried at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2011	31/12/2010
1. Fixed-yield securities	26,754	29,224
a) Governments and central banks	26,754	29,224
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Variable-yield securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Mutual funds	54,959	62,664
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	81,713	91,888

Mutual funds are made up of: bond funds and sicavs for € 16.828 million, funds and sicavs for € 27.372 million, real estate funds for € 1.183 million, monetary funds for € 3.561 million and flexible funds for € 6.015 million.

3.3 Financial assets carried at fair value: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
A. Opening balance	29,224	-	62,664	-	91,888
B. Increases	764	-	5,303	-	6,067
B.1 Purchases	-	-	5,000	-	5,000
B.2 Positive changes in fair value	-	-	263	-	263
B.3 Other changes	764	-	40	-	804
C. Decreases	3,234	-	13,008	-	16,242
C.1 Disposals	-	-	8,791	-	8,791
C.2 Reimbursements	-	-	-	-	-
C.3 Negative changes in fair value	2,727	-	4,217	-	6,944
C.4 Other changes	507	-	-	-	507
D. Closing balance	26,754	-	54,959	-	81,713

«Other changes» include net trading income and accrued interest coupons and premiums (as an increase) and coupons collected (as a decrease).



Section 4 Financial assets available for sale - line item 40

4.1 Financial assets available for sale: breakdown by sector

Items/Amounts	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	500,885	74,427	-	609	30,100	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	500,885	74,427	-	609	30,100	-
2. Variable-yield securities	12,385	56,060	-	15,334	49,048	-
2.1 Carried at fair value	12,385	-	-	15,334	6,538	-
2.2 Carried at cost	-	56,060	-	-	42,510	-
3. Mutual funds	-	50,206	9,694	-	-	11,834
4. Loans	-	-	-	-	-	-
Total	513,270	180,693	9,694	15,943	79,148	11,834

Unlisted equities remain at cost, adjusted if necessary for impairment, because of the problems involved in establishing their fair value at the year end.

A comparison between the cost and net equity of these unlisted equities based on the latest available financial statements did not give rise to impairment losses.

Mutual funds consist of unlisted closed-end equity funds and an open-end bond fund. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV).

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	31/12/2011	31/12/2010
1. Fixed-yield securities	575,312	30,709
a) Governments and central banks	500,075	-
b) Other public entities	1,325	1,320
c) Banks	73,154	28,631
d) Other issuers	758	758
2. Variable-yield securities	68,445	64,382
a) Banks	18,012	13,768
b) Other issuers:	50,433	50,614
- insurance companies	1,298	1,607
- financial companies	38,174	32,672
- non-financial companies	10,961	16,335
- other	-	-
3. Mutual funds	59,900	11,834
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	703,657	106,925

Mutual funds consist of bond funds for € 50.206 million and equity funds for € 9.694 million.

4.4 Financial assets available for sale: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
A. Opening balance	30,709	64,382	11,834	-	106,925
B. Increases	616,555	24,404	52,919	-	693,878
B.1 Purchases	606,649	16,818	51,674	-	675,141
B.2 Positive change in FV	-	51	1,245	-	1,296
B.3 Write-backs	-	-	-	-	-
- booked to income statement	-	-	-	-	-
- booked to equity	-	-	-	-	-
B.4 Transfers from other asset portfolios	-	-	-	-	-
B.5 Other changes	9,906	7,535	-	-	17,441
C. Decreases	71,952	20,341	4,853	-	97,146
C.1 Disposals	-	9,355	-	-	9,355
C.2 Reimbursements	-	-	-	-	-
C.3 Negative change in FV	66,186	900	-	-	67,086
C.4 Impairment writedowns	-	6,113	825	-	6,938
- booked to income statement	-	6,113	825	-	6,938
- booked to equity	-	-	-	-	-
C.5 Transfers to other asset portfolios	-	2,407	-	-	2,407
C.6 Other changes	5,766	1,566	4,028	-	11,360
D. Closing balance	575,312	68,445	59,900	-	703,657

This item passes from € 106.925 million to € 703.657 million.

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

The significant increase is due to the decision to include in this portfolio fixed-yield securities intended for repurchase agreements with customers and therefore held with the idea that they will not be sold in the short term. They were included in this portfolio also with a view to reducing the volatility of the overall securities portfolio, given the turmoil that hit financial markets. The main changes relate to purchases of € 606.649 million of fixed-yield securities, as described above, and € 50 million of shares of the Az Fund 1 Reserve open-end bond fund, while for variable-yield securities the increase in the interest in I.C.B.P.I. for € 8.866 million, Cartasì Spa for € 6.337 million and Polis Fondi SGRPA for € 1.608 million. Other increases are made up primarily of interest accrued and accounted for, and the gain from the sale of the interest in Centrobanca spa for € 3.027 million.

Decreases, in addition to negative changes in fair value of € 67.086 million, are given by the sale of the interest in Centrobanca spa for € 9.355 million and impairment adjustments to variable-yield securities, mainly listed equities and mutual funds for € 6.938 million; other decreases relate to coupons collected for 5.743 million and redemptions of shares in mutual funds for € 4.028 million.



Section 5 Financial assets held to maturity - line item 50

5.1 Financial assets held to maturity: breakdown by sector

Type of transaction/Amounts	31/12/2011				31/12/2010			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Fixed-yield securities	220,332	5,771	187,577	-	249,304	6,732	233,795	-
- structured	11,729	-	9,127	-	11,657	-	10,284	-
- other	208,603	5,771	178,450	-	237,647	6,732	223,511	-
2. Loans -	-	-	-	-	-	-	-	-

In 2008 we transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

If the securities transferred, which are currently in portfolio at an amount of € 167.108 million at par, had been measured at fair value at the date of the financial statements, they would have been worth € 142.904 million with a loss of € 20.438 million.

5.2 Financial assets held to maturity: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2011	31/12/2010
1. Fixed-yield securities	220,332	249,304
a) Governments and central banks	7,158	7,139
b) Other public entities	-	-
c) Banks	99,439	143,137
d) Other issuers	113,735	99,028
2. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	220,332	249,304

5.4 Financial assets held to maturity: changes during the year

	Fixed-yield securities	Loans	Total
A. Opening balance	249,304	-	249,304
B. Increases	14,430	-	14,430
B.1 Purchases	6,377	-	6,377
B.2 Write-backs	-	-	-
B.3 Transfers from other asset portfolios	-	-	-
B.4 Other changes	8,053	-	8,053
C. Decreases	43,402	-	43,402
C.1 Disposals	-	-	-
C.2 Reimbursements	24,000	-	24,000
C.3 Writedowns	-	-	-
C.4 Transfers to other asset portfolios	-	-	-
C.5 Other changes	19,402	-	19,402
D. Closing balance	220,332	-	220,332

Other increases concern interest coupons and premiums and the positive element of amortised cost.

Other decreases consist of collected coupons and the negative element of amortised cost. Item C2. relates to the repayment of securities expired.

Section 6 *Due from banks - line item 60*

6.1 Due from banks: breakdown by sector

Type of transaction/Amounts	31/12/2011	31/12/2010
A) Deposits with central banks	444,665	341,901
1. Time deposits	-	-
2. Compulsory reserve	444,665	341,901
3. Repurchase agreements	-	-
4. Other	-	-
B) Due from banks	1,756,129	1,123,606
1. Current accounts and sight deposits	310,116	119,382
2. Time deposits	1,436,328	1,000,635
3. Other loans	9,685	3,589
3.1 Repurchase agreements	-	-
3.2 Financial leases	-	-
3.3 Other	9,685	3,589
4. Fixed-yield securities	-	-
4.1 Structured securities	-	-
4.2 Other fixed-yield securities	-	-
Total (book value)	2,200,794	1,465,507
Total (fair value)	2,200,794	1,465,507

These receivables are not specifically hedged.

Their fair value is equal to their book value as they are short-term loans repayable on demand.

Section 7 *Due from customers - line item 70*

7.1 Due from customers: breakdown by sector

Type of transaction/Amounts	31/12/2011		31/12/2010	
	Performing	Impaired	Performing	Impaired
1. Current accounts	7,222,294	388,632	6,281,246	278,838
2. Repurchase agreements	325,505	-	6,469	-
3. Mortgage loans	8,401,237	405,126	7,781,191	335,380
4. Credit cards, personal loans and assignments of one-fifth of salary	115,326	5,572	90,008	5,243
5. Financial leases	-	-	-	-
6. Factoring	-	-	-	-
7. Other transactions	3,632,532	110,158	3,409,665	59,821
8. Fixed-yield securities	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-
Total (book value)	19,696,894	909,488	17,568,579	679,282
Total (fair value)	20,082,864	909,488	17,960,312	679,282

These receivables are not specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.



7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2011		31/12/2010	
	Performing	Impaired	Performing	Impaired
1. Fixed-yield securities:				
a) Governments	-	-	-	-
b) Other public entities	-	-	-	-
c) Other issuers	-	-	-	-
- non-financial companies	-	-	-	-
- financial companies	-	-	-	-
- insurance companies	-	-	-	-
- other	-	-	-	-
2. Loans to:				
a) Governments	-	-	171	-
b) Other public entities	66,879	-	63,138	-
c) Other parties	19,630,015	909,488	17,505,270	679,282
- non-financial companies	13,299,422	670,520	12,377,237	522,550
- financial companies	2,598,697	15,728	1,615,608	15,910
- insurance companies	1,267	-	2,263	343
- other	3,730,629	223,240	3,510,162	140,479
Total	19,696,894	909,488	17,568,579	679,282

Section 10 Equity investments - line item 100

10.1 Investments in subsidiary companies, companies under joint control and companies subject to significant influence: disclosures

Name	Location	% holding	% of votes
A. Investments in wholly-owned subsidiaries			
1. BANCA POPOLARE DI SONDRIO (SUISSE) SA	Lugano	100.000	100.000
2. FACTORIT S.p.A.	Milan	60.500	60.500
3. SINERGIA SECONDA S.R.L.	Milan	100.000	100.000
4. PIROVANO STELVIO S.p.A.	Sondrio	100.000	100.000
B. Investments in companies under joint control			
1. RAJNA IMMOBILIARE S.R.L.	Sondrio	50.000	50.000
C. Associated companies (subject to significant influence)			
1. ALBA LEASING S.p.A.	Milan	20.950	20.950
2. ARCA VITA S.p.A.	Verona	15.036	15.036
3. BANCA DELLA NUOVA TERRA S.p.A.	Milan	19.500	19.500
4. POLIS FONDI SGR PA	Milan	19.600	19.600
5. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.R.L.	Milan	33.333	33.333

10.2 Investments in subsidiary companies, companies under joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Equity	Book value	Fair value
A. Investments in wholly-owned subsidiaries						
1. BANCA POPOLARE DI SONDRIO SUISSE S.A.	3,264,056	109,188	1,277	188,466	67,695	-
2. FACTORIT S.p.A.	1,693,545	90,006	9,783	166,907	102,850	-
3. SINERGIA SECONDA S.R.L.	75,110	1,974	(2,359)	67,105	60,129	-
4. PIROVANO STELVIO S.p.A.	3,870	1,514	(340)	2,154	2,154	-
B. Investments in companies under joint control						
1. RAJNA IMMOBILIARE S.R.L.	908	147	59	799	265	-
C. Associated companies (subject to significant influence)						
1. ALBA LEASING S.p.A.	4,831,771	84,817	(5,309)	325,673	67,116	-
2. ARCA VITA S.p.A.	4,246,068	858,680	40,745	317,943	35,571	-
3. BANCA DELLA NUOVA TERRA S.p.A.	508,261	24,542	(9,946)	52,535	10,244	-
4. POLIS FONDI SGR	10,461	6,090	817	8,892	2,407	-
5. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.R.L.	843	825	91	416	32	-
	14,634,893	1,177,783	34,818	1,130,890	348,463	-

Equity investments are shown in the financial statements at cost in accordance with IAS 27, 28 and 31. This amount is adjusted in the event of permanent impairment.

The figures shown in the table are taken from the financial statements at 31.12.2011, reclassified according to IAS/IFRS, except for Alba Leasing Spa, for which the figures come from its financial statements at 30 June 2011 (the latest approved).

For affiliates that prepare financial statements or consolidated financial statements, the figures shown in these documents are used.

During the year, we received dividends of € 2.468 million from Factorit spa and € 0.168 million from Polis Fondi SGRpa.

The fair value is not shown for companies that are not listed on active markets.



10.3 Equity investments: changes during the year

	2011	2010
A. Opening balance	349,475	146,653
B. Increases	12,407	203,238
B.1 Purchases	10,000	187,541
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	2,407	15,697
C. Decreases	13,418	416
C.1 Disposals	365	-
C.2 Adjustments	13,053	416
C.3 Other changes	-	-
D. Closing balance	348,464	349,475
E. Total revaluations	-	-
F. Total writedowns	(60,160)	(47,107)

This item passes from € 349.475 million to € 348.464 million. The increase refers to:

- an increase of € 10 million for the subscription of the increase in capital of Sinergia Seconda srl;
- an increase of € 2.407 million for the inclusion of Polis Fondi SGRpa, already classified under assets available for sale.

The decreases refer to:

- the writedown of Alba Leasing spa for € 8.303 million. This company was set up in 2010, but has not managed to comply with the deadlines set to achieve a profit;
- the writedown of Banca della Nuova Terra spa for € 4.410 million as a result of negative results for the period which reflect the general difficulties of the credit and loans market;
- the writedown of Pirovano Stelvio spa for € 0.340 million;
- the sale of the interest in B&A Broker spa for € 0.365 million.

10.4 - 10.5 - 10.6 Commitments relating to investments in subsidiaries, companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Bank has made a specific risk provision.

Section 11 Property, plant and equipment - line item 110

11.1 Property, plant and equipment: analysis of assets valued at cost

Assets/Values	31/12/2011	31/12/2010
A. Assets used in business		
1.1 owned	101,719	99,244
a) land	37,315	37,315
b) buildings	44,867	42,930
c) furniture	7,901	7,548
d) IT equipment	2,299	2,221
e) other	9,337	9,230
1.2 purchased under finance leases	31,852	32,412
a) land	6,803	6,803
b) buildings	25,049	25,609
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
Total A	133,571	131,656
B. Investment property		
2.1 owned	-	-
a) land	-	-
b) buildings	-	-
2.2 purchased under finance leases	-	-
a) land	-	-
b) buildings	-	-
Total B	-	-
Total A+B	133,571	131,656

Property, plant and equipment are valued at cost. Buildings have a fair value of € 258.885 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 107.137 million.

Property, plant and equipment are free from restrictions and commitments guaranteeing liabilities.

Assets purchased under finance leases are represented by buildings used as bank branches.



11.3 Property, plant and equipment used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Others	Total
A. Opening gross amount	44,118	126,353	17,247	10,416	31,222	229,356
A.1 Total net reductions in value	-	57,814	9,699	8,195	21,992	97,700
A.2 Opening net amount	44,118	68,539	7,548	2,221	9,230	131,656
B. Increases	-	5,219	2,334	1,639	4,835	14,027
B.1 Purchases	-	2,363	2,334	1,639	4,835	11,171
B.2 Capitalised improvement expenditure	-	2,856	-	-	-	2,856
B.3 Write-backs	-	-	-	-	-	-
B.4 Fair value increases booked to:						
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate adjustments	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	-	3,842	1,981	1,561	4,728	12,112
C.1 Disposals	-	-	-	40	12	52
C.2 Depreciation	-	3,842	1,981	1,521	4,716	12,060
C.3 Impairment charges booked to:						
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Fair value decreases booked to:						
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	-	-	-	-	-
C.6 Transfers to:						
a) investment property	-	-	-	-	-	-
b) assets related to discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Closing net amount	44,118	69,916	7,901	2,299	9,337	133,571
D.1 Total net reductions in value	-	61,656	11,680	9,668	26,621	109,625
D.2 Closing gross amount	44,118	131,572	19,581	11,967	35,958	243,196
E. Valuation at cost	44,118	69,916	7,901	2,299	9,337	133,571

This item totals € 133.571 million, an increase of € 1.915 million, + 1.45%.

The principal changes relate to:

- owned buildings:
in Bergamo for the purchase of a property to be used as a branch and in Berbenno for the purchase of a warehouse;
in Chiesa Valmalenco, S.Pietro Berbenno, Gravedona, Breno, Bergamo for restructuring works;
buildings being purchased under finance leases are derived primarily from the capitalization of tax charges as a result of regulatory changes;
- furniture, installations and other:
increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

property, plant and equipment	depreciation period (years)
buildings	33
furniture and fittings	7
IT equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
photovoltaic plant	12
safes	8

In accordance with article 10 of Law 72 of 19 March 1983, an appendix to this report provides information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

11.5 Commitments for the purchase of property, plant and equipment

Contractual commitments for the purchase of property, plant and equipment amount to € 6.801 million, compared with € 4.033 million the previous year.

Section 12 Intangible assets - line item 120

12.1 Intangible assets: breakdown by type

Assets/Values	31/12/2011		31/12/2010	
	Specified duration	Unspecified duration	Specified duration	Unspecified duration
A1. Goodwill	-	-	-	-
A.2 Other intangible assets	10,180	-	10,837	-
A.2.1 Carried at cost:	10,180	-	10,837	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	10,180	-	10,837	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	10,180	-	10,837	-

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years. These intangible assets are listed below by year of acquisition:

	31/12/2011	31/12/2010
recorded in 2009	1	2,653
recorded in 2010	4,092	8,184
recorded in 2011	6,087	-
	10,180	10,837



12.2 Intangible assets: changes during the year

	Other intangible assets generated internally			Other intangible assets: other		Total 31/12/2011
	Goodwill	Specified	Unspecified	Specified	Unspecified	
A. Opening balance	-	-	-	51,547	-	51,547
A.1 Total net reductions in value	-	-	-	40,710	-	40,710
A.2 Opening net amount	-	-	-	10,837	-	10,837
B. Increases	-	-	-	9,131	-	9,131
B.1 Purchases	-	-	-	9,131	-	9,131
B.2 Increases in internally generated intangible assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	9,788	-	9,788
C.1 Disposals	-	-	-	-	-	-
C.2 Adjustments	-	-	-	9,788	-	9,788
- Amortisation	-	-	-	9,788	-	9,788
- Writedowns	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
C.4 Transfers to discontinued operations due for disposal	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net amount	-	-	-	10,180	-	10,180
D.1 Total net reductions in value	-	-	-	50,498	-	50,498
E. Closing gross amount	-	-	-	60,678	-	60,678
F. Valuation at cost	-	-	-	10,180	-	10,180

Key:

Specified: specified duration

Unspecified: unspecified duration

12.3 Other information

Contractual commitments to purchase software user rights amount to € 6.924 million, compared with € 6.164 million in the prior year.

Section 13 *Tax assets and liabilities - asset line item 130 and liability line item 80*

13.1 Deferred tax assets: breakdown

Deferred tax assets recorded in relation to timing differences are analysed as follows:

	31/12/2011	31/12/2010
Loan writedowns	41,172	25,995
Provisions for risks and charges	10,971	11,796
Deferred charges	3,752	3,613
Securities and equity investments	22,320	550
Administrative expenses	199	218
Amortisation and depreciation	1,170	1,005
Total	79,584	43,177

The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given and the provision for personnel charges. Deferred tax assets have been recognised in relation to all deductible timing differences.

13.2 Deferred tax liabilities: breakdown

Deferred tax liabilities are analysed as follows:

	31/12/2011	31/12/2010
Owned buildings	5,718	5,589
Accelerated depreciation	2,844	2,840
Leased buildings	1,981	1,980
Revaluation of securities and gains	783	360
Administrative expenses	1,698	1,981
Total	13,024	12,750

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IFRS, with the elimination of the accumulated depreciation of land, and that calculated in 2004 on the elimination of «fiscal interference».



13.3 Change in deferred tax assets (with contra-entry to the income statement)

	31/12/2011	31/12/2010
1. Opening balance	43,043	37,999
2. Increases	23,196	11,426
2.1 Deferred tax assets arising during the year	23,186	11,426
a) relating to prior years	-	40
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	23,186	11,386
2.2 New taxes or increases in tax rates	10	-
2.3 Other increases	-	-
3. Decreases	8,610	6,382
3.1 Deferred tax assets eliminated during the year	8,553	6,382
a) reversals	8,553	6,382
b) written down as no longer recoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	57	-
4. Closing balance	57,629	43,043

13.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2011	31/12/2010
1. Opening balance	12,649	12,906
2. Increases	253	11
2.1 Deferred tax liabilities arising during the year	2	11
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	2	11
2.2 New taxes or increases in tax rates	246	-
2.3 Other increases	5	-
3. Decreases	406	268
3.1 Deferred tax liabilities eliminated during the year	188	268
a) reversals	188	268
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	218	-
4. Closing balance	12,496	12,649

13.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2011	31/12/2010
1. Opening balance	134	154
2. Increases	21,934	24
2.1 Deferred tax assets arising during the year	21,929	24
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	21,929	24
2.2 New taxes or increases in tax rates	5	-
2.3 Other increases	-	-
3. Decreases	113	44
3.1 Deferred tax assets eliminated during the year	113	44
a) reversals	113	44
b) written down as no longer recoverable	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	21,955	134

This amount relates to the tax on the losses on Securities available for sale booked to equity.

13.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2011	31/12/2010
1. Opening balance	101	76
2. Increases	446	37
2.1 Deferred tax liabilities arising during the year	437	37
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	437	37
2.2 New taxes or increases in tax rates	9	-
2.3 Other increases	-	-
3. Decreases	19	12
3.1 Deferred tax liabilities eliminated during the year	19	12
a) reversals	19	12
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	528	101

This amount relates to the tax on the gains on securities available for sale booked to equity.



Section 15 *Other assets - line item 150*

15.1 Other assets: breakdown

	31/12/2011	31/12/2010
Advances paid to tax authorities	20,185	18,279
Withholdings on interest due to customers	3,562	47
Tax credits and related interest	10	19,123
Current account cheques drawn on third parties	56,985	38,694
Current account cheques drawn on the bank	17,016	21,548
Transactions in customers' securities	51,760	475
Treasury operations	52,760	-
Inventories	1,536	1,535
Costs pertaining to the subsequent year	1,614	981
Advances to suppliers	144	119
Advances to customers awaiting collections	11,088	8,142
Miscellaneous debits in transit	36,078	23,899
Liquid assets serving post-employment benefits	2,860	1,762
Accrued income not allocated	22,782	20,282
Prepayments not allocated	3,592	3,775
Guarantee deposits for the purchase of property	13,449	-
Residual items	33,910	21,610
Total	329,331	180,271

Liabilities and equity

Section 1 Due to banks - line item 10

1.1 Due to banks: breakdown by type

Type of transaction/Amounts	31/12/2011	31/12/2010
1. Due to central banks	1,576,314	20,959
2. Due to banks	2,117,577	2,255,338
2.1 Current accounts and sight deposits	531,502	1,075,996
2.2 Time deposits	1,324,876	1,006,117
2.3. Loans	261,199	173,225
2.3.1 Repurchase agreements	103,291	-
2.3.2 Other	157,908	173,225
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	-	-
Total	3,693,891	2,276,297
Fair value	3,693,891	2,276,297

These payables are not specifically hedged.

Amounts due to central banks include a loan of € 1,000 million from the ECB as part of a 36-month Long-Term Refinancing Operation (LTRO) carried out on 21 December 2011. This loan is secured by the Italian Government.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.5 Payables for finance leases

	31/12/2011	31/12/2010
Payables for finance leases	6,034	15,165

Payables for finance leases at floating rates amount to € 10.780 million, of which € 6.034 million relating to banks and € 4.746 million relating to customers against a total of € 15.165 million, -28.92%; they relate to buildings used as banking branches. Total outstanding lease commitments, including interest, amount to € 11.424 million. These payables fall due as follows:

	31/12/2011	31/12/2010
within 1 months	2,528	4,538
1 to 5 years	5,880	7,677
over 5 years	2,372	2,950



Section 2 Due to customers - line item 20

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2011	31/12/2010
1. Current accounts and sight deposits	13,480,975	14,257,683
2. Time deposits	3,211,867	1,029,772
3. Loans	1,291,457	1,747,431
3.1 Repurchase agreements	1,272,472	1,747,431
3.2 Other	18,985	-
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	103	216
Total	17,984,402	17,035,102
Fair value	17,984,402	17,035,102

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.

2.5 Payables for finance leases

	31/12/2011	31/12/2010
Payables for finance leases	4,746	-

Section 3 Debt securities in issue - line item 30

3.1 Debt securities in issue: breakdown by sector

Type of security/Amounts	31/12/2011				31/12/2010			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	2,449,332	-	2,410,681	-	1,827,043	-	1,820,782	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	2,449,332	-	2,410,681	-	1,827,043	-	1,820,782	-
2. Other securities	133,941	-	133,941	-	104,695	-	104,695	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	133,941	-	133,941	-	104,695	-	104,695	-
Total	2,583,273	-	2,544,622	-	1,931,738	-	1,925,477	-

The fair value of the sub-item other securities is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

3.2 Details of line item 30 «Debt securities in issue»: subordinated securities

Subordinated securities amount to € 657.803 million and are made up of the two loans indicated below:

- 1) loan of € 357.204 million from 26/2/2010 and maturity on 26/2/2017 with a forecast annual repayment of 20% from 26/2/2013. It has an interest rate of 4% which will gradually rise to 4.50%.
- 2) loan of € 300.599 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. It has an interest rate of 4.50% which will gradually rise to 6%.

They belong to the Lower Tier II category of bonds, i.e. those that according to the regulations can be included in capital for supervisory purposes.

Section 4 Financial liabilities held for trading - line item 40

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	31/12/2011					31/12/2010				
	NV	Fair Value			FV*	NV	Fair Value			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-	-	-	-	-
1. Financial derivatives	-	70	143,768	-	-	-	203	90,653	-	-
1.1 For trading	-	70	143,768	-	-	-	203	90,653	-	-
1.2 Connected with the fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-	-	-	-	-
2.2 Connected with the fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-
Total B	-	70	143,768	-	-	-	203	90,653	-	-
Total (A+B)	-	70	143,768	-	-	-	203	90,653	-	-

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value



Section 8 *Tax Liabilities - line item 80*

This item totals € 25.480 million and consists of € 12.456 million for current taxes and € 13.024 million for deferred taxes. Current taxes are shown net of advances and tax credits for € 63.241 million.

As regards the composition and amount of deferred taxes, please read Assets Section 13 of these notes.

The bank's tax years up to 2005 have been closed. For 2006, the Bank received a notice of assessment from the Tax Authorities relating to IRES and IRAP concerning the deductibility of interest paid to customers and banks resident in countries that are considered tax havens. For the same year, it received a notice of assessment for VAT purposes for not applying VAT on the commissions received as a custodian bank. The Tax Authorities have contested this approach with other banks as well, interrupting a treatment that has practically always been applied by the sector. After careful consideration and believing the bank's conduct to be entirely proper, we have appointed tax advisers to appeal against this assessment

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2011	31/12/2010
Amounts at the disposal of third parties	213,212	137,400
Taxes to be paid on behalf of third parties	54,961	35,496
Taxes to be paid	1,927	1,774
Employee salaries and contributions	21,095	20,175
Suppliers	10,631	9,236
Transit accounts for sundry entities	24,342	3,507
Invoices to be received	7,466	8,265
Credits in transit for financial transactions	68,396	493
Value date differentials on portfolio transactions	17,628	159,545
Directors' and statutory auditors' emoluments	948	957
Loans disbursed to customers to be finalised	17,006	13,112
Miscellaneous credit items being settled	253,860	137,744
Accrued expenses not allocated	1,222	1,075
Deferred income not allocated	12,953	9,587
Allowance for risks on guarantees and commitments	6,500	6,000
Residual items	15,490	13,374
Total	727,637	557,740

This item increases by 30.46% mainly due to the rise in the sub-items «taxes to be paid on behalf of third parties», «transit accounts for sundry entities» and «miscellaneous credit items being settled».

Section 11 Termination indemnities - line item 110

11.1 Termination indemnities: changes during the year

	2011	2010
A. Opening balance	35,734	35,658
B. Increases	8,739	8,322
B.1 Provisions	8,542	8,294
B.2 Other increases	197	28
C. Decreases	8,473	8,246
C.1 Payments made	1,403	1,423
C.2 Other decreases	7,070	6,823
D. Closing balance	36,000	35,734

11.2 Other information

Other decreases relate to payments to the Arca Previdenza Fund for a total of € 4.540 million, compared with € 4.309 million the previous year, payments to INPS of € 2.363 million and tax on the annual revaluation of € 0.167 million, compared with € 0.090 million the previous year.

The provision for termination indemnities required under Italian regulations amounts to € 41.170 million. The actuarial measurement of the provision for termination indemnities was carried out on a closed group. The actuarial simulations were carried out according to the Projected Unit Credit Method.

The Projected Unit Credit Method lays down that the costs to be incurred during the year to build up the termination indemnity are determined according to the proportion of services rendered during the same period. According to the accrued benefits method, the company's obligation to the individual employee is based on the services already rendered at the measurement date.

The actuarial calculations were made on the following assumptions:

	31/12/2011	31/12/2010
Discount rate	4.75%	4.70%
Rate of inflation	2.00%	2.00%
Annual rate of increase in termination indemnities	3.00%	3.00%

Section 12 Provisions for risks and charges - line item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2011	31/12/2010
1. Post-employment benefits	77,831	77,216
2. Other provisions for risks and charges	34,286	37,573
2.1 legal disputes	27,415	31,571
2.2 personnel expenses	5,978	5,323
2.3 other	893	679
Total	112,117	114,789

At year end, the bank is not aware of being exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonable to conclude that there are no contingent liabilities.



12.2 Provisions for risks and charges: changes during the year

	Post-employment benefits	Other provisions	Total
A. Opening balance	77,216	37,573	114,789
B. Increases	4,179	15,471	19,650
B.1 Provisions	2,581	14,732	17,313
B.2 Changes due to the passage of time	-	194	194
B.3 Changes due to variations in the discount rate	-	130	130
B.4 Other changes	1,598	415	2,013
C. Decreases	3,564	18,758	22,322
C.1 Utilisations during the year	3,381	17,785	21,166
C.2 Changes due to variations in the discount rate	-	23	23
C.3 Other changes	183	950	1,133
D. Closing balance	77,831	34,286	112,117

12.3 Defined-benefit pension plans

12.3.1. Description of plans

The Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 443 employees and 225 pensioners. Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. 1,942 employees have joined this fund.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

12.3.2 Defined-benefit pension plans: annual changes

	2011	2010
At 1 January	77,216	74,669
service cost	1,612	1,523
interest cost	3,605	3,509
actuarial gains/losses	(1,219)	788
payments	(3,383)	(3,273)
At 31 December	77,831	77,216

12.3.3 Defined-benefit pension plans - Changes in plan assets during the year

The changes in the fair value of plan assets during the year are summarised below:

	2011	2010
At 1 January	77,216	74,669
yield	1,598	3,915
contributions	2,581	2,344
payments	(3,564)	(3,712)
At 31 December	77,831	77,216

The fair value of pension plan assets is summarised in the following table:

	31/12/2011	31/12/2010
Fixed-yield securities	66,601	64,795
Variable-yield securities	1,436	2,375
Mutual funds invested in shares	6,661	7,892
Mutual funds invested in property	273	392
Other assets	2,860	1,762
Total	77,831	77,216

12.3.4 Defined-benefit pension plans - Reconciliation between the present value of the plans, the present value of the plan assets and the assets and liabilities shown in the financial statements

	31/12/2011	31/12/2010
Present value of the obligations to plan members	77,831	77,216
Fair value of assets	77,831	77,216
Difference	-	-

12.3.5 Defined-benefit pension plans - Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	31/12/2011	31/12/2010
Discount rate	4.75%	4.70%
Expected increase in salaries	2.00%	2.00%
Expected underlying rate of inflation	1.50%	1.50%
Underlying rate of pension increases	1.50%	1.50%

12.3.6. Comparative information

The amount of the fund increases by € 0.615 million, +0.80%, Payments of benefits amount to € 3.366 million compared with € 3.273 million. The contributions paid by the employees totalled € 0.256 million (€ 0.276 million in the prior year).



12.4 Provisions for risks and charges – other provisions

These comprise:

	31/12/2011	31/12/2010
Provision for legal disputes	27,415	31,571
Provision for personnel expenses	5,978	5,323
Provision for charitable donations	893	679
Total	34,286	37,573

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The Bank makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice. The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2011 as the discount rate. They decrease by € 4.156 million for the difference between the provisions for the year of € 10.028 million and the release of prior year provisions of € 14.184 million.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. The total increase came to € 0.655 million, + 12.30%.

The provision for charitable donations comprises an allocation from net profits authorised by the shareholders which is used to make approved payments. The increase of € 0.500 million reflects the allocation of 2010 net profit, while the reduction of € 0.286 million was a consequence of payments made during the year.

Section 14 Equity - items 130, 150, 160, 170, 180, 190 and 200

14.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 308,147,985 issued and fully-paid ordinary shares, par value € 3 each, totalling € 924.444 million. Shares in circulation have dividend and voting rights from 1/1/2011. At the year-end, the Bank held treasury shares with a carrying value of € 26.079 million.

14.2 Share capital – Number of shares: changes during the year

Items/Type	Ordinary	Others
A. Shares in existence at the start of the year	308,147,985	-
- fully paid	308,147,985	-
- not fully paid	-	-
A.1 Treasury shares (-)	3,850,000	-
A.2 Shares in circulation: opening balance	304,297,985	-
B. Increases	804,000	-
B.1 New issues	-	-
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- others	-	-
- free of charge	-	-
- to employees	-	-
- to directors	-	-
- others	-	-
B.2 Sales of treasury shares	804,000	-
B.3 Other changes	-	-
C. Decreases	17,000	-
C.1 Cancellation	-	-
C.2 Purchases of treasury shares	17,000	-
C.3 Business disposals	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	305,084,985	-
D.1 Treasury shares (+)	3,063,000	-
D.2 Shares in existence at the end of the year	308,147,985	-
- fully paid	308,147,985	-
- not fully paid	-	-

14.3 Share capital: other information

Share premium reserve

This amounts to € 172.511 million with a decrease of € 1.804 million, -1.03% due to the allocation of the loss deriving from the sale of treasury Shares in portfolio.



14.4 Revenue reserves: other information

Revenue reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to € 591.878 million and comprise:

Legal reserve, consisting of profits allocated pursuant to art. 2430 of the Italian Civil Code and art. 60 of the Articles of Association, which amounts to € 129.114 million, +12.27%, following the allocation of € 14.113 million from 2010 net profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to € 352.072 million (+13.11%), following the allocation of € 39.996 million out of the 2010 net profit, dividends on treasury shares of € 0.808 thousand and dividends in prescription of € 0.003.

Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 87.000 million (it has been used for € 26.079 million) and has increased by € 14.000 million for the provision made during the year on allocation of the 2010 net profit.

Reserve pursuant to art. 13 of Decree 124/93, € 0.142 million.

Other reserves of € 23.550 million from the reclassification of pre-existing reserves set up under specific legal requirements. Unchanged compared with the previous year.

We inform you that the individual equity items are freely available and distributable, except for the valuation reserves which are only distributable under the circumstances laid down in art. 6 of Decree 38/2005, the portion of the «share premium reserve» that can only be distributed in its entirety if the legal reserve has reached one-fifth of the share capital (art. 2431 of the Civil Code) and the legal reserve, which is lower than 20% of the share capital.

14.5 Equity instruments: breakdown and changes during the year

No equity instruments have been issued.

Other information

1. Guarantees given and commitments

Operations	31/12/2011	31/12/2010
1) Financial guarantees	883,428	701,980
a) banks	174,536	157,723
b) customers	708,892	544,257
2) Commercial guarantees	3,035,232	2,698,146
a) banks	37,937	29,353
b) customers	2,997,295	2,668,793
3) Irrevocable commitments to make loans	1,174,041	1,567,564
a) banks	70,914	26,837
i) certain to be called on	58,303	26,837
ii) not certain to be called on	12,611	-
b) customers	1,103,127	1,540,727
i) certain to be called on	182,816	61,765
ii) not certain to be called on	920,311	1,478,962
4) Commitments underlying credit derivatives: protection sold	-	-
5) Assets lodged to guarantee the commitments of third parties	39,927	20,600
6) Other commitments	-	-
Total	5,132,628	4,988,290

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2011	31/12/2010
1. Financial assets held for trading	1,564,207	2,166,413
2. Financial assets carried at fair value	26,317	28,757
3. Financial assets available for sale	387,149	-
4. Financial assets held to maturity	58,510	-
5. Due from banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-
Total	2,036,183	2,195,170

Assets held for trading mainly comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances; financial assets carried at fair value comprise the guarantee deposit paid in relation to the issue of bankers' drafts.

Assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances.

The financial assets held to maturity are to guarantee the advances received from the Bank of Italy.

As part the ECB's refinancing of the banking system last December, we received a loan of € 1,000 million secured by a certificate of deposit issued by us and repurchased under a guarantee from the Italian Government in accordance with art. 8 of Decree Law 201 of 6 December 2011.



4. Management and intermediation for third parties

Type of service	31/12/2011
1. Execution of orders on behalf of customers	-
a) Purchases	-
1. settled	-
2. not settled	-
b) Sales	-
1. settled	-
2. not settled	-
2. Portfolio management	1,314,196
a) Individual	1,314,196
b) Collective	-
3. Custody and administration of securities	44,126,693
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	4,603,008
1. securities issued by the reporting bank	-
2. other securities	4,603,008
b) Other third-party securities on deposit (excluding portfolio management): other	16,144,919
1. securities issued by the reporting bank	2,966,909
2. other securities	13,178,010
c) Third-party securities on deposit with third parties	19,947,669
d) Own securities on deposit with third parties	3,431,097
4. Other transactions	-
Total	45,440,889

PART C *Information on the income statement*

Section 1 *Interest - line items 10 and 20*

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	Total 31/12/2011	Total 31/12/2010
1. Financial assets held for trading	53,398	-	-	53,398	34,317
2. Financial assets carried at fair value	764	-	-	764	500
3. Financial assets available for sale	9,883	-	-	9,883	399
4. Financial assets held to maturity	4,749	-	-	4,749	4,291
5. Due from banks	-	20,792	-	20,792	12,188
6. Due from customers	-	658,010	-	658,010	519,968
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
Total	68,794	678,802	-	747,596	571,663

1.3 Interest income and similar revenues: other information

Interest income has gone from € 571.663 million to € 747.596 million, +30.78% with an increase of € 175.933 million due to the increase in interest rates.

1.3.1 Interest income and similar revenue on foreign currency assets

	31/12/2011	31/12/2010
Interest income and similar revenue on foreign currency assets	35,689	30,167

1.4 Interest expense and similar charges: breakdown

Items/technical forms	Payables	Securities	Other transactions	Total 31/12/2011	Total 31/12/2010
1. Due to central banks	(2,146)	-	-	(2,146)	(78)
2. Due to banks	(33,273)	-	-	(33,273)	(13,722)
3. Due to customers	(198,663)	-	-	(198,663)	(110,254)
4. Debt securities in issue	-	(59,412)	-	(59,412)	(54,242)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
Total	(234,082)	(59,412)	-	(293,494)	(178,296)



1.6 Interest expense and similar charges: other information

Interest expense goes from € 178.296 million to € 293.494 million, +64.61%, with an increase of € 115.198 also linked to the increase in interest rates.

1.6.1 Interest expense and similar charges on foreign currency liabilities

	31/12/2011	31/12/2010
Interest expense and similar charges on foreign currency liabilities	(9,190)	(8,467)

1.6.2 Interest expense on finance lease transactions

	31/12/2011	31/12/2010
Interest expense on finance lease transactions	(251)	(251)

Section 2 Commissions - line items 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31/12/2011	31/12/2010
a) guarantees given	17,850	14,629
b) credit derivatives	-	-
c) management, intermediation and consultancy services:	57,806	57,449
1. trading in financial instruments	-	-
2. trading in foreign currencies	6,249	6,190
3. portfolio management	6,601	6,701
3.1 individual	6,601	6,701
3.2 collective	-	-
4. custody and administration of securities	2,087	2,174
5. custodian bank	4,814	4,092
6. placement of securities	12,426	13,829
7. order receipt and transmission	13,395	13,453
8. consultancy	72	37
8.1 investments	-	-
8.2 corporate finance	72	37
9. distribution of third party services	12,162	10,973
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	7,126	6,679
9.3 other products	5,036	4,294
d) collection and payment services	55,524	51,302
e) services for securitisation transactions	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) management of current accounts	-	-
j) other services	102,468	95,221
Total	233,648	218,601

This item increases by € 15.047 million, +6.88%, essentially due to the rise in other services: loan commissions, which have gone from € 56.245 million to € 62.009 million, being mainly fees charged on agreed overdrafts and loans overdrawn without authorisation; other relevant elements consist of commissions on collection and payment services which have risen by € 4.222 million from € 51.302 million to € 55.524 million and commissions on guarantees and commitments which have risen from € 14.629 million to € 17.850 million.



2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2011	31/12/2010
a) bank branches:	31,189	31,503
1. Asset management	6,601	6,701
2. Placement of securities	12,426	13,829
3. Third-party products and services	12,162	10,973
b) door-to-door sales:	-	-
1. Asset management	-	-
2. Placement of securities	-	-
3. Third-party products and services	-	-
c) other distribution channels:	-	-
1. Asset management	-	-
2. Placement of securities	-	-
3. Third-party products and services	-	-

2.3 Commission expense: breakdown

Services/Amounts	31/12/2011	31/12/2010
a) guarantees received	(287)	(92)
b) credit derivatives	-	-
c) management and intermediation services:	(1,710)	(1,689)
1. trading in financial instruments	-	-
2. trading in foreign currencies	-	-
3. portfolio management	-	-
3.1. own	-	-
3.2. delegated by third parties	-	-
4. custody and administration of securities	(1,710)	(1,689)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
d) collection and payment services	(8,225)	(7,367)
e) other services	(3,371)	(3,081)
Total	(13,593)	(12,229)

«Other services» mainly include commissions on securities transactions.

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

Items/Income	31/12/2011		31/12/2010	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,391	115	1,350	39
B. Financial assets available for sale	2,189	-	1,906	17
C. Financial assets carried at fair value	-	54	-	61
D. Equity investments	2,644	-	2,995	-
Total	6,224	169	6,251	117

This item increases by € 0.025 million, + 0.40%.

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
1. Financial assets held for trading	1,764	31,770	(105,317)	(4,137)	(75,920)
1.1 Fixed-yield securities	722	12,739	(85,509)	(4,070)	(76,118)
1.2 Variable-yield securities	67	2,863	(18,800)	(67)	(15,937)
1.3 Mutual funds	1	259	(1,008)	-	(748)
1.4 Loans					
1.5 Other	974	15,909	-	-	16,883
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Fixed-yield securities	-	-	Others -	-	-
2.2 Payables	-	-	-	-	-
2.3 Altre	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	-	-	-	-	(361)
4. Derivatives	25,369	25,500	(24,675)	(21,806)	4,393
4.1 Financial derivatives:	25,369	25,500	(24,675)	(21,806)	4,393
- On debt securities and interest rates	24,633	22,164	(23,946)	(20,644)	2,207
- On equities and equity indices	-	2,130	-	-	2,130
- On currency and gold	-	-	-	-	5
- Other	736	1,206	(729)	(1,162)	51
4.2 Credit derivatives	-	-	-	-	-
Total	27,133	57,270	(129,992)	(25,943)	(71,888)

Net trading income has been heavily influenced by significant losses on fixed-yield securities, government securities in particular, to an even greater extent than last year, when the losses were already considerable. Trading income on other financial assets of € 15.909 million is made up of exchange gains.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.



Section 6 Gains (losses) on disposals/repurchases - line item 100

6.1 Gains (losses) on disposals/repurchases - breakdown

Items/income items	31/12/2011			31/12/2010		
	Profits	Losses	Net profit (loss)	Profits	Losses	Net profit (loss)
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Financial assets available for sale	3,027	(68)	2,959	-	(327)	(327)
3.1 Fixed-yield securities						
3.2 Variable-yield securities	3,027	(68)	2,959	-	(327)	(327)
3.3 Mutual funds						
3.4 Loans						
4. Financial assets held to maturity	124	-	124			
Total assets	3,151	(68)	3,083	-	(327)	(327)
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	1,472	(28)	1,444	244	(277)	(33)
Total liabilities	1,472	(28)	1,444	244	(277)	(33)

Section 7 Net change in value of financial assets and liabilities at fair value - line item 110

7.1 Net change in value of financial assets/liabilities at fair value: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net profit (loss) [(A+B)-(C+D)]
1. Financial assets	101	40	(6,945)	-	(6,804)
1.1 Fixed-yield securities	-	-	(2,727)	-	(2,727)
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	101	40	(4,218)	-	(4,077)
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: exchange differences	-	-	-	-	163
4. Credit and financial derivatives	-	-	-	-	-
Total	101	40	(6,945)	-	(6,641)

The gains recognised mainly concern mutual funds, whereas the losses relate to mutual funds and Italian government securities.

Section 8 Net impairment adjustments - line item 130

8.1 Net impairment adjustments to loans: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)				Total 31/12/2011	Total 31/12/2010
	Type			Type		Portfolio			
	Write-offs	Others	Portfolio	A	B	A	B		
A. Due from banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
B. Due from customers	(61,739)	(112,378)	(29,687)	1,103	27,962	-	19,446	(155,293)	(116,646)
- Loans	(61,739)	(112,378)	(29,687)	1,103	27,962	-	19,446	(155,293)	(116,646)
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
C. Total	(61,739)	(112,378)	(29,687)	1,103	27,962	-	19,446	(155,293)	(116,646)

Key :

A = Interest

B = Other write-backs

8.2 Net impairment adjustments to available for sale financial assets: breakdown

Transactions/Income items	Adjustments (1)		Write-backs (2)		Total 31/12/2011	Total 31/12/2010
	Type		Type			
	Write-offs	Others	A	B		
A. Fixed-yield securities	-	-	-	-	-	-
B. Variable-yield securities	-	(5,986)	-	-	(5,986)	(4,865)
C. Mutual funds	-	(1,168)	-	-	(1,168)	(241)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(7,154)	-	-	(7,154)	(5,106)

Key :

A = Interest

B = Other write-backs

Adjustments relate to certain listed equities and property funds for which the bank carried out writedown with respect to the original cost..

8.4 Net impairment adjustments on other financial transactions: composition

Transactions/ Income items	Adjustments (1)			Write-backs (2)				Total 31/12/2011	Total 31/12/2010
	Type			Type		Portfolio			
	Write-offs	Others	Portfolio	A	B	A	B		
A. Guarantees given	-	(500)	-	-	-	-	-	(500)	(2,000)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to make loans	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
Total	-	(500)	-	-	-	-	-	(500)	(2,000)

Legenda

A = Interest

B = From write-back

Section 9 Administrative expenses - line item 150

9.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2011	31/12/2010
1) Employees	(159,953)	(158,574)
a) Wages and salaries	(106,294)	(103,590)
b) Social security contributions	(28,523)	(27,569)
c) Termination indemnities	-	-
d) Pension expenses	-	-
e) Provision for employee termination indemnities	(8,542)	(8,294)
f) Provision for post-employment benefits and similar commitments:	(3,799)	(5,984)
- defined contribution	-	-
- defined benefits	(3,799)	(5,984)
g) Payments to external supplementary pension funds:	(2,360)	(2,223)
- defined contribution	(2,360)	(2,223)
- defined benefits	-	-
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(10,435)	(10,914)
2) Other working personnel	(3,520)	(4,302)
3) Directors and Statutory auditors	(1,978)	(1,982)
4) Retired personnel	-	-
5) Recovery of expenses for personnel on secondment to other firms	78	18
6) Reimbursement of expenses for personnel on secondment to the company	-	-
Total	(165,373)	(164,840)

9.2 Average number of employees by category

	31/12/2011	31/12/2010
Employees	2,527	2,467
a) Managers	18	18
b) Officials	517	498
c) Other employees	1,992	1,951
Other personnel	97	111

	31/12/2011	31/12/2010
Actual number of employees		
- Employees	2,549	2,487
- Other personnel	89	115

9.3 Defined-benefit pension plans: total costs

The charge to the income statement for the year is summarised as follows:

	31/12/2011	31/12/2010
Service cost	1,612	1,523
Interest cost	3,605	3,509
Actuarial gains/losses	(1,219)	788
Contributions from employees	(256)	(276)
Reductions and payments	56	440
Total charge to income statement (A)	3,798	5,984
Yield from assets servicing the fund (B)	1,598	3,915
Total charge (A-B)	2,200	2,069

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and related changes during the year, and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements.

The Bank has not adopted the «corridor» method for the recognition of actuarial gains/losses; accordingly, there are no unrecorded gains/losses of this type.

9.4 Other employee benefits

This caption essentially comprises the cost of meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

9.5 Other administrative expenses: breakdown

	31/12/2011	31/12/2010
Telephone, post and data transmission	(12,879)	(14,044)
Maintenance of property, plant and equipment	(7,096)	(7,313)
Rent of buildings	(23,433)	(21,497)
Security	(5,998)	(5,697)
Transportation	(2,277)	(2,118)
Professional fees	(10,401)	(9,662)
Office materials	(2,028)	(2,074)
Electricity, heating and water	(4,572)	(4,395)
Advertising and entertainment	(3,402)	(2,981)
Legal	(6,920)	(6,148)
Insurance	(1,249)	(1,270)
Company searches and information	(4,291)	(4,180)
Indirect taxes and dues	(33,462)	(31,155)
Software and hardware rental and maintenance	(8,138)	(7,740)
Data entry by third parties	(949)	(936)
Cleaning	(4,659)	(4,404)
Associative	(1,794)	(1,833)
Membership fees	(3,039)	(2,894)
Services received from third parties	(18,439)	(18,289)
Outsourced activities	(6,775)	(5,325)
Deferred charges	(9,882)	(8,719)
Total	(171,683)	(162,674)

Section 10 *Net provisions for risks and charges - line item 160*

10.1 Net provisions for risks and charges: breakdown

This line item amounts to € 4.156 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 10.028 million and the use or release of provisions set aside in previous years of € 14.184 million.

Section 11 *Net adjustments to property, plant and equipment - line item 170*

11.1 Net adjustments to property, plant and equipment: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. Property, plant and equipment				
A.1 Owned	(11,049)	-	-	(11,049)
- For business purposes	(11,049)	-	-	(11,049)
- For investment purposes	-	-	-	-
A.2 Acquired under finance leases	(1,011)	-	-	(1,011)
- For business purposes	(1,011)	-	-	(1,011)
- For investment purposes	-	-	-	-
Total	(12,060)	-	-	(12,060)

The finance lease charges paid during the year amounted to € 2.060 million, compared with € 2.939 million in the prior year.

Section 12 *Net adjustments to intangible assets - line item 180*

12.1 Net adjustments to intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned	(9,788)	-	-	(9,788)
- Internally generated				
- Other	(9,788)	-	-	(9,788)
A.2 Acquired under finance leases	-	-	-	-
Total	(9,788)	-	-	(9,788)

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year, accordingly no further information is provided pursuant to para. 130 a) c) d) f) g) and para. 131 of IAS 36.

Section 13 *Other operating income and expense - Line item 190*

This caption amounts to € 40.767 million and comprises other operating income of € 43.110 million, net of other operating expenses of € 2.343 million.

13.1 Other operating expenses: breakdown

	31/12/2011	31/12/2010
Out-of-period expense	(968)	(2,347)
Other	(1,375)	(1,788)
Total	(2,343)	(4,135)

13.2 Other operating income: breakdown

	31/12/2011	31/12/2010
Recovery of charges on deposits and overdrafts	72	82
Rental income from buildings	965	870
Recovery of taxes	30,080	27,954
Financial income of post-employment benefits plan	1,598	3,915
Out-of-period income - other	1,963	863
Other	8,432	4,818
Total	43,110	38,502

Section 14 *Share of profit (loss) of equity investments - line item 210*

14.1 Share of profit (loss) of equity investments: breakdown

Income item/amount	31/12/2011	31/12/2010
A. Income	801	58,404
1. Revaluations	-	-
2. Profit from disposals	801	58,404
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(13,053)	(416)
1. Writedowns	(340)	(416)
2. Impairment writedowns	(12,713)	-
3. Loss from disposals	-	-
4. Other charges	-	-
Net profit (loss)	(12,252)	57,988

Profit from disposals derives from the sale of the interest in B&A Broker spa for € 0.801 million. Writedowns relate to Pirovano Stelvio spa (€0.340 million), Alba Leasing spa (€ 8.303 million) and Banca della Nuova Terra spa (€ 4.410 million).

Section 17 *Profit (loss) from disposal of investments - line item 240*

17.1 Profit (loss) from disposal of investments: breakdown

Income item/amount	31/12/2011	31/12/2010
A. Buildings	-	(108)
- Profit from disposals	-	-
- Loss from disposals	-	(108)
B. Other assets	(23)	(84)
- Profit from disposals	10	27
- Loss from disposals	(33)	(111)
Net profit (loss)	(23)	(192)



Section 18 *Income taxes on current operations - line item 260*

18.1 Income taxes on current operations: breakdown

Income items/Amounts	31/12/2011	31/12/2010
1. Current taxes (-)	(74,800)	(64,000)
2. Change in prior period income taxes (+/-)	-	340
3. Reduction in current taxes (+)	-	-
4. Change in deferred tax assets (+/-)	14,586	5,044
5. Change in deferred tax liabilities (+/-)	152	258
6. Income taxes for the year (-) (-1+/-2+3/-4+/-5)	(60,062)	(58,358)

18.2 Reconciliation between the theoretical and current tax burden

INCOME TAXES	Tax base	Tax
Theoretical tax burden	117,346	(32,270)
Increases	101,698	(27,967)
Decreases	(30,822)	8,737
Effective tax burden	188,222	(51,500)

IRAP	Tax base	Tax
Theoretical tax burden	117,346	(6,536)
Increases	372,702	(20,760)
Decreases	(69,682)	3,996
Effective tax burden	420,366	(23,300)
Total effective tax burden	-	(74,800)

Income taxes are calculated at 27.5% for IRES and 5.57% for IRAP. The total tax charge for the year is reconciled with the net profit for the year as indicated in the table below.

IRES (corporate income taxes)

The main add-backs relate to non-deductible loan adjustments and non-deductible provisions for risks and charges, interest expense and losses and writedowns of equity investments classified as PEX (tax-exempt).

The principal deductions relate to the non-taxable portion of dividends received, the reduced taxation of gains on the sale of investments under the so-called «PEX or Exempt Participations regime», the deductible portion of IRAP and the use of taxed provisions.

IRAP (Regional business tax)

The main add-backs concern personnel expenses, writedowns of loans and equity investments, interest expense, non-deductible amortisation and depreciation and other administrative expenses.

The principal deductions relate to the deductible portion of personnel expenses and other non-taxable income.

Section 21 *Earnings per share*

21.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in net profit is 308,147,985. The number of shares shown in the table below is the weighted average for the year.

	31/12/2011	31/12/2010
number of shares	308,147,985	308,147,985

This is the weighted average used as the denominator in the calculation of basic earnings per share.

21.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the net profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted; there are no activities to be sold for which basic and diluted EPS must be stated separately.

	31/12/2011	31/12/2010
earnings per share - €	0.186	0.433



PART D *Comprehensive income*

Statement of comprehensive income

Items/Amounts	Gross amount	Income taxes	Net amount
10. Net profit (loss) for the year	-	-	57,284
Other income items			
20. Financial assets available for sale:	(65,574)	21,395	(44,179)
a) changes in fair value	(65,789)	21,504	(44,285)
b) transfer to income statement	215	(109)	106
- adjustments for impairment	215	(109)	106
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
30. Property, plant and equipment	-	-	-
40. Intangible assets	-	-	-
50. Hedges of foreign investments:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
60. Cash-flow hedges:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
70. Exchange differences:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
80. Non-current assets held for sale and discontinued operations:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
90. Actuarial profits (losses) on defined-benefit plans:	-	-	-
100. Share of valuation reserves of equity investments valued at net equity:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
- adjustments for impairment	-	-	-
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
110. Total other income items net of income taxes	(65,574)	21,395	(44,179)
120. Comprehensive income (item 10+110)	-	-	13,105

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Section IV, Chapter 1 of the New Supervisory instructions for Banks is provided by the required deadlines for publication of financial statements in the «Corporate Information» section of the bank's website.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General matters

Consistent with its mission as a cooperative, the bank's lending policy is directed towards providing support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of the two specific customer segments: the entrepreneurial spirit of small and medium-sized business owners, mainly located in territory of the bank, and households. The bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time. However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable. In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on, this involves:

- measurement of the current and prospective risk inherent in the loan portfolio, both as a whole and at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the bank's profitability and solidity.

These strategies and policies have not changed since last year.

2. Credit risk management policies

2.1 Organisational aspects

The bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them. The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, disbursement of the loan, periodic review, monitoring and management of impaired loans.

Implementing the lines of strategy laid down by the Corporate Bodies during the planning process and in compliance with the limits of the risk profile taken on, the lending policy defines the composition of the loan book, the technical forms and their geographical distribution. These official guidelines are passed down to the organisational units involved in managing credit risk and, as a result, they reflect the operational aspects of each phase of the process.

The procedures and organisational structure set up for this purpose have been formalised, clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, we ensure that operating functions and control functions are kept separate.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *The Board of Directors.* The Board of Directors supervises and oversees the proper allocation of financial resources and, in particular:
 - establishes the strategic direction and lending policies;
 - establishes criteria for the recognition, management and assessment of risks;
 - approves the decision-making and signature powers attributable to the other corporate bodies and organisational units for the granting and revision of lines of credit;
 - ensures that the structure of the control functions is defined in a way that is consistent with the bank's strategies, that they have an appropriate level of decision-making autonomy and that they have adequate resources in terms of both quality and quantity;
 - gains a general knowledge of rating systems, proposes their application during the various stages of the process and assesses how effective they are with the help of the internal control and internal audit functions.
- *General Management.* General Management implements the strategies and policies established by the Board of Directors and, in particular:
 - prepares regulations, activities, procedures and organisational structures for the adoption and application of an efficient lending process, of an adequate rating system and of a solid system for the control of the related risks;
 - verifies the adequacy and functional capacity of these various elements, also in light of the internal and external changes that are affecting the bank;
 - takes the necessary action to eliminate any weaknesses and inefficiencies that are identified. In addition, General Management adopts resolutions to the extent of the autonomy granted.
- *Branches.* The branches are assigned the fundamental task of handling the relationship with the customer who is borrowing or who would like to borrow money from the bank. They acquire the documentation, make an initial selection of the applications and directly approve those within the scope of their powers, and monitor the credit report on a day-to-day basis, checking for potentially anomalous situations.
- *Coordination functions.* They give the branches fundamental support in handling more complex loan positions and/or those that are looking critical. They examine requests for loans to be presented to the central functions and express an opinion, while approving directly those within the scope of their powers.
- *Central Loans Department.* The Credit Assessment office supports the work of the central committees by receiving applications from branches, checking their completeness

and accuracy, and completing the assessment. The Medium-term and Special Loans Office assesses mortgages, leases, factoring arrangements, artisan and agricultural loans, loans under framework agreements and personal loans from a technical and legal point of view. Through the Risk Office, it finalises the guarantees and then activates the loan.

- *Corporate Finance Department.* The Corporate Finance Department analyses, structures and coordinates corporate finance operations and identifies the best types of financing for complex investment projects. It makes a preliminary evaluation of project financing transactions, directly structuring the intervention or proposing the bank's participation in a lending syndicate.
- *Watchlist and Lending Control Department.* The Watchlist and Lending Control Department reviews outstanding loans and identifies those that show signs of anomalies; depending on how serious these are, the department monitors them more closely, proposes a restructuring, or classifies them on the watchlist or as non-performing loans. This department also administers all watchlist, restructured and past due loans.
- *Legal and Claims Department.* The Legal and Claims Department works to safeguard the interests of the bank with regard to disputed assets and liabilities. In particular, with regard to «non-performing» loans, the department takes the legal action needed to recover the outstanding amounts and also takes out-of-court action together with the Watchlist Department.
- *Planning and Control Department.* The Planning and Control Department defines, develops and maintains, through the Risk Control office, the models underlying the rating system; it checks the reliability and effectiveness of the estimates produced by them and, where necessary, takes steps to update them. It analyses, according to various analysis dimensions, the riskiness of the loan portfolio, produces the related information flows and makes them *available to the competent bodies and operating functions*.
- *Internal Audit Department.* The Internal Audit Department checks the proper functioning of controls and compliance with rules and procedures. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

2.2 Systems for managing, measuring and monitoring

Control over credit risk has the support of rating models that have been specifically developed by the bank.

The bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Businesses (one-man firms, partnerships and companies with sales lower than € 1.5 million and credit lines of less than € 75,000), Micro-Enterprises (partnerships and companies with sales lower than € 1.5 million and credit lines of over € 75,000), SMEs (partnerships and companies with sales between € 1.5 million and 50 million), Large Enterprises (non-financial partnerships and companies with sales higher than € 50 million) and Public Enterprises.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the bank has acquired. The rating assessments are produced by qualitative statistical models that are prudently integrated by automatic downgrades if further negative elements not handled by the models are identified. These assessments are split into 13 categories for «performing» counterparties and one for those that are insolvent. They are

then summarised in seven risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad» and «Insolvent». Together, the sub-portfolios that are subject to these rating systems at the end of December 2011 account for 94.6% of customers with credit limits, which in turn accounts for 83.2% of the cash loans made to customers.

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest, whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans.

Estimates of two other important risk factors complete the rating system described above: The rate of the Loss Given Default (LGD) and the estimated Exposure at Default (EAD). These estimates, which are specific for each counterparty, also derive from internal models, and unlike the probability of default, they are heavily influenced by the presence and type of guarantees acquired by the bank and by the technical form by which the loan is granted.

Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

The PD, LGD and EAD results also make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

The concept of insolvency used when developing, calibrating and applying the new rating models includes: non-performing loans, watchlist loans, restructured loans and past due loans and/or those over the credit limit. For prudence sake, it has also been extended to the external concept of «adjusted non-performing loan».

Together with the valuations obtained through internal models, the ratings granted by leading international agencies are gathered automatically. They are used in determining the minimum capital requirements for credit and counterparty risk, for which the bank adopts the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist company (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, Cerved Group). With regard to the exposures to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used. More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterpart/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macro classes for comparison with the ratings given by international agencies. As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

Analyses are carried out periodically on the loan portfolio using various methods, including observation of the trend in distribution of counterparties by rating class. These assessments support the formulation of policy guidelines for lending, help adopt suitable operational measures and provide operational guidelines to the central and branch functions concerned.

The lending process provides for a series of checks aimed at mitigating risk during the various phases that make it up.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and

the associated estimates of default are taken into maximum consideration as essential elements for an overall evaluation of the customer. The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available. In order to ensure maximum control over credit risk, the mechanism for establishing decision-making powers for the bodies at the lower end of the hierarchical ladder now operates alongside the nominal value of the operation with another system of powers that also takes into account an objective assessment of the counterparty risk which is reflected in the internal rating.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings. Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately.

The Watchlist and Lending Control Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up a monthly summary risk indicator. The positions identified by this indicator as being at risk are analysed appropriately and, where there are clear signs of difficulty, they are placed under observation or classified as «impaired», depending on how serious the situation is.

The task of managing problem loans is given to specific central offices, which carry on their activity with a view to returning the position to «performing», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

Checks are performed during the initial assessment, payout, review and monitoring stages with regard to the concentration of risk in relation to individual counterparties or groups of counterparties that are linked by legal or economic relationships.

2.3 Credit risk mitigation techniques

The bank obtains the guarantees considered usual for banking activities in order to reduce credit risk: these principally comprise mortgages on buildings, pledges on financial instruments and unsecured guarantees. Unsecured guarantees principally comprise limited, general guarantees given by individuals and companies whose creditworthiness is considered adequate following a specific assessment.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments). The bank has a procedure that is able to ensure efficient management and timely assessment of properties that are subject to real encumbrances, by taking a census of the assets and filing the expert appraisals in a specific IT application. Moreover, certain buildings are assessed at least once a year, also with a view to complying with the supervisory instructions.

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The bank is not party to settlement agreements regarding on- and off-balance sheet transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future. At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

2.4 Impaired financial assets

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise.

Loans are classified as «impaired» if there are serious signs of tension and, depending on the nature and gravity of the anomaly, they are split into the following categories:

- *Non-performing*, covering the entire exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given and/or any loss forecasts made;
- *Watchlist*, covering the entire exposure to borrowers that are experiencing temporary objective difficulties that are likely to be resolved within a reasonable period of time;
- *Restructured*, covering loans subject to the revision of the originally agreed terms, due to a deterioration in the economic and financial requisites of the borrower, leading to a loss for the bank;
- *Past due*, unpaid exposures and/or those permanently over their credit limit according to parameters of amount and duration laid down by current supervisory instructions.

The loans not allocated to the above categories are deemed to be performing loans.

The management of «impaired» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:

- *non-performing*, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;
- *watchlist*, efforts are made to re-establish the original conditions of credit-worthiness and profitability within a reasonable period of time; if this is deemed to be impossible, the loans concerned are reclassified as doubtful;

- *restructured*, compliance with the agreed conditions is monitored. The position remains classified as «restructured» till the period of time foreseen under current regulations has passed and until the borrower has completely recovered their solvency, without any of their lines of credit going past due. At this stage, the customer can return to the classification of «performing». On the first occasion that the borrower fails to pay, they are transferred to the watchlist or to non-performing loans;
- *past due*, developments are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to the watchlist or to non-performing loans, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for non-performing, watchlist and restructured loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery. As for past due loans, they are written down on the basis of historical data of losses on the same type of loans.



QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures	Other assets	Total 31/12/2011
1. Financial assets held for trading	5,527	245	103	55	2,129,604	2,135,534
2. Financial assets available for sale	-	-	-	-	575,312	575,312
3. Financial assets held to maturity	586	-	-	-	219,746	220,332
4. Due from banks	-	-	-	-	2,200,794	2,200,794
5. Due from customers	263,183	358,105	83,339	204,861	19,696,894	20,606,382
6. Financial assets carried at fair value	-	-	-	-	26,754	26,754
7. Financial assets being sold	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total 31/12/2011	269,296	358,350	83,442	204,916	24,849,104	25,765,108
Total 31/12/2010	198,907	218,746	63,053	204,694	22,082,667	22,768,067

The word «exposures» is understood as excluding equities and mutual funds.

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Financial assets held for trading	5,930	-	5,930	2,129,604	-	2,129,604	2,135,534
2. Financial assets available for sale	-	-	-	575,312	-	575,312	575,312
3. Financial assets held to maturity	586	-	586	219,746	-	219,746	220,332
4. Due from banks	-	-	-	2,200,794	-	2,200,794	2,200,794
5. Due from customers	1,216,489	307,001	909,488	19,807,906	111,012	19,696,894	20,606,382
6. Financial assets carried at fair value	-	-	-	26,754	-	26,754	26,754
7. Financial assets being sold	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 31/12/2011	1,223,005	307,001	916,004	24,960,116	111,012	24,849,104	25,765,108
Total 31/12/2010	940,575	255,175	685,400	22,179,828	97,161	22,082,667	22,768,067

With reference to financial assets held for trading and those at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

The following table shows the figures for «Performing loans to customers» subject to renegotiation under collective agreements (such as the ABI-MEF Framework Agreements for a moratorium on mortgage repayments for SMEs and households), with an ageing of any repayments that are past due.

Loans to customers of which:	Net exposure	Past due up to 3 months	Past due from 3 to 6 months	Past due from 6 to 12 months	Past due for over 1 year
Subject to renegotiation under collective agreements	63,533	-	1,527	139	-

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

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. Cash exposures				
a) Non-performing loans	-	-	-	-
b) Watchlist loans	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Past due exposures	-	-	-	-
e) Other assets	2,632,010	-	-	2,632,010
Total A	2,632,010	-	-	2,632,010
B. Off-balance sheet exposures				
a) Impaired	-	-	-	-
b) Other	357,704	-	-	357,704
Total B	357,704	-	-	357,704
Total (A+B)	2,989,714	-	-	2,989,714

Cash exposures include the amounts due from banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives.

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

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. Cash exposures				
a) Non-performing loans	497,147	227,851	-	269,296
b) Watchlist loans	415,686	57,581	-	358,105
c) Restructured exposures	91,142	7,803	-	83,339
d) Past due exposures	218,627	13,766	-	204,861
e) Other assets	22,177,081	-	111,012	22,066,069
Total A	23,399,683	307,001	111,012	22,981,670
B. Off-balance sheet exposures				
a) Impaired	46,167	6,500	-	39,667
b) Other	4,886,685	-	-	4,886,685
Total B	4,932,852	6,500	-	4,926,352
Total (A+B)	28,332,535	313,501	111,012	27,908,022

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives.



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

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. Opening gross exposure	406,223	252,182	65,995	216,171
- of which: sold but not eliminated from the balance sheet	-	-	-	-
B. Increases	246,345	305,827	41,454	213,204
B.1 Transfer from performing exposures	102,609	249,359	28,297	191,066
B.2 transfers from other categories of impaired exposure	129,379	47,759	7,979	12,913
B.3 Other increases	14,357	8,709	5,178	9,225
C. Decreases	155,421	142,323	16,307	210,748
C.1 transfers to performing loans	1,015	23,919	270	77,001
C.2 write-offs	106,421	-	-	-
C.3 collections	47,912	36,212	5,940	28,080
C.4 proceeds from disposals	-	-	-	-
C.5 transfers to other categories of impaired exposure	73	82,192	10,097	105,667
C.6 other decreases	-	-	-	-
D. Closing gross exposure	497,147	415,686	91,142	218,627
- of which: sold but not eliminated from the balance sheet	-	-	-	-

A.1.8 Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. Total opening adjustments	207,316	33,440	2,942	11,477
- of which: sold but not eliminated from the balance sheet	-	-	-	-
B. Increases	138,304	51,329	7,525	20,542
B.1 adjustments	103,521	45,451	6,089	19,577
B.2 transfers from other categories of impaired exposure	34,783	5,878	1,436	965
B.3 other increases	-	-	-	-
C. Decreases	117,769	27,188	2,664	18,253
C.1 write-backs on valuation	7,142	2,215	724	209
C.2 write-backs due to collections	4,197	1,434	8	462
C.3 write-offs	106,421	-	-	-
C.4 transfers to other categories of impaired exposure	9	23,539	1,932	17,582
C.5 other decreases	-	-	-	-
D. Total closing adjustments	227,851	57,581	7,803	13,766
- of which: sold but not eliminated from the balance sheet	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash loans and off-balance sheet items by external rating class

Exposure	External rating classes							Unrated	Total 31/12/2011
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Cash exposures	2,266,766	561,934	690,246	26,210	733	6,387	22,061,405	25,613,681	
B. Derivatives	72	40,794	1,083	-	-	-	109,479	151,428	
B.1 Financial derivatives	72	40,794	1,083	-	-	-	109,479	151,428	
B.2 Credit derivatives	-	-	-	-	-	-	-	-	
C. Guarantees given	16,044	84,917	119,085	20,106	-	-	3,718,434	3,958,586	
D. Commitments to make loans	52,113	50,328	32,908	-	-	-	1,038,693	1,174,042	
Total	2,334,995	737,973	843,322	46,316	733	6,387	26,928,011	30,897,737	

The distribution of loans to banks and customers is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations (see Circular no. 263 of 27.12.2006 «New Supervisory Instructions for Banks»).

The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the bank; during the year under review, the bank excluded Cerved Group from the list of rating agencies used, following the natural expiry of the service contract signed at the beginning of 2009 for two years, giving due notice to the Supervisory Authorities.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
FitchRatings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	Below B-
Standard & Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	Below B-



A.2.2 Distribution of cash loans by internal rating class

PRIVATE CUSTOMERS - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	344,047	43,162	76,608	410,711	710,819	584,792	208,373
B. Derivatives	110	32	7	380	467	179	11
B.1 Financial derivatives	110	32	7	380	467	179	11
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	130,154	225	4,109	15,411	16,394	12,348	2,917
D. Commitments to make loans	1	767	6	7,713	8,406	4,355	194
Total	474,312	44,186	80,730	434,215	736,086	601,674	211,495

SMALL BUSINESS - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	12,227	319,904	104,192	316,219	1,067,472	300,520	173,346
B. Derivatives	-	54	7	79	406	111	152
B.1 Financial derivatives	-	54	7	79	406	111	152
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	1,785	7,695	2,694	9,484	32,801	37,435	3,913
D. Commitments to make loans	1	445	2,793	19,033	12,024	3,807	9,005
Total	14,013	328,098	109,686	344,815	1,112,703	341,873	186,416

MICRO-ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	61,882	83,451	126,198	286,938	883,050	1,018,896	856,551
B. Derivatives	886	292	29	216	945	123	17
B.1 Financial derivatives	886	292	29	216	945	123	17
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	5,457	4,380	11,459	33,352	110,018	66,108	42,196
D. Commitments to make loans	2,194	2,873	1,786	15,044	84,870	54,789	51,198
Total	70,419	90,996	139,472	335,550	1,078,883	1,139,916	949,962

08	09	10	11	12	13	Insolvent	Total 31/12/2011
162,070	78,115	38,751	45,497	24,620	84,686	162,138	2,974,389
808	2	-	1	-	-	17	2,014
808	2	-	1	-	-	17	2,014
-	-	-	-	-	-	-	-
1,551	434	227	1,326	231	514	955	186,796
453	79	50	26	-	66	817	22,933
164,882	78,630	39,028	46,850	24,851	85,266	163,927	3,186,132

08	09	10	11	12	13	Insolvent	Total 31/12/2011
157,304	61,877	49,975	84,200	27,889	77,207	116,248	2,868,580
1	33	-	1,342	-	-	-	2,185
1	33	-	1,342	-	-	-	2,185
-	-	-	-	-	-	-	-
5,901	1,661	1,217	2,095	1,127	1,986	2,121	111,915
3,198	754	511	68	253	253	287	52,432
166,404	64,325	51,703	87,705	29,269	79,446	118,656	3,035,112

08	09	10	11	12	13	Insolvent	Total 31/12/2011
692,862	279,376	111,189	60,370	44,759	106,454	365,097	4,977,073
28	26	4	-	-	-	245	2,811
28	26	4	-	-	-	245	2,811
-	-	-	-	-	-	-	-
36,186	15,297	3,274	4,913	2,431	3,027	5,202	343,300
41,264	1,069	6,281	1,001	102	2,273	7,232	271,976
770,340	295,768	120,748	66,284	47,292	111,754	377,776	5,595,160



SMEs - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	42,933	33,038	91,379	195,683	744,990	1,107,965	704,843
B. Derivatives	39	36	44	26	1,417	1,901	406
B.1 Financial derivatives	39	36	44	26	1,417	1,901	406
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	28,107	8,219	21,912	27,448	203,716	145,265	85,693
D. Commitments to make loans	2,207	2,485	6,103	9,218	41,388	39,520	35,002
Total	73,286	43,778	119,438	232,375	991,511	1,294,651	825,944

LARGE AND PUBLIC ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	17,812	77,717	216,631	371,013	359,544	109,550	78,989
B. Derivatives	114	5,582	1	506	247	292	-
B.1 Financial derivatives	114	5,582	1	506	247	292	-
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	38,804	85,244	215,935	537,265	281,774	75,094	39,837
D. Commitments to make loans	-	7,048	2	82,819	6,230	5,880	2,317
Total	56,730	175,591	432,569	991,603	647,795	190,816	121,143

BANKS - Exposure	01	02	03	04
A. Cash exposures	-	-	818,046	27,997
B. Derivatives	-	-	52,037	394
B.1 Financial derivatives	-	-	52,037	394
B.2 Credit derivatives	-	-	-	-
C. Guarantees given	-	-	170,490	1,439
D. Commitments to make loans	-	-	100	205
Total	-	-	1,040,673	30,035

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The 1st class identifies customers with the lowest risk, while the 13th class highlights the maximum risk, which is only exceeded by a state of insolvency.

The «Banks» segment presents the ten classes used by the internal system to classify counterparties. The first class identifies customers with the lowest risk, while the ninth class highlights the maximum risk, which is only exceeded by a state of insolvency, class 10. The model is applied to those borrowers who do not have a merit assessment issued by a rating agency.

Note that the bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

08	09	10	11	12	13	Insolvent	Total 31/12/2011
480,361	348,962	173,257	100,074	41,016	97,039	164,133	4,325,673
40	401	1	-	-	373	103	4,787
40	401	1	-	-	373	103	4,787
-	-	-	-	-	-	-	-
25,554	33,221	7,428	3,436	863	5,830	9,375	606,067
10,598	15,848	7,584	301	35	3,000	4,040	177,329
516,553	398,432	188,270	103,811	41,914	106,242	177,651	5,113,856

08	09	10	11	12	13	Insolvent	Total 31/12/2011
88,534	89,465	60,540	34,095	13,623	4,116	44,603	1,566,232
88	760	-	-	-	-	-	7,590
88	760	-	-	-	-	-	7,590
-	-	-	-	-	-	-	-
24,535	23,623	15,777	62,214	896	9,746	789	1,411,533
4,000	6,966	-	-	5,260	-	2,513	123,035
117,157	120,814	76,317	96,309	19,779	13,862	47,905	3,108,390

Internal rating classes							Total 31/12/2011
05	06	07	08	09	Insolvent		
60,409	33,055	135	686	-	-	940,328	
15	30	-	-	-	-	52,476	
15	30	-	-	-	-	52,476	
-	-	-	-	-	-	-	
-	7,884	120	1,870	-	-	181,803	
-	-	-	-	-	-	305	
60,424	40,969	255	2,556	-	-	1,174,912	



A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Exposure» column are stated net of specific and portfolio adjustments. The guarantees are split on the basis of this exposure.

The amounts shown in the «guarantees» columns relate to the exposure covered. This means that the real value of the guarantees may exceed that shown.

A.3.1 Guaranteed exposures to banks

	Net exposure	Secured guarantees (1)		Other secured guarantees
		Buildings	Securities	
1. Guaranteed cash exposures:				
1.1 fully guaranteed	9,226	-	824	-
- of which: impaired	-	-	-	-
1.2 partially guaranteed	6,629	-	195	-
- of which: impaired	-	-	-	-
2. Guaranteed off-balance sheet exposures:				
2.1 fully guaranteed	12,250	-	-	-
- of which: impaired	-	-	-	-
2.2 partially guaranteed	360	-	-	-
- of which: impaired	-	-	-	-

A.3.2 Guaranteed exposures to customers

	Net exposure	Secured guarantees (1)		Other secured guarantees
		Buildings	Securities	
1. Guaranteed cash exposures:				
1.1 fully guaranteed	12,003,197	23,842,135	297,191	109,099
- of which: impaired	678,915	1,325,915	32,625	3,911
1.2 partially guaranteed	1,047,473	3,299	100,505	26,614
- of which: impaired	84,799	929	5,648	1,797
2. Guaranteed off-balance sheet exposures:				
2.1 fully guaranteed	1,402,862	599,341	28,614	28,307
- of which: impaired	22,610	13,066	2,336	12
2.2 partially guaranteed	256,404	-	20,457	4,618
- of which: impaired	1,810	-	148	306

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2011
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	-	-	3,650	4,900	9,374	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	5,610	-	5,805	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	12,250	12,250	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	349	349	
-	-	-	-	-	-	-	-	-	-	

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2011
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	-	25,462	23,166	9,758,826	34,055,879	
-	-	-	-	-	-	1,206	1,445	717,877	2,082,979	
-	-	-	-	-	-	2,533	8,252	583,694	724,897	
-	-	-	-	-	-	265	-	34,778	43,417	
-	-	-	-	-	-	211	4,125	1,896,246	2,556,844	
-	-	-	-	-	-	5	-	34,122	49,541	
-	-	-	-	-	-	-	269	150,154	175,498	
-	-	-	-	-	-	-	-	1,258	1,712	



B. Distribution and concentration of exposure

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

Exposures/Counterparties	Government			Other public entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures						
A.1 Non-performing loans	-	-	-	-	-	-
A.2 Watchlist loans	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-
A.4 Exposure past due	-	-	-	-	-	-
A.5 Other exposures	2,187,643	-	-	68,235	-	-
Total A	2,187,643	-	-	68,235	-	-
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Watchlist loans	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	52,375	-	-	32,890	-	-
Total B	52,375	-	-	32,890	-	-
Total 31/12/2011	2,240,018	-	-	101,125	-	-
Total 31/12/2010	2,414,051	-	5	90,680	-	-

B.2 Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures				
A.1 Non-performing loans	261,923	224,006	901	3,745
A.2 Watchlist loans	356,892	57,456	1,209	123
A.3 Restructured exposures	83,339	7,803	-	-
A.4 Exposure past due	203,331	13,718	1,527	48
A.5 Other exposures	21,612,246	108,758	362,812	2,071
Total A	22,517,731	411,741	366,449	5,987
B. Off-balance sheet exposures				
B.1 Non-performing loans	4,118	5,095	-	-
B.2 Watchlist loans	26,921	1,405	2	-
B.3 Other impaired assets	5,576	-	3,050	-
B.4 Other exposures	4,595,845	-	270,762	-
Total B	4,632,460	6,500	273,814	-
Total 31/12/2011	27,150,191	418,241	640,263	5,987
Total 31/12/2010	24,934,523	349,744	501,216	4,775

As regards the geographical distribution of exposures to customers resident in Italy, amounts «Due from customers» are mainly concentrated in the traditional areas served by the bank, namely the North West (83%) and Centre (11%), followed by the North East (5%) and the South and Islands (1%).

Financial companies			Insurance companies			Non-financial companies			Other parties		
Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
10,591	7,119	-	-	194	-	209,650	171,723	-	49,055	48,816	-
3,556	1,600	-	-	-	-	268,252	43,368	-	86,297	12,613	-
7,568	293	-	-	-	-	74,912	7,505	-	859	5	-
126	11	-	-	-	-	117,706	8,204	-	87,029	5,552	-
2,734,633	-	7,617	20,690	-	8	13,324,240	-	80,557	3,730,629	-	22,830
2,756,474	9,023	7,617	20,690	194	8	13,994,760	230,800	80,557	3,953,869	66,986	22,830
1	3	-	-	17	-	4,021	5,063	-	96	13	-
-	-	-	-	-	-	20,236	725	-	6,687	680	-
-	-	-	-	-	-	8,306	-	-	320	-	-
337,098	-	-	30	-	-	3,917,444	-	-	546,848	-	-
337,099	3	-	30	17	-	3,950,007	5,788	-	553,951	693	-
3,093,573	9,026	7,617	20,720	211	8	17,944,767	236,588	80,557	4,507,820	67,679	22,830
2,045,695	11,872	5,084	21,747	1,900	13	17,086,505	196,498	72,467	3,994,334	49,892	20,605

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
6,472	101	-	-	-	-
4	-	1	-	-	1
-	-	-	-	-	-
1	-	1	-	-	-
84,459	143	3,400	21	3,152	19
90,936	244	3,402	21	3,152	20
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
36	-	2,898	-	17,144	-
36	-	2,898	-	17,144	-
90,972	244	6,300	21	20,296	20
169,680	3,785	30,709	23	16,884	9



B.3 Territorial distribution of the cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures				
A.1 Non-performing loans	-	-	-	-
A.2 Watchlist loans	-	-	-	-
A.3 Restructured exposures	-	-	-	-
A.4 Exposure past due	-	-	-	-
A.5 Other exposures	1,603,585	-	911,979	-
Total A	1,603,585	-	911,979	-
B. Off-balance sheet exposures				
B.1 Non-performing loans	-	-	-	-
B.2 Watchlist loans	-	-	-	-
B.3 Other impaired assets	-	-	-	-
B.4 Other exposures	66,355	-	277,238	-
Total B	66,355	-	277,238	-
Total 31/12/2011	1,669,940	-	1,189,217	-
Total 31/12/2010	1,189,223	-	855,318	-

B.4 Significant risks

	31/12/2011	31/12/2010
a1) Amount («nominal»)	10,169,506	10,312,675
a2) Amount («risk position»)	3,133,765	3,238,103
b) Number	16	21

The exposure limit of 10% of capital for supervisory purposes - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers.

On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

C. Securitisation transactions and disposal of assets

C.1 Securitisation transactions

QUALITATIVE INFORMATION

The bank has not entered into any direct securitisation transactions and has not been involved in such transactions organised by third parties.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
31,336	-	29,555	-	55,555	-
31,336	-	29,555	-	55,555	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
13,276	-	452	-	383	-
13,276	-	452	-	383	-
44,612	-	30,007	-	55,938	-
50,557	-	6,635	-	1,612	-



C.2 Disposals

C.2.1 Financial assets sold and not eliminated from the balance sheet

Technical forms/Portfolio	Financial assets held for trading			Financial assets carried at fair value			Financial assets available for sale		
	A	B	C	A	B	C	A	B	C
A. Cash assets	773,333	-	-	-	-	-	298,287	-	-
1. Fixed-yield securities	773,333	-	-	-	-	-	298,287	-	-
2. Variable-yield securities	-	-	-	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-	-	-	-
Total 31/12/2011	773,333	-	-	-	-	-	298,287	-	-
of which: impaired	-	-	-	-	-	-	-	-	-
Total 31/12/2010	1,732,379	-	-	-	-	-	-	-	-
of which: impaired	-	-	-	-	-	-	-	-	-

Key:

A = financial assets sold and recognised in full (book value)

B = financial assets sold and recognised in part (book value)

C = financial assets sold and recognised in part (full value)

These are securities sold under repurchase agreements.

C.2.2 Financial liabilities associated with assets sold and not eliminated from the balance sheet

	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Financial assets held to maturity	Due from other banks	Due from customers	Total 31/12/2011
1. Due to customers	-	-	-	-	-	-	-
a) for assets recognised in full	674,343	-	303,301	-	-	-	977,644
b) for assets recognised in part	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	-	-	-
a) for assets recognised in full	103,291	-	-	-	-	-	103,291
b) for assets recognised in part	-	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
b) for assets recognised in part	-	-	-	-	-	-	-
Total 31/12/2011	777,634	-	303,301	-	-	-	1,080,935
Total 31/12/2010	1,747,431	-	-	-	-	-	1,747,431



Financial assets held to maturity			Due from banks			Due from customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2011	31/12/2010
-	-	-	-	-	-	-	-	-	1,071,620	1,732,379
-	-	-	-	-	-	-	-	-	1,071,620	1,732,379
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	1,071,620	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	1,732,379
-	-	-	-	-	-	-	-	-	-	-

Section 2 *Market risks*

2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The principal source of interest rate risk consists of the fixed-yield securities classified under «financial assets held for trading». The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is very short.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

With regard to the treatment of derivative instruments, the offices deal in untraded options on fixed-yield government securities, while activity regarding other innovative or complex instruments is negligible.

The nature of trading activities did not change significantly over the year. The main source of price risk consists of variable-yield securities and units in mutual funds classified as «financial assets held for trading», including the investments that service employees' post-employment benefits.

As with regard to interest rate risk, the strategy for containing price risk as part of the bank's overall risk management strategy is to take a prudent approach.

This is evidenced by the low weighting of variable-yield securities within the entire securities portfolio (excluding those servicing the post-employment benefits of employees), which represent just 2.15% of the overall total of 43.651 million.

Furthermore, variable-yield securities comprise holdings in leading companies with a liquid market and a good dividend yield. Once again, trading activity concentrates on benefiting from short-term opportunities while, with regard to innovative instruments, the transactions in equity options have been both limited.

There were no significant changes during the year.

B. Management and measurement of interest rate risk and price risk

The internal processes for control and management of the interest rate risk associated with the trading portfolio have the following characteristics. The organisational structure comprises: the Board of Directors, which establishes guidelines and the maximum degree of acceptable risk; General Management, which carries out supervision and, in turn, sets limits on risk that are consistent with those established by the Board; the «central and branch internal auditors», part of the Internal Audit function, who check on compliance with established limits; the «Risk control» office, within the Planning and management control department, measures risk and produces the related reports; the «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets. The system for the limitation of risk, especially market risk (exchange rate, share price), is governed by the Board resolution on «Operational and managerial limits for financial activities» adopted on 29 November 2001, as amendment with resolution dated 27 April 2009. This system is organised on the basis described below. As part of its governance functions, the Board of Directors quantifies the maximum acceptable loss for the period, consistent with the bank's volume of business. At operational level, General Management allocates this Maximum Acceptable Loss between market risks and credit risks. Suitable limits on the potential exposure to financial risk are established in terms of Value at Risk.

The characteristics of the internal management and control of price risk in relation to the trading portfolio are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk.

The procedures for the control and management of risk described above have not changed significantly during the year. The methodology used for the analysis of sensitivity to interest rate risk essentially comprises application of the internal model for strategic Asset & Liability Management (ALM), described in section 2.2 below (interest rate risk inherent in the bank's portfolio), and an internal model for the daily calculation of Value at Risk (VaR) also used for the analysis of sensitivity to price risk - limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties - with the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with the famous JP Morgan Riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the trading portfolios held for supervisory purposes: as for interest rate risk, debt securities, repurchase agreements, forward contracts on fixed-yield securities and forward contracts on exchange rates, in addition to, and limited to the year-end figures, other financial derivatives (derivatives in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps, cross currency swaps); as regards price risk, variable-yield securities and purchase/sale transactions not yet settled in variable-yield securities, excluding derivatives on stock indices. Apart from the instruments shown in table 2 below, the VaR model also covers mutual funds and forward contracts traded by the Exchange Centre. The price risk on foreign currency mutual funds also includes exchange risk.

Note that, only in the year-end figures, there has been a restatement in which the repurchase agreements with underlying fixed-yield securities of the bank book were excluded from the trading portfolio for supervisory purposes. Options have been treated using the delta-gamma methodology, while any warrants would have been treated as variable-yield securities of the same value.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The policies and procedures for comparison of the model's results with actual results («back-testing») regarding the trading portfolio for supervisory purposes, limited to debt securities on the one hand, and variable-yield securities and mutual funds on the other, consist of a comparison between the daily VaR and the change in market value on the following day for the same positions used to calculate the VaR (theoretical loss) and the difference between capital gains, write-backs, capital losses, and the realised gains and losses on transactions in the shares held in the portfolio, as reported by the securities procedure (actual loss). For back-testing purposes, the VaR information and the theoretical and actual losses include both the price risk and the exchange risk element deriving from shares, funds and sicavs denominated in foreign currencies.

As for the changes that have taken place in the risk exposure, measured in terms of VaR, compared with the previous year, based on interest rate risk the total average VaR has gone up from 1.139 million to 3.099 mainly because of fixed-yield securities (from 1.075 million to 3.092); on the Price risk the global VaR at period end increased from 1.590 million to 2.651; on the interest rate and price risk global VaR at period end has also increased from 2.203 million to 4.731.



We would also like to comment on the year-end figures generated by the ALM procedure, limited to the debt securities in the trading portfolio for supervisory purposes as well as lending and funding repurchase agreements; the effect of a change in interest rates of +100 basis points over twelve months on the future interest margin - the difference between the future interest income on fixed-yield securities held in the trading portfolio for supervisory purposes and on lending repos and the future interest expense on funding repos - has gone from an increase of 24.617 million to one of 18.036 million; the effect of an instantaneous change in interest rates by +100 basis points on equity - the difference between the present value of fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos with respect to that of funding repos - has passed from a loss of 12.274 million to one of 11.744 million; the difference between the future income margin for the following twelve months under the most favourable scenario and that under the worst outcome has decreased from 9.374 million to 31.014 million.

Note that all of the figures at the end of 2011 are net of repurchase agreements with underlying fixed-yield securities held in the bank book, while those of 2010 are the same as reported last year since there were no such transactions at the end of 2010.

The internal model is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standardised approach is used in this case.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	540	1,702,759	327,647	4	217,690	16,466	8,685	-
1.1 Fixed-yield securities	250	1,377,545	327,647	4	217,690	16,466	8,685	-
- with early repayment option	-	42,861	-	-	132	-	-	-
- other	250	1,334,684	327,647	4	217,558	16,466	8,685	-
1.2 Other assets	290	325,214	-	-	-	-	-	-
2. Cash liabilities	1,330	1,070,973	160	-	-	-	-	-
2.1 Repurchase agreements	1,330	1,070,973	160	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	6,497,111	882,523	501,100	872,512	379,824	73,244	-
3.1 With underlying security	-	108,661	84,999	14,657	23,347	-	-	-
- Options	-	8,387	7,884	14,657	4,466	-	-	-
+ Long positions	-	4,198	3,946	7,336	2,234	-	-	-
+ Short positions	-	4,189	3,938	7,321	2,232	-	-	-
- Other derivatives	-	100,274	77,115	-	18,881	-	-	-
+ Long positions	-	47,775	40,911	-	9,425	-	-	-
+ Short positions	-	52,499	36,204	-	9,456	-	-	-
3.2 Without underlying security	-	6,388,450	797,524	486,443	849,165	379,824	73,244	-
- Options	-	15,372	38,827	187,928	567,055	298,142	31,778	-
+ Long positions	-	7,686	19,396	93,981	283,527	149,072	15,889	-
+ Short positions	-	7,686	19,431	93,947	283,528	149,070	15,889	-
- Other derivatives	-	6,373,078	758,697	298,515	282,110	81,682	41,466	-
+ Long positions	-	3,422,531	377,924	148,424	141,197	40,841	20,733	-
+ Short positions	-	2,950,547	380,773	150,091	140,913	40,841	20,733	-

**Currency: USD**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	-	10	-	-
1.1 Fixed-yield securities	-	-	-	-	-	10	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	10	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	4,236,319	253,926	276,151	13,949	-	-	-
3.1 With underlying security	-	8,550	8,559	15,698	4,678	-	-	-
- Options	-	8,550	8,559	15,698	4,678	-	-	-
+ Long positions	-	4,275	4,280	7,849	2,339	-	-	-
+ Short positions	-	4,275	4,279	7,849	2,339	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	4,227,769	245,367	260,453	9,271	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	4,227,769	245,367	260,453	9,271	-	-	-
+ Long positions	-	2,087,304	123,509	130,683	4,596	-	-	-
+ Short positions	-	2,140,465	121,858	129,770	4,675	-	-	-

Currency: CHF

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Fixed-yield securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	2,321,680	1,282,329	200,901	1,194,826	569,596	822	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	2,321,680	1,282,329	200,901	1,194,826	569,596	822	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	2,321,680	1,282,329	200,901	1,194,826	569,596	822	-
+ Long positions	-	968,334	641,527	100,524	597,326	284,798	411	-
+ Short positions	-	1,353,346	640,802	100,377	597,500	284,798	411	-

**Currency: YEN**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Fixed-yield securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	198,257	2,203	5,988	2,196	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	198,257	2,203	5,988	2,196	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	198,257	2,203	5,988	2,196	-	-	-
+ Long positions	-	72,497	1,103	2,994	1,098	-	-	-
+ Short positions	-	125,760	1,100	2,994	1,098	-	-	-

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Fixed-yield securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	498,652	30,813	28,522	16,676	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	498,652	30,813	28,522	16,676	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	498,652	30,813	28,522	16,676	-	-	-
+ Long positions	-	258,430	15,622	14,698	8,338	-	-	-
+ Short positions	-	240,222	15,191	13,824	8,338	-	-	-

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	Italy	United States	United Kingdom	Japan	Germany	Other	
A. Equities	34,254	-	-	-	2,653	3,072	1,796
- long positions	34,254	-	-	-	2,653	3,072	1,796
- short positions	-	-	-	-	-	-	-
B. Purchase/sale transactions not yet settled in variable-yield securities	64	-	-	-	-	-	-
- long positions	64	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
C. Other derivatives on variable-yield securities	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
D. Derivatives on stock indices	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-



3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in table 2 above and other transactions for which the calculation is carried out in any case.

Note that in the following table, the figures exclude repurchase agreements with underlying fixed-yield securities held in the bank book.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. Cash assets	3,091.1
1.1 Fixed-yield securities	3,092.1
1.2 Other assets	6.7
2. Cash liabilities	15.7
2.1 Repurchase agreements	15.7
2.2 Other liabilities	-
3. Financial derivatives	36.1
3.1 With underlying security	0.5
- Options	-
+ Long positions	-
+ Short positions	-
- Other derivatives	0.5
+ Long positions	114.6
+ Short positions	114.7
3.2 Without underlying security	36.1
- Options	42.2
- Other derivatives	10.1
+ Long positions	2,755.9
+ Short positions	2,746.5
Total interest rate risk	3,099.3
A. Equities	2,379.7
- long positions	2,379.7
- short positions	-
B. Purchase/sale transactions not yet settled in variable-yield securities	4.9
- long positions	4.9
- short positions	-
C. Other derivatives on variable-yield securities	-
- long positions	-
- short positions	-
D. Derivatives on stock indices	n.a.
- long positions	n.a.
- short positions	n.a.
Total Price risk transactions table 2	2,384.3
Mutual funds	296.1
Forward contracts on other instruments (goods)	-
- long positions	233.9
- short positions	233.9
Options on other instruments (goods)	-
- long positions	-
- short positions	-
Total Price risk	2,651.2
Total Interest rate risk and price risk	4,730.6

Interest rate risk

Information on average, minimum and maximum VaR is provided below.

Note that in the following two tables, the figures include repurchase agreements with underlying fixed-yield securities held in the bank book.

Total Value at Risk (VaR)

	(in thousands of euro)
average	1,914.9
minimum	651.2
maximum	4,264.0

With regard to the distribution of VaR during the year, the average VaR for each month in 2011 is presented below.

January	1,169.1
February	1,049.0
March	1,148.3
April	1,037.3
May	795.2
June	709.7
July	2,123.2
August	3,211.1
September	2,597.4
October	1,757.2
November	3,545.2
December	3,687.9

With reference to debt securities forming part of the trading portfolio for supervisory purposes, the number of days on which actual losses exceeded VaR was 80 out of 256 observations, the number of days on which theoretical losses exceeded VaR was 81 out of 256 observations.

Price risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	2,394.5
minimum	1,348.9
maximum	3,911.9

With regard to the distribution of VaR during the year, the average VaR for each month in 2011 is presented below.

January	1,719.2
February	1,638.3
March	1,583.3
April	1,581.5
May	1,722.6
June	1,723.3
July	2,237.4
August	2,944.6
September	3,125.6
October	3,567.9
November	3,528.8
December	3,240.2



With reference to variable-yield securities and mutual funds forming part of the trading portfolio for supervisory purposes, the number of days on which actual losses exceeded VaR was 1 out of 256 observations, the number of days on which theoretical losses exceeded VaR was 1 out of 256 observations.

Interest rate risk and price risk

Information on average, minimum and maximum VaR is provided below. Note that in the following two tables, the figures include repurchase agreements with underlying fixed-yield securities held in the bank book.

Total Value at Risk (VaR)

	(in thousands of euro)
average	3,525.4
minimum	1,548.9
maximum	7,102.5

With regard to the distribution of VaR during the year, the average VaR for each month in 2011 is presented below.

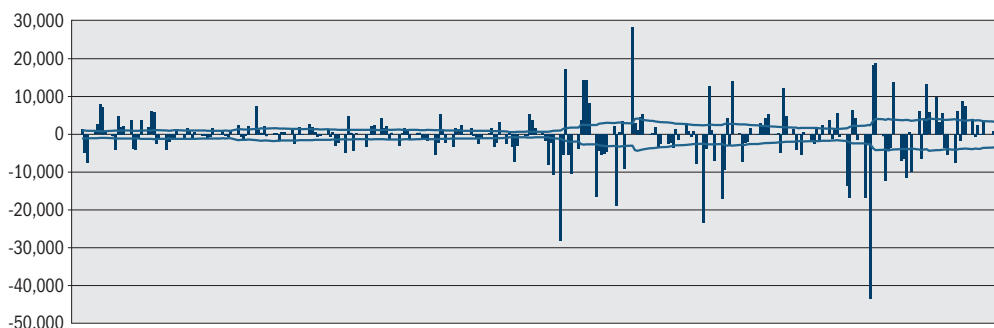
January	2,346.6
February	2,229.1
March	1,997.3
April	1,918.6
May	2,048.1
June	2,088.3
July	4,041.4
August	4,648.7
September	4,495.4
October	4,329.1
November	6,206.0
December	5,814.9

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for supervisory purposes, the number of days on which actual losses exceeded VaR was 55 out of 256 observations, the number of days on which theoretical losses exceeded VaR was 56 out of 256 observations.

The following graphs compare VaR with the daily results.

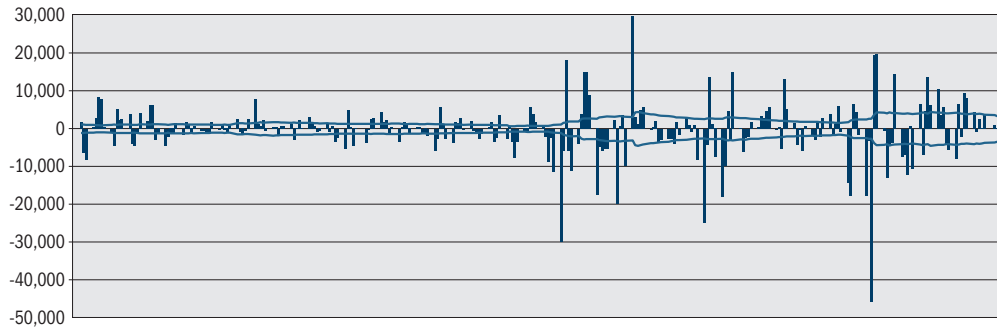
Fixed-yield securities: VaR and actual profits/losses

(in thousands of euro)



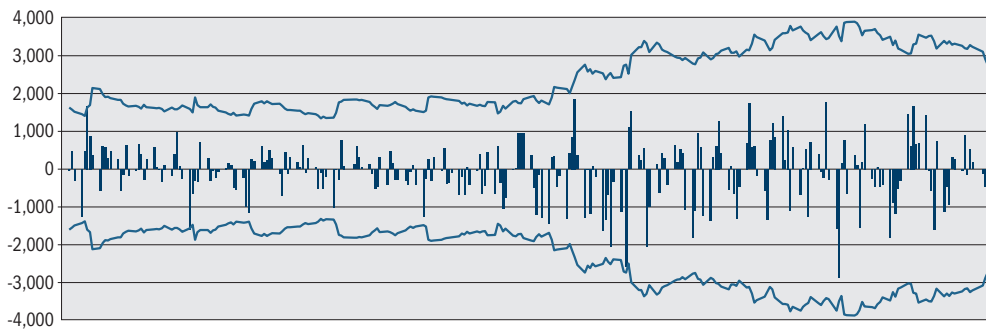
Fixed-yield securities: VaR and theoretical profits/losses

(in thousands of euro)



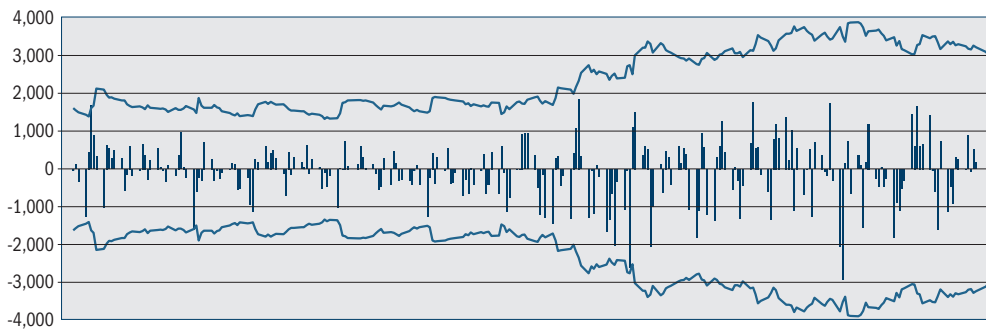
Variable-yield securities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



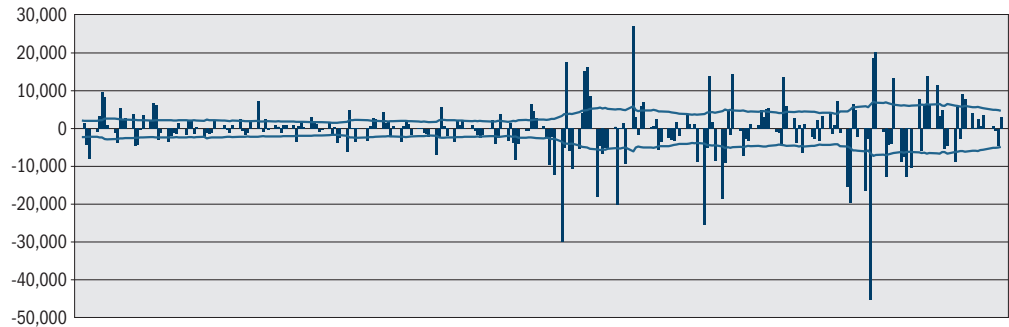
Variable-yield securities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



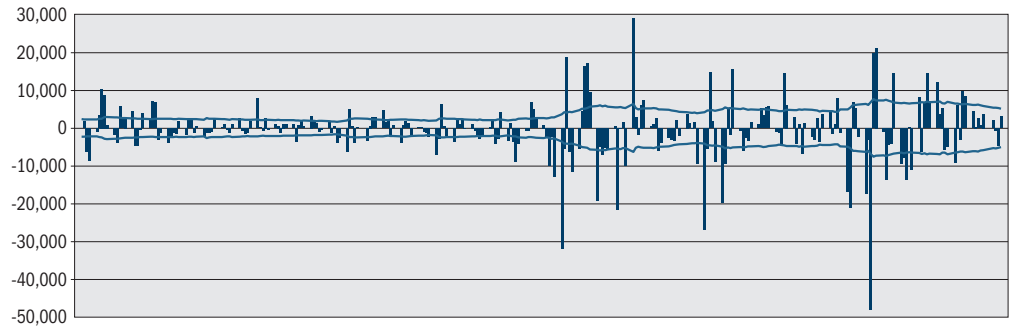
Fixed-yield securities, equities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



Fixed-yield securities, equities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



With regard only to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos, the following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the bank book. Note that the figures on exposures at the «year end (new definition)» exclude repurchase agreements with underlying fixed-yield securities held in the bank book. Effects of a change in interest rates by +100 basis points over a twelve-month period on the future interest margin.

For a change of -100 basis points, the sign of the amounts should be reversed. The future interest margin is understood as being the difference between the future interest income on interest-earning fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos calculated on the transactions outstanding at the reference date.

Exposure to risk

	(in thousands of euro)
end of year (new definition)	18,036
at period end	18,036
average	20,831
minimum	18,036
maximum	24,617

Effects of an instant change in interest rates of +100 basis points on equity.

For a change of -100 basis points, the sign of the amounts should be reversed.

Equity is defined as the difference between the present value of fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos, and that of funding repos.

Exposure to risk

	(in thousands of euro)
end of year (new definition)	-11,744
at period end	-10,378
average	-11,400
minimum	-7,644
maximum	-15,043

Analysis of scenario: difference between the future interest margin for the following twelve months under the worst scenario and that under the most favourable outcome.

The scenarios considered are that with constant market rates and the three referred to in the qualitative information provided in section 2.2 on the interest rate risk of the bank book.

Exposure to risk

	(in thousands of euro)
end of year (new definition)	-31,014
at period end	-31,014
average	-14,641
minimum	-7,608
maximum	-46,535

2.2 Interest rate risk and price risk - Bank book

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

The principal sources of interest rate risk deriving from fair value are associated with funding transactions (especially the issue of bonds) and lending transactions (principally long-term loans) at a fixed rate; the interest rate risk deriving from cash flows is originated by other sight or indexed rate assets and liabilities, which represent the majority of the total.

The internal management and control of interest rate risk is centralised within General Management, which periodically checks the ALM situation (integrated asset and liability management) prepared each month and takes the necessary operational decisions. There were no significant changes during the year in the risk management and control procedures described.

The measurement and control of interest rate essentially consists of the methodology for the «control of exposure to interest rate risk» defined by the Bank of Italy in Attachment C - Section III, Chapter 1 of the «New Supervisory instructions for banks» (Circular Letter 263 of 27 December 2006), and in an internal model for strategic Asset & Liability Management (ALM) with the characteristics described below. With regard to the principal assumptions and underlying parameters, the model used supports «gap analysis» for analysing the sensitivity of net interest income and «duration analysis» for analysing the sensitivity of equity, only from a static standpoint, considering the transactions outstanding at the reference date, based on three alternative scenarios for rate changes provided by external consultants using their own econometric model. The gap analysis and the related scenario analysis take account of the introduction of a stickiness model for asset and liability current accounts and deposits accounts.

The system covers the following assets in terms of financial instruments exposed to interest rate risk included in the trading portfolio or in the bank's own portfolio. The first includes interest-earning assets and interest-bearing liabilities (excluding «sight and overnight deposits»), as defined in the balance sheet format prepared by the National

Association of Cooperative Banks, based on the supervisory matrix, excluding bankers' drafts, certificates of deposit and all securities held apart from fixed-yield securities (note that the securities classified as non-performing in the supervisory matrix are excluded from interest-earning assets in the table). The second includes the same instruments, except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos, as the information on these is disclosed in section 2.1 above on the trading portfolio for supervisory purposes. Note that, only in the year-end figures, there has been a restatement in which the repurchase agreements with underlying fixed-yield securities held in the bank book have been moved from the trading portfolio for supervisory purposes to the bank book itself. The various risk profiles are aggregated by simple summation.

The internal policies and procedures for the analysis of scenarios involve calculating all the results under the three, more or less favourable, alternative scenarios mentioned for possible changes in interest rates.

The source of price risk lies in the variable-yield securities and mutual funds not included in the trading portfolio for supervisory purposes, excluding treasury shares. It therefore includes the variable-yield securities classified as equity investments and the variable-yield securities and mutual funds classified as «financial assets available for sale» or «Financial assets carried at fair value». The equity investments held by the bank essentially relate to companies that supply the goods and services which complete the bank's range of commercial services and, therefore, are necessary for the achievement and maintenance of an effective competitive position. These are stable investments and reflect the established strategy of concentrating the bank's activities on ordinary operations, while also making recourse – for certain, important near-banking activities (mutual funds, insurance, leasing, factoring, stockbroking, trust management etc.) – to specialist operators. Banca Popolare di Sondrio (Suisse) SA, a wholly owned Swiss bank that is part of the banking group, does not strictly adhere to these principles; Factorit spa, which was acquired for the strategic intention of reinforcing the commercial services that the Banking Group could offer its corporate customers, especially in the management of domestic and international receivables. In addition, Pirovano Stelvio spa and Sinergia Seconda srl.

The bank understands these companies well and participates in their management; accordingly, the risk – which is more strategic than market related – is well monitored.

We would reiterate that «financial assets available for sale» include non derivative financial assets not classified as «loans», «financial assets held for trading» or «assets held to maturity», while the portfolio of «Financial assets carried at fair value» includes those securities to which the bank decided to apply the fair value option».

The measurement and control of price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties – essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below. With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known Riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the bank book, which no longer has a specific table in these notes: variable-yield securities (including equity investments) and mutual funds. The price risk on foreign currency mutual funds also includes exchange risk. The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

B. Fair value hedges

The bank has not arranged any macro hedges. nor has hedging operations outstanding.

C. Cash flow hedges

The bank has not arranged any cash-flow hedges.

D. Hedges of foreign investments

The bank did not carry out any hedges of foreign investments.

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. Financial derivatives	36,054	1,641	8,125	32,047	159,060	120,082	94,674	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	36,054	1,641	8,125	32,047	159,060	120,082	94,674	-
- Options	36,054	1,641	8,125	32,047	159,060	120,082	94,674	-
+ Long positions	1,249	848	5,076	12,509	73,471	70,898	61,790	-
+ Short positions	34,805	793	3,049	19,538	85,589	49,184	32,884	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

This table only shows financial derivatives as a price risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Interest rate risk

With reference to the interest-earning assets and interest-bearing liabilities - except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos, as the information on these is disclosed in the section on the trading portfolio for supervisory purposes - as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure. Note that the figures on exposures at the «year end (new definition)» include repurchase agreements with underlying fixed-yield securities held in the bank book.

Effects of a change in interest rates by +100 basis points over a twelve-month period on the future interest margin.

The future interest margin is understood as being the difference between the future interest income on interest-earning assets (excluding fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos) and the future interest expense on interest-bearing liabilities (excluding funding repos), based solely on transaction outstanding at the reference date.

**Exposure to risk**

	(in thousands of euro)
end of year (new definition)	20,180
at period end	20,180
average	14,776
minimum	6,605
maximum	23,545

Effects of a change in interest rates by -100 basis points over a twelve-month period on the future interest margin.

Exposure to risk

	(in thousands of euro)
end of year (new definition)	-4,742
at period end	-4,742
average	1,319
minimum	-20
maximum	10,670

Effects of an instant change in interest rates of +100 basis points on equity.

For a change of -100 basis points, the sign of the amounts should be reversed.

Equity is understood as being the difference between the present value of interest-earning assets (excluding fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos) and that of interest-bearing liabilities (excluding funding repos).

Exposure to risk

	(in thousands of euro)
end of year (new definition)	-24,394
at period end	-25,760
average	-37,961
minimum	-25,760
maximum	-46,783

Analysis of scenario: difference between the future interest margin for the following twelve months under the worst scenario and that under the most favourable outcome.

The scenarios considered are that with constant market rates and the three referred to in the qualitative information provided in this section.

Exposure to risk

	(in thousands of euro)
end of year (new definition)	-44,269
at period end	-44,269
average	-19,029
minimum	-2,752
maximum	-44,269

Price risk

With reference to the closing date, we report above all the VaR figures specifying that: they refer to transactions that are no longer explicitly foreseen in the standard tables of the notes, but on which we still carry out the calculation; they are consistent with those published last year, also in terms of presentation.

Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	16,498.2
- of which equity investments	13,225.4
Mutual funds	1,078.6
Total	17,261.0

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	18,165.1
minimum	9,657.0
maximum	31,725.2

With regard to the distribution of VaR during the year, the average VaR for each month in 2011 is presented below.

January	11,902.8
February	10,943.8
March	11,230.4
April	10,803.2
May	10,936.3
June	11,487.5
July	17,841.3
August	24,923.2
September	29,765.4
October	27,891.6
November	27,078.8
December	21,886.7

2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk are: the investment in Banca Popolare di Sondrio (Suisse) SA, denominated in Swiss francs, certain other equities, variable-yield securities and mutual funds denominated in foreign currencies and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the bank's foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits. etc.). Excluding securities, the bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs. The characteristics of the internal management and control of exchange risk are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk in section 2.1, to which



reference is made. There were no significant changes during the year in the risk management and control procedures described.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below. With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known riskmetrics methodology. It covers the following assets in terms of financial instruments exposed to exchange rate risk at the balance sheet date: all of the foreign currency assets and liabilities (excluding gold, the African Financial Community franc, the Latvian lat, the Lithuanian litas, the Kenyan shilling and the Qatar riyal) shown in table 1 below, excluding mutual funds in foreign currency where the exchange risk is included in price risk, and items classified as settled. Moreover, the balances used by the internal model do not include accrued income and prepaid expenses, accrued expenses and deferred income, the interest portion of unpaid instalments, the differentials on adoption of the amortised cost principle and loan write-downs. In addition to those shown in table 1 above (options on exchange rates, forward contracts on commodities, cross currency swaps), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps. The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

B. Hedging of exchange risk

The bank has not arranged any specific hedges of exchange risk.

The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations and the tighter limits on VaR established by General Management.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. Financial assets	910,326	9,472	87,156	817,634	622	26,292
A.1 Fixed-yield securities	10	-	-	-	-	-
A.2 Variable-yield securities	456	1,632	1,592	67,695	-	-
A.3 Loans to banks	160,570	7,278	50,256	138,982	512	16,507
A.4 Loans to customers	749,290	562	35,308	610,957	110	9,785
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	2,199	723	228	3,771	136	718
C. Financial liabilities	866,107	21,199	32,270	375,449	2,170	31,318
C.1 Due to banks	553,187	3,759	25,051	200,827	476	15,802
C.2 Due to customers	312,920	17,440	7,219	174,622	1,694	15,516
C.3 Fixed-yield securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	2,306	180	938	176	-	12
E. Financial derivatives	4,781,125	279,036	208,642	1,332,515	52,806	242,825
- Options	37,486	-	-	-	-	-
+ long positions	18,743	-	-	-	-	-
+ short positions	18,743	-	-	-	-	-
- Other	4,743,639	279,036	208,642	1,332,575	52,806	242,825
+ long positions	2,346,482	145,942	77,691	474,130	27,147	124,001
+ short positions	2,397,157	133,094	130,951	858,445	25,659	118,824
Total assets	3,277,750	156,137	165,075	1,295,535	27,905	151,011
Total liabilities	3,284,313	154,473	164,159	1,234,070	27,829	150,154
Net balance	(6,563)	1,664	916	61,465	76	857

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	0.2
Variable-yield securities	531.5
Net balance between other assets and liabilities	3,394.2
Financial derivatives	3,439.0
- Options	0.0
+ Long positions	290.3
+ Short positions	290.3
- Other derivatives	3,439.0
+ Long positions	38,414.0
+ Short positions	40,262.3
Total transactions table 1	520.6
- Interest Rate Swaps	38.6
+ Long positions	16,810.0
+ Short positions	16,771.4
Total	558.9



Details of the principal currencies

US Dollars	76.4
Sterling	14.1
Japanese Yen	7.1
Swiss Francs	556.4
Canadian Dollars	0.8
Other currencies	4.5
Total	558.9

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	1,475.3
minimum	211.2
maximum	4,318.9

With regard to the distribution of VaR during the year, the average VaR for each month in 2011 is presented below.

January	1,172.7
February	1,131.8
March	1,227.3
April	1,177.1
May	1,170.5
June	1,301.5
July	1,573.7
August	2,205.7
September	3,171.8
October	1,816.0
November	1,023.0
December	614.7

2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

Underlying assets /Type of derivative	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Fixed-yield securities and interest rates	2,984,166	-	2,682,108	-
a) Options	159,618	-	264,576	-
b) Swaps	2,824,548	-	2,417,532	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Variable-yield securities and stock indices	20,880	-	20,880	-
a) Options	20,880	-	20,880	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	5,826,853	-	5,041,512	-
a) Options	75,455	-	55,185	-
b) Swaps	40,231	-	-	-
c) Forwards	5,711,167	-	4,986,327	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	13,291	-	12,974	-
5. Other underlying assets	-	-	-	-
Total	8,845,190	-	7,757,474	-
Averages	8,301,332	-	7,441,974	-

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.



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

Portfolio/Type of derivatives	POSITIVE FAIR VALUE			
	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Trading portfolio for supervisory purposes	151,356	-	98,076	-
a) Options	2,796	-	2,670	-
b) Interest rate swaps	69,158	-	44,081	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	78,816	-	50,010	-
f) Futures	-	-	-	-
g) Other	586	-	1.315	-
B. Bank book - for hedging purposes	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Bank book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	151,356	-	98,076	-

The positive fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

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

Portfolio/Type of derivatives	NEGATIVE FAIR VALUE			
	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Trading portfolio for supervisory purposes	143,756	-	90,650	-
a) Options	2,761	-	2,638	-
b) Interest rate swaps	61,848	-	37,664	-
c) Cross currency swaps	302	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	78,284	-	49,050	-
f) Futures	-	-	-	-
g) Other	561	-	1,298	-
B. Bank book - for hedging purposes	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Bank book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	143,756	-	90,650	-

The negative fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.



A.5 Over the Counter financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Fixed-yield securities and interest rates							
- notional value	-	15,409	2,551,333	65,672	-	333,113	18,639
- positive fair value	-	350	52,377	479	-	16,212	558
- negative fair value	-	15	62,327	67	-	251	5
- future exposure	-	116	16,454	73	-	1,253	85
2) Variable-yield securities and stock indices							
- notional value	-	-	4,940	10,440	5,500	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	296	330	-	-	-
3) Currency and gold							
- notional value	-	8,292	3,166,620	1,276,882	-	970,932	404,128
- positive fair value	-	322	41,819	23,131	-	5,066	10,455
- negative fair value	-	79	39,697	4,061	-	32,482	4,212
- future exposure	-	83	29,582	12,813	-	10,011	4,023
4) Other assets							
- notional value	-	-	6,645	-	-	6,646	-
- positive fair value	-	-	175	-	-	411	-
- negative fair value	-	-	395	-	-	167	-
- future exposure	-	-	670	-	-	670	-

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

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes				
	6,536,567	1,577,438	731,186	8,845,191
A.1 Financial derivatives on fixed-yield securities and interest rates	714,213	1,538,767	731,186	2,984,166
A.2 Financial derivatives on variable-yield securities and stock indices	20,880	-	-	20,880
A.3 Financial derivatives on exchange rates and gold	5,788,763	38,091	-	5,826,854
A.4 Financial derivatives on other instruments	12,711	580	-	13,291
B. Bank book				
B.1 Financial derivatives on fixed-yield securities and interest rates	-	-	-	-
B.2 Financial derivatives on variable-yield securities and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
Total 31/12/2011	6,536,567	1,577,438	731,186	8,845,191
Total 31/12/2010	5,390,289	1,789,983	577,202	7,757,474

Section 3 *Liquidity risk*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (funding liquidity risk);
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk).

The bank's overall strategy for managing liquidity risk, with its low propensity for risk, consists above all of giving priority to matching assets and liabilities, taking a prudent approach, while at the same time pursuing reasonable levels of profitability.

This preference for limited exposure to liquidity risk also manifests itself in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising. In particular, as regards the first of these sources of risk, the bank makes considerable efforts to avoid a concentration of funding; its very nature as a cooperative bank is to be close to households and small businesses and this makes it possible to enjoy a wide and stable retail funding base, which by definition is widely diversified. Another source of funding is the interbank market, on which we have still been able to operate, even in a period of high tension partly due to the sovereign debt crisis, given the bank's high standing among potential counterparties, both nationally and internationally.

At this juncture, an important source of long-term liquidity has turned out to be the European Central Bank, as for the entire European banking system, particularly through the provision of 3-year funds in December.

As regard the potential liquidity risk deriving from difficulties in selling its own positions, it is worth mentioning above all that the bank maintains a high quality security portfolio. Most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds that are highly liquid as they easily be sold on the market or used, when liquidity is needed, in repurchase agreements with banks or in refinancing auctions held by the European Central Bank as most of them are eligible.

Control over liquidity risk is carried out by various units: The first level control is performed by the operating functions that provide for a timely check that they carry out their duties properly and report the results in summary form on a daily basis. Then there is systematic monitoring of the expected liquidity position by the Planning and Control Department: based on the data on treasury operations and the liquidity reserve made up of easily marketable securities and other assets, we are able to forecast potential liquidity mismatches up to three months into the future. These tables are made available to the Bank of Italy on a daily basis. We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5, complies with the requirements of IFRS 7.39.



QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
Cash assets	7,897,270	854,363	477,808	885,342	1,152,572	753,013	1,210,732	5,998,734	4,837,198	450,779
A.1 Government securities	17,668	-	-	-	-	-	231,585	1,695,644	242,735	-
A.2 Other fixed-yield securities	6,759	-	1,722	3,070	26,355	5,013	89,751	347,748	132,330	6,114
A.3 Mutual funds	123,055	-	-	-	-	-	-	-	-	-
A.4 Loans	7,749,788	854,363	476,086	882,272	1,126,217	748,000	889,396	3,955,342	4,462,133	444,665
- Banks	173,965	422,292	37,864	226,006	418,809	99,755	3,051	37	-	444,665
- Customers	7,575,823	432,071	438,222	656,266	707,408	648,245	886,345	3,955,305	4,462,133	-
Cash liabilities	13,955,664	908,588	658,111	1,410,567	1,132,216	334,007	661,605	3,280,214	493,246	-
B.1 Deposits and current accounts	13,837,411	481,788	467,661	992,203	921,104	273,324	432,147	1,308,822	-	-
- Banks	512,905	224,671	82,984	49,406	345,889	24,645	102,756	1,300,037	-	-
- Customers	13,324,506	257,117	384,677	942,797	575,215	248,679	329,391	8,785	-	-
B.2 Fixed-yield securities	22,610	440	285	1,633	56,521	59,726	27,875	1,895,352	411,723	-
B.3 Other liabilities	95,643	426,360	190,165	416,731	154,591	957	201,583	76,040	81,523	-
Off-balance sheet transactions	951,569	1,316,749	302,910	1,201,330	3,337,521	464,128	378,240	142,852	412,778	29,976
C.1 Financial derivatives with exchange of capital	-	1,300,641	302,909	1,007,760	3,307,110	383,273	284,599	54,809	14,594	-
- Long positions	-	853,878	151,912	511,613	1,674,399	190,306	141,474	28,922	9,212	-
- Short positions	-	446,763	150,997	496,147	1,632,711	192,967	143,125	25,887	5,382	-
C.2 Financial derivatives without exchange of capital	34,616	-	-	-	-	-	-	-	-	-
- Long positions	18,513	-	-	-	-	-	-	-	-	-
- Short positions	16,103	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	916,415	16,108	1	193,515	30,320	79,462	89,992	86,822	397,167	29,976
- Long positions	11,513	16,108	1	193,515	30,320	79,462	89,992	86,822	397,167	14,988
- Short positions	904,902	-	-	-	-	-	-	-	-	14,988
C.5 Financial guarantees issued	538	-	-	55	91	1,393	3,649	1,221	1,017	-

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under amounts due from banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the bank for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.



Currency: USD

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
Cash assets	13,700	124,490	92,865	213,003	356,277	68,333	27,823	9,946	9,921	-
A.1 Government securities	-	-	-	-	-	-	-	-	10	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	456	-	-	-	-	-	-	-	-	-
A.4 Loans	13,244	124,490	92,865	213,003	356,277	68,333	27,823	9,946	9,911	-
- Banks	8,584	92,061	24,330	23,093	3,252	2,908	28	-	6,177	-
- Customers	4,660	32,429	68,535	189,910	353,025	65,425	27,795	9,946	3,734	-
Cash liabilities	163,994	411,013	50,704	48,243	147,059	37,262	8,111	-	-	-
B.1 Deposits and current accounts	162,777	411,013	50,400	41,355	147,059	35,910	8,060	-	-	-
- Banks	9,916	397,090	33,645	7,421	91,985	2,152	1,509	-	-	-
- Customers	152,861	13,923	16,755	33,934	55,074	33,758	6,551	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1,217	-	304	6,888	-	1,352	51	-	-	-
Off-balance sheet transactions	32,807	298,363	249,759	860,281	2,857,035	257,588	276,154	13,950	-	-
C.1 Financial derivatives with exchange of capital	-	285,752	249,759	855,881	2,844,931	253,928	276,151	13,950	-	-
- Long positions	-	126,900	124,311	418,982	1,421,388	127,790	138,532	6,935	-	-
- Short positions	-	158,852	125,448	436,899	1,423,543	126,138	137,619	7,015	-	-
C.2 Financial derivatives without exchange of capital	29	-	-	-	-	-	-	-	-	-
- Long positions	15	-	-	-	-	-	-	-	-	-
- Short positions	14	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	32,778	12,611	-	4,400	12,104	3,660	3	-	-	-
- Long positions	-	12,611	-	4,400	12,104	3,660	3	-	-	-
- Short positions	32,778	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

**Currency: CHF**

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
Cash assets	10,519	6,039	20,402	43,936	221,107	15,500	37,781	131,263	282,199	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	10,519	6,039	20,402	43,936	221,107	15,500	37,781	131,263	282,199	-
- Banks	6,557	-	3,738	1,129	127,503	174	-	-	-	-
- Customers	3,962	6,039	16,664	42,807	93,604	15,326	37,781	131,263	282,199	-
Cash liabilities	73,311	3,619	81,293	135,628	54,215	23,596	3,672	152	-	-
B.1 Deposits and current accounts	73,311	3,619	81,293	135,628	54,215	23,596	3,672	152	-	-
- Banks	3,106	-	78,151	119,571	-	-	-	-	-	-
- Customers	70,205	3,619	3,142	16,057	54,215	23,596	3,672	152	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	110,702	951,182	12,115	83,337	230,800	52,349	13,833	520	-	-
C.1 Financial derivatives with exchange of capital	-	939,665	12,115	83,337	230,791	52,317	13,833	520	-	-
- Long positions	-	298,030	6,190	40,886	95,343	26,521	6,990	173	-	-
- Short positions	-	641,635	5,925	42,451	135,448	25,796	6,843	347	-	-
C.2 Financial derivatives without exchange of capital	99,144	-	-	-	-	-	-	-	-	-
- Long positions	52,035	-	-	-	-	-	-	-	-	-
- Short positions	47,109	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	11,517	11,517	-	-	-	-	-	-	-	-
- Long positions	11,517	-	-	-	-	-	-	-	-	-
- Short positions	-	11,517	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	41	-	-	-	9	32	-	-	-	-
- Long positions	-	-	-	-	9	32	-	-	-	-
- Short positions	41	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

**Currency: JPY**

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
Cash assets	30,212	1,200	3,651	26,375	24,858	742	256	85	105	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	1,593	-	-	-	-	-	-	-	-	-
A.4 Loans	28,619	1,200	3,651	26,375	24,858	742	256	85	105	-
- Banks	27,894	508	2,065	17,697	2,019	80	-	-	-	-
- Customers	725	692	1,586	8,678	22,839	662	256	85	105	-
Cash liabilities	7,320	-	-	-	24,973	-	-	-	-	-
B.1 Deposits and current accounts	7,320	-	-	-	24,973	-	-	-	-	-
- Banks	101	-	-	-	24,973	-	-	-	-	-
- Customers	7,219	-	-	-	-	-	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	25,336	99,692	31,734	34,422	57,744	2,203	5,988	2,196	-	-
C.1 Financial derivatives with exchange of capital	-	74,742	31,734	34,422	57,357	2,203	5,988	2,196	-	-
- Long positions	-	8,538	15,885	19,103	28,970	1,103	2,994	1,098	-	-
- Short positions	-	66,204	15,849	15,319	28,387	1,100	2,994	1,098	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	24,949	24,950	-	-	-	-	-	-	-	-
- Long positions	24,949	-	-	-	-	-	-	-	-	-
- Short positions	-	24,950	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	387	-	-	-	387	-	-	-	-	-
- Long positions	-	-	-	-	387	-	-	-	-	-
- Short positions	387	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-


Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
Cash assets	18,145	554	221	3,335	12,382	114	73	-	-	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	18,145	554	221	3,335	12,382	114	73	-	-	-
- Banks	18,018	554	36	584	5,145	-	-	-	-	-
- Customers	127	-	185	2,751	7,237	114	73	-	-	-
Cash liabilities	37,019	10,154	-	905	5,519	924	187	-	-	-
B.1 Deposits and current accounts	37,019	10,154	-	905	5,519	924	187	-	-	-
- Banks	3,101	10,154	-	905	5,519	309	65	-	-	-
- Customers	33,918	-	-	-	-	615	122	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	872	95,070	17,630	79,267	307,555	30,813	28,522	16,675	-	-
C.1 Financial derivatives with exchange of capital	-	94,294	17,630	79,267	307,459	30,813	28,522	16,675	-	-
- Long positions	-	56,003	8,819	39,666	153,942	15,622	14,698	8,338	-	-
- Short positions	-	38,291	8,811	39,601	153,517	15,191	13,824	8,337	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	872	776	-	-	96	-	-	-	-	-
- Long positions	872	-	-	-	-	-	-	-	-	-
- Short positions	-	776	-	-	96	-	-	-	-	-
C.4 Irrevocable commitments to make loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Section 4 *Operational risks*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

Operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events. This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes. Operational risk includes legal risk, whereas strategic and reputational risks are excluded.

The bank is fully aware that in addition to the unfavourable economic effects, loss events could also give rise to considerable damage to its image and reputation. It has therefore adopted a suitable management system, which is being constantly refined, to minimise the impact.

This system is based on an approach that involves identification, measurement and mitigation of both a quantitative and qualitative nature. This makes it possible to recognise the risk not only in terms of any losses already incurred, but also in terms of potential risk in the future.

As regards the first aspect, which essentially involves identifying the risk situations that have led to operating losses, even small ones, as in the past, we systematically gathered information on loss events during the year that affected the bank. Further controls on the quality of the data collected have been defined and set up during the current year, as we are well aware that the creation of reliable historical information, that reflects as much as possible the changing business environment, helps us to identify isolated or systemic risk events. Regarding this second aspect, we have reviewed the analyses and evaluations related to potentially hazardous activities and integration of the findings with risk indicators and controls that have been specifically identified.

The system for gathering and recording such data is also useful for benchmarking purposes with DIPO, the database of operating losses of which the bank is a member, the aim being to identify areas where one's own organisation can be improved.

QUANTITATIVE INFORMATION

The most frequently recurring errors and those with the greatest individual impact in terms of overall amount are errors in the execution of day-to-day transactions, usually promptly corrected, mainly when making payments and in trading transactions.

Also involved are prudent provisions for legal disputes and settlements reached with customers as well as events of an external nature, such as bank robberies, cloning debit and credit cards, forging cheques, normally mitigated by stipulating insurance policies.

The following table summarises losses for the last three years, showing the amount in absolute and percentage terms, both gross and net of recoveries and insurance reimbursements, split according to the various sources and suitably aggregated. The extent of recoveries, amounting to about 74% of the total, demonstrates the effectiveness of the action taken to minimise or transfer the losses incurred.



Sources of losses from 01/01/2009 to 31/12/2011

	No. of events	% of events	Gross loss	% of total	Net loss	% of total	% recovered
Fraud	198	29.82%	1,635,996	11.31%	604,416	16.05%	63.06%
Settlements and legal disputes	77	11.60%	2,070,068	14.31%	1,990,000	52.86%	3.87%
Damage to fixed assets	59	8.89%	542,906	3.75%	373,411	9.92%	31.22%
Errors in carrying out transactions	307	46.23%	9,984,415	69.05%	570,189	15.14%	94.29%
Other	23	3.46%	228,046	1.58%	227,046	6.03%	0.44%
Total	664	100.00%	14,461,431	100.00%	3,765,062	100.00%	73.96%

(Amounts in euro)

Key:

Fraud = bank robberies, theft, false instructions, cloning debit and credit cards, forging cheques, disloyalty.

Settlements and legal disputes = settlements reached with customers, transactions contrary to the rules of proper conduct and prudent provisions for legal disputes.

Errors in carrying out transactions = errors in day-to-day operations, in the execution of processes, in relations with vendors or suppliers.

Damage to fixed assets = accidents, damage caused to third parties, structural failures and breakdowns.

Other = violations of the regulations on lending, safety in the workplace and system breakdowns.

Information on exposure to sovereign debtors

Consob with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the bank at 31/12/2011 amounted to € 2,748 million and was structured as follows:

- Italian government securities: € 2,188 million;
- Securities of other issuers: € 11 million;
- Loans to government departments: € 0 million;
- Loans to local governments: € 31 million;
- Loans to state-owned or local government-owned enterprises: € 358 million;
- Loans to other public administrations and miscellaneous entities: € 160 million.

PART F *Information on equity*

Section 1 *Capital*

QUALITATIVE INFORMATION

The need for banks to have adequate capital has been made even more imperative by the systemic crisis currently underway and by increasingly stringent regulations issued by supervisory bodies.

The bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management.

This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases - the latest dating back to 2007 - have always been taken up en masse, as reflected in the total number of shareholders that we have reached. The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity. The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

QUANTITATIVE INFORMATION

The component parts and size of the bank's capital and equity are described in Part B, Section 14 of these notes to the financial statements.



B.1 Equity: breakdown

Items	31/12/2011	31/12/2010
1. Share capital	924,444	924,444
2. Share premium reserve	172,511	174,315
3. Reserves	591,878	522,958
- retained earnings	-	-
a) legal	129,114	115,001
b) statutory	352,072	311,265
c) treasury shares	87,000	73,000
d) other	23,692	23,692
- other	-	-
4. Equity instruments	-	-
5. Treasury shares (-)	(26,079)	(32,821)
6. Valuation reserves:	(43,565)	614
- Financial assets available for sale	(43,565)	614
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash-flow hedges	-	-
- Exchange differences	-	-
- Non-current assets held for sale and discontinued operations	-	-
- Actuarial profits (losses) on defined-benefit plans	-	-
- Share of valuation reserves of equity investments valued at net equity	-	-
- Special revaluation regulations	-	-
Net profit (loss) for the year	57,284	133,320
Total	1,676,473	1,722,830

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

Assets/Values	Total 31/12/2011		Total 31/12/2010	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	-	(44,312)	-	(15)
2. Variable-yield securities	752	(1,019)	968	(310)
3. Mutual funds	1,014	-	203	(232)
4. Loans	-	-	-	-
Total	1,766	(45,331)	1,171	(557)

B.3 Valuation reserves for financial assets available for sale: changes in year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. Opening balance	(15)	658	(29)	-
2. Positive changes	-	-	1,043	-
2.1 Increases in fair value	-	-	811	-
2.2 Release to the income statement of negative reserves	-	-	232	-
- from impairment	-	-	232	-
- from disposals	-	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	44,297	925	-	-
3.1 Reductions in fair value	44,297	799	-	-
3.2 Impairment write-downs	-	126	-	-
3.3 Transfer to income statement from positive reserves: from disposals	-	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	(44,312)	(267)	1,014	-

Section 2 Capital and capital adequacy ratios

2.1 Capital for supervisory purposes

QUALITATIVE INFORMATION

Capital for supervisory purposes is determined in accordance with the rules laid down by the Bank of Italy in its 14th update of Circular Letter 155 "Instructions for the reporting of capital and capital ratios".

This is the main point of reference for the Supervisory Body when assessing the stability of the bank and of the system. The principal prudent control mechanisms all make reference to capital for supervisory purposes: the requirements to cover market risk and the rules governing the concentration of risk. It consists of the sum of Tier 1 capital, which is included in the calculation without any limitation, and Tier 2 capital that is included up to the equivalent of the Tier 1 capital. The amounts foreseen in the regulations applicable at 31.12.2011 are then deducted from this aggregate.

1. Tier 1 capital

The positive elements of Tier 1 capital comprise share capital, the share premium reserve, other reserves and part of the net profit for 2011, on the assumption that the shareholders will approve the proposed allocations to reserves; the negative elements, consisting of treasury shares (line item 190 of liabilities), intangible assets (line item 120 of assets) and other elements to be deducted in application of the «precautionary filters» made up of negative balances among valuation reserves and negative ones relating to fixed-yield securities classified in the «financial assets available for sale» portfolio.

From Tier 1 capital calculated in this way get deducted 50% of any equity investments in excess of 10% in non-consolidated banks and financial companies, the combination of any equity investments equal to or higher than 10% in banks and financial companies and subordinated instruments that exceed 10% of «Tier 1 and Tier 2 capital, both gross of the elements to be deducted».

On 18 May 2010 the Bank of Italy issued new supervisory rules on the reserves linked to the valuation of debt securities issued by EU governments and allocated to «Assets available



for sale». This provision makes it possible to completely neutralise the gains and losses booked to these reserves from 1/1/2010 onwards as an alternative to deducting all of the losses and partial inclusion of the gains as previously envisaged. The bank took advantage of this faculty; this has led to the non-recognition for supervisory purposes of some 39 million of losses net of tax.

2. Tier 2 capital

Tier 2 capital is made up of positive reserves on the measurement of shareholdings classified as «assets available for sale» and subordinated loans net of negative elements consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

The subordinated loans of € 657.803 million consist of the following bonds:

- bond loan of € 357.204 million from 26/2/2010 and maturity on 26/2/2017 with a forecast annual repayment of 20% from 26/2/2013. It has an interest rate of 4% which will gradually rise to 4.50%;
- bond loan of € 300.599 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. It has an interest rate of 4.50% which will gradually rise to 6%.

This bond loans have the characteristics required by the regulations for inclusion in capital for supervisory purposes. The subordination clause consists of the bond owner's right to be reimbursed in the event of liquidation after all the other creditors have been satisfied.

The positive elements of Tier 2 capital are represented by after-tax gains on shareholdings classified as «assets available for sale». It is made up of the positive reserves deriving from after-tax gains on securities available for sale, cut by 50% for the application of the precautionary filters and reduced by the negative elements, consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

3. Tier 3 capital

There are no elements of equity to be included in Tier 3 capital.

QUANTITATIVE INFORMATION

	31/12/2011	31/12/2010
A. Tier 1 before the application of precautionary filters	1,681,724	1,646,168
B. Precautionary filters of Tier 1 capital	(5,777)	(15)
B.1 Positive IFRS precautionary filters (+)		
B.2 Negative IFRS precautionary filters (-)	(5,777)	(15)
C. Tier 1 capital gross of the elements to be deducted (A + B)	1,675,947	1,646,153
D. Elements to be deducted from tier 1 capital	(41,466)	(46,802)
E. Total Tier 1 capital (C-D)	1,634,481	1,599,351
F. Tier 2 capital before the application of precautionary filters	645,184	350,332
G. Precautionary filters for tier 2 capital:	(374)	(314)
G.1 Positive IFRS precautionary filters (+)	-	-
G.2 Negative IFRS precautionary filters (-)	(374)	(314)
H. Tier 2 capital gross of the elements to be deducted (F + G)	644,810	350,018
I. Elements to be deducted from tier 2 capital	(41,466)	(46,802)
L. Total tier 2 capital (H-I)	603,344	303,216
M. Items to be deducted from tier 1 and tier 2 capital	-	-
N. Capital for supervisory purposes	2,237,825	1,902,567
O. Tier 3 capital	-	-
P. Capital for supervisory purposes including tier 3 (N + O)	2,237,825	1,902,567

2.2 Capital adequacy

QUALITATIVE INFORMATION

The bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and protect against risk. The bank is subject to the capital adequacy requirements according to the rules adopted by the Bank of Italy. Based on these rules, at enterprise level the ratio between capital and total risk-weighted risk assets has to be at least 8%. On an individual basis, the minimum capital requirement is reduced by 25% as foreseen by the current rules of Basel II for banks forming part of banking groups. Compliance with these requirements is checked on a quarterly basis when preparing the periodic reports to be sent to the Supervisory Authority. The annual ICAAP report on the Group's capital adequacy sent to the Bank of Italy outlines the checks carried out on the degree of risk inherent in the various items. This requisite is expressed by the ratio between capital for supervisory purposes and total risk-weighted assets, which at the end of the year came to 14.26%, with an excess of 626 basis points compared with the minimum requirement of 8% mentioned above. In absolute terms, the excess capital compared with the minimum requirement - what is called «free capital» - amounts to € 982.7 million; this amount is considered adequate for the bank's current needs and future growth plans. The following table provides information of a quantitative nature on risk assets and capital ratios, reflecting prudent management of the various types of risks with a limited absorption of capital. Capital for supervisory purposes is absorbed for around 52% by credit risk, around 1% by market risks, around 3% by operational risks, while the other 44% is free capital. The good growth in capital for supervisory purposes compared with the end of 2010 is essentially due to the net profit allocated to reserves and the increase in Tier 2 capital thanks to the issue of a second subordinated bond loan of € 301 million.



QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
A. Assets at risk				
A.1 Credit and counterparty risk	27,288,399	23,530,561	19,313,140	17,796,113
1. Standardised approach	27,288,399	23,530,561	19,313,140	17,796,113
2. Approach based on internal ratings			-	-
2.1 Basic			-	-
2.2 Advanced			-	-
3. Securitisations			-	-
B. Capital adequacy requirements				
B.1 Credit and counterparty risk			1,545,051	1,423,689
B.2 Market risks			31,585	29,251
1. Standard methodology			31,585	29,251
2. Internal models			-	-
3. Concentration risk			-	-
B.3 Operational risk			96,839	88,388
1. Basic method			96,839	88,388
2. Standardised approach			-	-
3. Advanced method			-	-
B.4 Other precautionary requirements				
B.5 Other calculation elements			-418,369	-385,332
B.6 Total precautionary requirements			1,255,106	1,155,996
C. Risk assets and capital ratios				
C.1 Risk-weighted assets			15,688,825	14,449,950
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			10.42	11.07
C.3 C.3 Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)			14.26	13.17

The other calculation elements shown at line B.5 consist of the reduction of 25%, established by the regulation for banks belonging to banking groups.

PART H *Related party transactions*

1. Information on the remuneration of directors and managers

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
PIERO MELAZZINI	Chairman	1/1/2011-31/12/2011	31-12-2013	950	-	-	152
MILES EMILIO NEGRI	Deputy Chairman*	1/1/2011-31/12/2011	31-12-2013	127	-	-	-
FRANCESCO VENOSTA	Director	1/1/2011-31/12/2011	31-12-2012	76	-	-	31
CLAUDIO BENEDETTI	Director	1/1/2011-31/12/2011	31-12-2011	40	-	-	-
PAOLO BIGLIOLI	Director	1/1/2011-31/12/2011	31-12-2013	41	-	-	-
GIANLUIGI BONISOLO	Director	1/1/2011-31/12/2011	31-12-2013	57	-	-	-
FEDERICO FALCK	Director	1/1/2011-31/12/2011	31-12-2012	38	-	-	-
ATTILIO PIERO FERRARI	Director	1/1/2011-31/12/2011	31-12-2011	41	-	-	-
GIUSEPPE FONTANA	Director	1/1/2011-31/12/2011	31-12-2011	39	-	-	-
MARIO GALBUSERA	Director	1/1/2011-31/12/2011	31-12-2012	39	-	-	-
NICOLÒ MELZI DI CUSANO	Director	1/1/2011-31/12/2011	31-12-2012	40	-	-	-
ADRIANO PROPERSI	Director	1/1/2011-31/12/2011	31-12-2011	41	-	-	-
RENATO SOZZANI	Director	1/1/2011-31/12/2011	31-12-2011	78	-	-	3
LINO ENRICO STOPPANI	Director	1/1/2011-31/12/2011	31-12-2013	41	-	-	14
DOMENICO TRIACCA	Director	1/1/2011-31/12/2011	31-12-2012	60	-	-	-
EGIDIO ALESSANDRI	Chairman of the Board of Statutory Auditors	1/1/2011-31/12/2011	31-12-2011	107	-	-	15
PIO BERSANI	Auditor	1/1/2011-31/12/2011	31-12-2011	59	-	-	19
PIERGIUSEPPE FORNI	Auditor	1/1/2011-31/12/2011	31-12-2011	51	-	-	11
MARIO ALBERTO PEDRANZINI	General Manager	1/1/2011-31/12/2011		-	84	333	686
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2011-31/12/2011		-	33	186	910

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities. Of the compensation reported at the balance sheet date, emoluments for € 2,354 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.100 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration. The report on operations discloses the investments held by the directors, statutory auditors, the general manager and managers with strategic responsibilities and the related changes during the year.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements. As regards the directors, general manager and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association. The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website. For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

For information on the shares held by members of the Board of Directors and Board of Statutory Auditors, by the general manager and by managers with strategic responsibilities in accordance with art. 84 quarter of the Issuers' Regulations 11971, reference should be made to the report on operations.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	32	10,015	2	162	52	1,041
Statutory auditors	561	332	2	3	70	458
Management	82	3,449	1	57	38	119
Family members	2,163	26,366	138	319	157	9,486
Subsidiaries	1,821,303	701,506	33,734	8,176	284,877	41,679
Associated companies	514,578	16,765	10,539	256	50,605	36,883
Other related parties	282,106	38,825	6,200	633	6,346	29,826

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA and Factorit spa, while loans to associated companies relate for € 378 million to Alba Leasing SpA and for € 119 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 204 million granted to the affiliate Release spa.



PART L *Segment information*

Segment information has been prepared in compliance with IFRS 8, the introduction of which did not involve significant changes in the identification of operating segments or in management reporting methods compared with IAS 14.

Given that the bank's benefits and risks are significantly influenced by differences in the various products and services and only marginally by the territorial distribution of the sales network, the primary segment comprises the bank's business activities while the secondary segment relates to the geographical areas concerned.

Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that the related risk profile and profitability are sufficiently similar.

Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical information is based on the distribution of branches throughout Italy.

A. Primary format

A.1 Distribution by business segment: income statement

The following sub-segments are discussed:

- *Businesses*: these comprise «non-financial companies» and «family »; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers*: these comprise «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities*: this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions*: this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables present the pre-tax results of the above sub-segments for 2011 and 2010.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

This aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2011
Interest income	553,241	507,691	-	438,853	1,499,785	-752,189	747,596
Interest expense	-292,672	-314,284	-	-438,727	-1,045,683	752,189	-293,494
Net interest income	260,569	193,407	-	126	454,102	-	454,102
Commission income	116,356	62,060	50,036	7,760	236,212	-2,564	233,648
Commission expense	-4,118	-4,591	-3,304	-993	-13,006	-587	-13,593
Dividends and similar income	-	-	-	6,393	6,393	-	6,393
Net trading income	-	-	-	-74,967	-74,967	3,079	-71,888
Net hedging profit (loss)	-	-	-	-	-	-	-
Gains/losses on disposals or repurchases	-	-	-	4,527	4,527	-	4,527
Net change in financial assets and liabilities carried at fair value	-	-	-	-6,641	-6,641	-	-6,641
Income from banking activities	372,807	250,876	46,732	-63,795	606,620	-72	606,548
Adjustments to the net value of financial assets	-134,532	-21,261	-	-7,154	-162,947	-	-162,947
Balance of financial management	238,275	229,615	46,732	-70,949	443,673	-72	443,601
Administrative expenses	-109,984	-101,779	-37,527	-55,172	-304,462	-32,594	-337,056
Provisions for risks and charges	5,206	-1,050	-	-	4,156	-	4,156
Net adjustments to property, plant and equipment	-4,659	-4,103	-1,473	-1,824	-12,059	-	-12,059
Net adjustments to intangible assets	-3,781	-3,330	-1,197	-1,480	-9,788	-	-9,788
Other operating income/expense	1,965	4,637	588	911	8,101	32,666	40,767
Share of profit/loss of equity investments	-	-	-	-12,252	-12,252	-	-12,252
Profit/loss from disposal of investments	-	-	-	-23	-23	-	-23
Gross profit	127,022	123,990	7,123	-140,789	117,346	-	117,346



Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2010
Interest income	401,707	340,243	-	263,587	1,005,537	-433,874	571,663
Interest expense	-159,998	-215,933	-	-236,239	-612,170	433,874	-178,296
Net interest income	241,709	124,310	-	27,348	393,367	-	393,367
Commission income	106,962	56,426	50,259	7,267	220,914	-2,313	218,601
Commission expense	-4,034	-3,610	-3,280	-768	-11,692	-537	-12,229
Dividends and similar income	-	-	-	6,368	6,368	-	6,368
Net trading income	-	-	-	-39,445	-39,445	2,769	-36,676
Net hedging profit (loss)	-	-	-	-	-	-	-
Gains/losses on disposals or repurchases	-	-	-	-360	-360	-	-360
Net change in financial assets and liabilities carried at fair value	-	-	-	806	806	-	806
Income from banking activities	344,637	177,126	46,979	1,216	569,958	-81	569,877
Adjustments to the net value of financial assets	-100,167	-18,478	-	-5,107	-123,752	-	-123,752
Balance of financial management	244,470	158,648	46,979	-3,891	446,206	-81	446,125
Administrative expenses	-105,021	-98,002	-37,056	-54,593	-294,672	-32,842	-327,514
Provisions for risks and charges	1,480	-51	-	-	1,429	-	1,429
Net adjustments to property, plant and equipment	-4,686	-4,136	-1,476	-1,808	-12,106	-	-12,106
Net adjustments to intangible assets	-3,259	-2,877	-1,026	-1,257	-8,419	-	-8,419
Other operating income/expense	333	1,577	604	-1,070	1,444	32,923	34,367
Share of profit/loss of equity investments	-	-	-	57,987	57,987	-	57,987
Profit/loss from disposal of investments	-	-	-	-192	-192	-	-192
Gross profit	133,317	55,159	8,025	-4,824	191,677	-	191,677

A.2 Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2010
Financial assets	13,404,340	7,202,042	-	5,742,518	26,348,900
Other assets	-	-	-	490,461	490,461
Property, plant and equipment	51,604	45,442	16,316	20,209	133,571
Intangible assets	3,933	3,463	1,245	1,539	10,180
Financial liabilities	5,216,167	15,351,507	-	3,837,730	24,405,404
Other liabilities	5,801	699	-	746,617	753,117
Provisions	62,568	51,894	14,637	19,018	148,117
Guarantees given	3,066,827	679,288	-	212,472	3,958,587
Commitments	866,957	223,199	20,380	63,506	1,174,042

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2010
Financial assets	12,194,109	6,053,752	-	5,063,552	23,311,413
Other assets	-	-	-	323,931	323,931
Property, plant and equipment	50,961	44,984	16,049	19,662	131,656
Intangible assets	4,195	3,703	1,321	1,618	10,837
Financial liabilities	4,215,559	14,751,281	-	2,367,153	21,333,993
Other liabilities	4,960	1,040	-	564,490	570,490
Provisions	67,268	50,497	14,418	18,341	150,524
Guarantees given	2,807,689	425,961	-	187,076	3,420,726
Commitments	1,332,011	192,102	16,614	26,838	1,567,565

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: it contributes 108.2% of the overall result (49.2% excluding the negative results of the central functions).

Loans (financial assets) and direct deposits (financial liabilities) amount to € 13.404 million and € 5.216 million respectively.

With respect to income from banking activities, net adjustments for the impairment of financial assets represent 36.1% of the total, while administrative expenses absorb 29.5%.

Compared with the previous year, this segment's result has gone down by 4.7%.

This was mainly due to a combination of the following factors:

- a significant increase in net interest income (+7.8%), principally due to satisfactory growth in loans granted. While this has, on the one hand, offset the differential between the rate applied and the internal transfer rate (the so-called «mark-up»), on the other, it has led to a substantial increase in figurative costs owed to the treasury;
- an increase in commission flows (+8.8%), mainly reflecting good performances on the part of cash and endorsement loans;
- a limited increase in administrative expenses (+4.7%, of which other costs +7.3%, personnel expenses +2.7%);
- considerably higher adjustments of financial assets (+ 34.3%).

Individuals and other customers: it contributes 105.7% of the overall result (48.0% excluding the negative results of the central functions).

Loans (financial assets) and direct deposits (financial liabilities) amount to € 7.202 million and € 15.352 million respectively.

With respect to income from banking activities, net adjustments for the impairment of financial assets represent 8.5% of the total, while administrative expenses absorb 40.6%.

Comparison with the prior year reflects a rise in profits by about 124.8%.

This was mainly due to a combination of the following factors:

- a significant increase in net interest income (+55.6%), principally due to the satisfactory growth in direct deposits at a time when there was a significant increase in spreads;
- an increase in commission flows (+10.0%), mainly reflecting a good performance by the collections and payments sector and by loans on behalf of third parties;
- a limited increase in administrative expenses (+3.8%, of which other costs +4.5%, personnel expenses +3.2%);
- considerably higher adjustments of financial assets (+15.1%), due to the significant increase in loans granted.



Securities: it contributes 6.1% of the overall result (2.8% excluding the negative result of the central functions).

With respect to income from banking activities, administrative expenses absorb 80.3% of the total.

Comparison with the prior year reflects an 11.2% decrease in profits, mainly due to the following factors:

- substantial stability in commission flows (-0.4%), attributable to better results by the custodian bank activity and placement of insurance products, offset by a decline in income on the placement of financial instruments;
- a limited increase in administrative expenses (+1.3%, of which other costs +1.2%, personnel expenses +1.3%).

Central functions: this shows a greater loss than the overall result, because of significant losses on financial assets in portfolio and losses on investments, with a significant decrease compared with the previous year's result, which included a substantial gain on sale, due to the disposal of the interest in Arca Vita spa and Arca Assicurazione spa.

B. Secondary format

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparties, does not give significantly different results.

Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.

B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Total	Reconciliation	Total 31/12/2011
Interest income	1,319,347	180,438	1,499,785	-752,189	747,596
Interest expense	-928,089	-117,594	-1,045,683	752,189	-293,494
Net interest income	391,258	62,844	454,102	-	454,102
Commission income	197,845	38,367	236,212	-2,564	233,648
Commission expense	-8,207	-4,799	-13,006	-587	-13,593
Dividends and similar income	6,393	-	6,393	-	6,393
Net trading income	-74,967	-	-74,967	3,079	-71,888
Net hedging profit (loss)	-	-	-	-	-
Gains/losses on disposals or repurchases	4,527	-	4,527	-	4,527
Net change in value of financial assets and liabilities at fair value	-6,641	-	-6,641	-	-6,641
Income from banking activities	510,208	96,412	606,620	-72	606,548
Adjustments to the net value of financial assets	-155,924	-7,023	-162,947	-	-162,947
Balance of financial management	354,284	89,389	443,673	-72	443,601
Administrative expenses	-273,222	-31,240	-304,462	-32,594	-337,056
Provisions for risks and charges	8,208	-4,052	4,156	-	4,156
Net adjustments to property, plant and equipment	-10,757	-1,302	-12,059	-	-12,059
Net adjustments to intangible assets	-8,731	-1,057	-9,788	-	-9,788
Other operating income/expense	7,329	772	8,101	32,666	40,767
Share of profit/loss of equity investments	-12,252	-	-12,252	-	-12,252
Profit/loss from disposal of investments	-23	-	-23	-	-23
Gross profit	64,836	52,510	117,346	-	117,346



Items	Northern Italy	Central Italy	Total	Reconciliation	Total 31/12/2010
Interest income	887,493	118,044	1,005,537	-433,874	571,663
Interest expense	-533,560	-78,610	-612,170	433,874	-178,296
Net interest income	353,933	39,434	393,367	-	393,367
Commission income	186,855	34,059	220,914	-2,313	218,601
Commission expense	-8,068	-3,624	-11,692	-537	-12,229
Dividends and similar income	6,368	-	6,368	-	6,368
Net trading income	-39,445	-	-39,445	2,769	-36,676
Net hedging profit (loss)	-	-	-	-	-
Gains/losses on disposals or repurchases	-360	-	-360	-	-360
Net change in value of financial assets and liabilities at fair value	806	-	806	-	806
Income from banking activities	500,089	69,869	569,958	-81	569,877
Adjustments to the net value of financial assets	-117,994	-5,758	-123,752	-	-123,752
Balance of financial management	382,095	64,111	446,206	-81	446,125
Administrative expenses	-264,045	-30,627	-294,672	-32,842	-327,514
Provisions for risks and charges	-371	1,800	1,429	-	1,429
Net adjustments to property, plant and equipment	-10,770	-1,336	-12,106	-	-12,106
Net adjustments to intangible assets	-7,490	-929	-8,419	-	-8,419
Other operating income/expense	1,279	165	1,444	32,923	34,367
Share of profit/loss of equity investments	57,987	-	57,987	-	57,987
Profit/loss from disposal of investments	-192	-	-192	-	-192
Gross profit	158,493	33,184	191,677	-	191,677

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Total 31/12/2011
Financial assets	24,341,299	2,007,601	26,348,900
Other assets	490,461	-	490,461
Property, plant and equipment	119,148	14,423	133,571
Intangible assets	9,081	1,099	10,180
Financial liabilities	19,112,651	5,292,753	24,405,404
Other liabilities	753,071	46	753,117
Provisions	130,665	17,452	148,117
Guarantees given	3,233,939	724,648	3,958,587
Commitments	948,218	225,824	1,174,042

Items	Northern Italy	Central Italy	Total 31/12/2010
Financial assets	21,420,846	1,890,567	23,311,413
Other assets	323,931	-	323,931
Property, plant and equipment	117,129	14,527	131,656
Intangible assets	9,641	1,196	10,837
Financial liabilities	16,101,571	5,232,422	21,333,993
Other liabilities	570,450	40	570,490
Provisions	137,010	13,514	150,524
Guarantees given	2,693,348	727,378	3,420,726
Commitments	1,281,168	286,397	1,567,565

APPENDICES:

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

- list of significant equity investments;
- list of revalued assets still owned by the bank (article 10, Law 72/1983);
- schedule of the Independent Auditors' fees for the year (as per art. 149 duodecies of the Issuers' Regulations);
- financial statements of the subsidiaries Banca Popolare di Sondrio (Suisse) SA., Factorit spa, Pirovano Stelvio spa and Sinergia Seconda srl.

LIST OF SIGNIFICANT EQUITY INVESTMENTS AT 31/12/2011

List of significant equity investments directly or indirectly held in unlisted companies by Banca Popolare di Sondrio s.c.p.a., in accordance with article 120 of Legislative Decree 58 dated 24 February 1998 and Consob regulation 11971 dated 14 May 1999 and subsequent amendments.

Company	Country	% held	Notes
- Acquedotto dello Stelvio srl	(I)	27.000%	held indirectly through Pirovano Stelvio spa
- Alba Leasing spa	(I)	20.950%	
- Arca Vita spa	(I)	15.036%	
- Banca della Nuova Terra spa	(I)	19.500%	
- Banca Popolare di Sondrio (SUISSE) SA	(CH)	100.000%	
- Bormio Golf spa	(I)	14.764%	
- C.D.R. Pompe spa	(I)	100.000%	pledge
- Factorit spa	(I)	60.500%	
- Gal del Lario scarl	(I)	17.333%	
- Gal Valtellina scarl	(I)	10.000%	
- Gruppo Operazioni Underwriting Banche Popolari srl	(I)	12.500%	
- Immobiliare Borgo Palazzo srl	(I)	100.000%	held indirectly through Sinergia Seconda srl
- Immobiliare S.Paolo srl	(I)	100.000%	held indirectly through Sinergia Seconda srl
- Inarcheck spa	(I)	12.000%	
- Pirovano Stelvio spa	(I)	100.000%	
- Polis Fondi Immobiliari di Banche Popolari S.G.R.P.A.	(I)	19.600%	
- Rajna Immobiliare srl	(I)	50.000%	
- Sifas spa	(I)	21.614%	held indirectly through Pirovano Stelvio spa
- Sinergia Seconda srl	(I)	100.000%	
- Servizi Internazionali e Strutture Integrate 2000 srl	(I)	33.333%	
- Sofipo SA	(CH)	30.000%	held indirectly through Banca Popolare di Sondrio (SUISSE) SA
- Sofipo UF Trustee Limited	(CY)	10.000%	held indirectly through Banca Popolare di Sondrio (SUISSE) SA
- Unione Fiduciaria spa	(I)	18.309%	



LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in euro)

PROPERTY	Investment	Amount of revaluation Law 576 of 2/12/75	Amount of revaluation Law 72 of 19/3/83	Amount of revaluation Law 413 of 30/12/91	Gross book value	Accumulated depreciation as of 31/12/2011	Net book value as of 31/12/2011
APRICA - Corso Roma, 140	77,468	0	356,355	146,929	580,752	507,198	73,554
BERBENNO DI VALTELLINA - Via Raneè, 542	13,804,070	0	0	99,417	13,903,487	4,434,533	9,468,954
BERGAMO - Via Broseta, 64/B	3,747,047	0	0	0	3,747,047	503,770	3,243,277
BERGAMO - Via G. D'alzano, 5	1,458,976	0	0	0	1,458,976	21,885	1,437,091
BORMIO - Via Roma, 64	439,238	46,481	573,267	136,524	1,195,510	224,098	971,411
BORMIO - Via Roma angolo Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,281,872	2,347,755
BRENO - Piazza Ronchi, 4	1,397,602	0	0	87,467	1,485,069	559,858	925,210
CHIAVENNA - Via Dolzino, 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	1,983,140	1,479,149
CHIESA VALMALENCO - Via Roma, 138	769,906	17,560	664,795	133,250	1,585,511	516,433	1,069,074
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	217,867	56,370
DELEBIO - Piazza S. Carpofofo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,245,233	956,759
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	791,765	807,730
DOMASO - Via Statale Regina, 71	111,038	0	0	53,817	164,855	116,313	48,542
DONGO - Piazza V. Matteri, 14	1,567,930	0	0	415,551	1,983,481	1,005,326	978,155
EDOLO - Piazza Martiri della Libertà, 16	1,058,736	0	0	509,161	1,567,897	1,175,703	392,195
GENOA - Via XXV Aprile, 7	7,559,724	0	0	0	7,559,724	1,001,888	6,557,836
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	317,148	334,929
GRAVEDONA - Piazza Garibaldi, 10/12	1,870,797	0	0	223,957	2,094,754	534,433	1,560,323
GROSIO - Via Roma, 67	26,372	7,230	229,791	51,484	314,877	220,485	94,392
GROSOTTO - Via Statale, 73	452,238	12,911	147,146	42,099	654,394	220,016	434,377
ISOLACCIA VALDIDENTRO - Via Nazionale, 31	403,788	0	290,229	272,602	966,619	563,735	402,884
LECCO - Corso Martiri della Liberazione, 63/65	9,574,332	0	351,191	2,124,557	12,050,080	6,035,930	6,014,148
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	126,349	84,233
LIVIGNO - Via S. Antoni, 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	1,216,479	5,434,466
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	538,474	158,801
MARCHIROLO - Via Cav. Emilio Busetti, 7/A	1,089,019	0	0	0	1,089,019	355,259	733,759
MAZZO VALTELLINA - Via S. Stefano, 18	11,530	16,010	163,550	48,833	239,923	167,036	72,887
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	152,310	99,629
MILAN - Via A. Messina, 22	150,000	0	0	0	150,000	6,750	143,250
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	52,184	5,798
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	50,044	5,560
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	148,140	49,380
MILAN - Via Porpora, 104	5,315,175	0	0	165,381	5,480,556	1,270,339	4,210,217
MILAN - Via S. Maria Fulcorina, 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	4,853,204	11,696,645
MILAN - Via S. Maria Fulcorina, 11	493,165	0	0	0	493,165	355,079	138,086
MILAN - Via Sangallo, 16	4,752	0	0	11,915	16,667	12,500	4,167

PROPERTY	Investment	Amount of revaluation Law 576 of 2/12/75	Amount of revaluation Law 72 of 19/3/83	Amount of revaluation Law 413 of 30/12/91	Gross book value	Accumulated depreciation as of 31/12/2011	Net book value as of 31/12/2011
MILAN - Via Solari, 15	422,156	0	0	0	422,156	113,982	308,174
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	683,696	514,820
MORBEGNO - Piazza Caduti della Libertà, 6	1,892,539	0	1,088,606	704,283	3,685,428	1,955,353	1,730,075
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	58,683	13,765
MORBEGNO - Via Garibaldi, 81	589,317	25,823	0	56,050	671,190	438,169	233,022
MOZZO - Via G. D'annunzio, 4	26,424	0	0	14,259	40,683	25,630	15,053
NOVATE MEZZOLA - Via Roma, 13	45,682	0	251,282	89,219	386,183	241,250	144,933
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	708,334	218,258
PONTE VALTELLINA - Piazza della Vittoria, 1	51,496	12,911	258,098	86,540	409,045	232,101	176,944
REGOLEDO DI COSIO VALTELLINO - Via Roma, 7	134,617	0	0	78,405	213,022	134,927	78,095
ROME - Piazza Filippo il Macedone, 75	2,400,000	0	0	0	2,400,000	540,000	1,860,000
ROME - Via Della Farnesina, 154	928,169	0	0	0	928,169	97,458	830,712
ROME - Via di Propaganda Fide, 27	155,625	0	350,503	88,926	595,054	582,393	12,661
S. CASSIANO VALCHIAVENNA - Via Spluga, 108	397,672	0	0	103,093	500,765	284,014	216,751
S. SIRO - Via Statale Regina	467,692	0	0	0	467,692	177,010	290,682
S. PIETRO BERBENNO - Via Nazionale Ovest, 110	903,028	22,208	328,181	122,795	1,376,212	377,779	998,434
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	98,807	38,425
SONDALO - Via Zubiani, 2/4/6/8/10	21,757	25,823	312,456	158,005	518,041	363,583	154,458
SONDRIO - Corso V. Veneto, 7	858,944	0	0	1,190,813	2,049,757	609,817	1,439,938
SONDRIO - Largo Pedrini, 8	200,617	0	0	22,527	223,144	163,979	59,165
SONDRIO - Lungo Mallero Cadorna, 24	1,429,633	0	196,254	451,249	2,077,136	907,708	1,169,428
SONDRIO - Piazza Garibaldi, 16	1,563,597	351,191	7,810,125	3,142,651	12,867,564	6,306,247	6,561,317
SONDRIO - Piazzale Tocalli - Via delle Prese	348,608	0	0	0	348,608	224,852	123,756
SONDRIO - Via Bernina, 1	181,930	0	82,385	45,795	310,110	144,135	165,975
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	349,929	54,328
SONDRIO - Via Cesura, 4	156,991	0	0	64,149	221,140	105,801	115,338
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	148,504	99,002
SONDRIO - Via Tonale, 6	56,297	0	243,248	54,643	354,188	332,235	21,953
SONDRIO - Via Tpio Rajna, 1	16,195	0	0	40,221	56,416	38,927	17,489
TALAMONA - Via Cusini, 29	223,475	0	313,640	203,691	740,806	585,963	154,843
TEGLIO - Piazza S. Eufemia, 2	40,150	13,944	546,700	148,165	748,959	437,596	311,364
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	79,510	59,842
TIRANO - Piazza Cavour, 20	392,571	0	1,736,322	718,576	2,847,469	1,703,253	1,144,216
TRESENTA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	353,362	100,429
VILLA DI CHIAVENNA - Via Roma, 39	197,712	0	0	7,639	205,351	188,929	16,422
VILLA DI TIRANO - Traversa Foppa, 25	440,817	0	0	7,651	448,468	207,569	240,899
	92,603,609	781,632	22,496,863	19,084,124	134,966,228	52,784,261	82,181,959



**SCHEDULE OF THE INDEPENDENT AUDITORS' FEES FOR THE YEAR
(AS PER ART. 149 DUODECIES OF THE ISSUERS' REGULATIONS)**

Type of services	Service provided by	Recipient	Fees (thousand euro)
Audit of the financial statements	KPMG spa	Banca Popolare di Sondrio	213
Other emoluments	KPMG spa	Banca Popolare di Sondrio	5
Audit of the financial statements	KPMG SA	Banca Popolare di Sondrio (SUISSE) SA	409
Other emoluments	KPMG SA	Banca Popolare di Sondrio (SUISSE) SA	29
Audit of the financial statements	KPMG spa	Sinergia Seconda srl	20
Audit of the financial statements	KPMG spa	Pirovano Stelvio spa	10

These amounts do not include the reimbursement of out-of-pocket expenses and VAT.

FINANCIAL STATEMENTS:

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FACTORIT SPA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL



BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 December 2011

(in Swiss francs)

ASSETS	2011	2010
Liquid assets	47,969,891	58,588,960
Due from banks	629,306,046	706,189,117
Due from customers	647,300,640	586,834,327
Mortgage loans	2,271,452,640	1,925,748,466
Financial investments	34,491,117	40,999,305
Equity investments	603,138	653,138
Fixed assets	34,081,443	34,333,118
Accrued income and prepayments	10,679,612	9,324,524
Other assets	68,885,275	50,936,693
Total assets	3,744,769,802	3,413,607,648
Total amounts due from Group companies and holders of qualifying equity investments	586,853,527	554,463,829

LIABILITIES	2011	2010
Debt securities issued - money market	106,923	152
Due to banks	1,047,829,245	927,812,566
Due to customers - savings and investments	672,564,635	616,598,215
Due to customers - other	1,475,070,092	1,334,649,395
Treasury liabilities	190,876,000	178,829,000
Accrued liabilities and deferred income	15,333,115	14,345,795
Other liabilities	78,062,643	80,635,903
Adjustments and provisions	34,357,222	33,383,837
Reserve for general banking risks	15,000,000	15,000,000
Share capital	100,000,000	100,000,000
General legal reserve	112,352,786	107,652,005
Net profit for the year	3,217,141	4,700,780
Total liabilities	3,744,769,802	3,413,607,648
Total amounts due to Group companies and holders of qualifying equity investments	734,035,879	734,035,879

OFF-BALANCE SHEET TRANSACTIONS	2011	2010
Contingent liabilities	206,677,105	227,759,852
Irrevocable commitments	14,152,000	15,000,000
Derivative products	2,433,353,351	2,633,792,892
– Gross positive replacement value	4,890,938	16,843,497
– Gross negative replacement value	69,616,611	71,905,059
Fiduciary transactions	246,918,976	211,415,310



INCOME STATEMENT

(in Swiss francs)

	2011	2010
Interest income:		
- Interest income and discounts	76,054,503	66,862,662
- Interest income and dividends from equity investments	777,393	947,964
Interest expense	-49,575,146	-39,992,181
Net interest income	27,256,750	27,818,445
Commission income:		
- on lending transactions	1,412,518	1,523,022
- on trading in securities and investments	36,764,492	41,491,496
- on services	6,048,855	5,583,186
Commission expense	-6,152,024	-5,944,199
Net commission income and income from services	38,073,841	42,653,505
Profits from financial transactions	13,578,964	12,168,571
Profit (loss) on disposal of financial investments	-384,057	-406,895
Income from equity investments	-	25,000
Net proceeds from properties	166,653	168,752
Other ordinary income	300,764	1,087,567
Other ordinary charges	-1,392,587	-3,790,382
Total other ordinary income	-1,309,227	-2,915,958
Net income from ordinary banking operations	77,600,328	79,724,563
Operating expenses:		
Personnel costs	43,799,899	44,679,233
Other operating expenses	21,884,002	23,112,586
Operating expenses	65,683,901	67,791,819
Gross profit	11,916,427	11,932,744

	2011	2010
Depreciation and amortisation	-7,074,590	-7,788,765
Adjustments, provisions and losses	-2,915,924	-154,701
Interim results	1,925,913	3,989,278
Extraordinary income	2,486,228	929,502
Extraordinary charges	-95,000	-
Income taxes	-1,100,000	-218,000
Net profit for the year	3,217,141	4,700,780
ALLOCATION OF NET PROFIT		
Net profit for the year	3,217,141	4,700,780
Retained earnings	-	-
Earnings available for allocation	3,217,141	4,700,780
Proposal of the Board of Directors for the allocation of 2011 net profit of CHF 3,217,141 to general legal reserve.	-	-
Balance carried forward	-	-



FACTORIT SPA

FINANCIAL STATEMENTS AS OF 31 December 2011

(in euro)

ASSET ITEMS	31/12/2011	31/12/2010
10. Cash and balances with central banks	6,494	3,117
60. Receivables	1,656,910,431	1,396,529,127
100. Property, plant and equipment	320,936	220,296
110. Intangible assets	1,191,087	1,146,431
120. Tax assets	32,098,946	36,866,664
a) current	10,955,498	16,294,927
b) deferred	21,143,448	20,571,737
140. Other assets	3,018,413	3,938,037
TOTAL ASSETS	1,693,546,307	1,438,703,672

EQUITY AND LIABILITY ITEMS	31/12/2011	31/12/2010
10. Payables	1,468,368,912	1,153,369,550
70. Tax liabilities	9,705,213	16,809,276
<i>a) current</i>	7,369,749	14,741,619
<i>b) deferred</i>	2,335,464	2,067,657
90. Other liabilities	41,487,297	98,199,699
100. Reserve for termination indemnities	1,948,599	1,928,935
110. Provisions for risks and charges:	5,129,380	7,192,709
<i>a) post-employment benefits</i>		
<i>b) other provisions</i>	5,129,380	7,192,709
120. Share capital	85,000,002	85,000,002
150. Share premium reserve	11,030,364	11,030,364
160. Reserves	61,165,557	55,231,415
170. Valuation reserves	-72,420	-72,420
180. Net profit (loss) for the year	9,783,403	10,014,142
TOTAL LIABILITIES AND EQUITY	1,693,546,307	1,438,703,672

INCOME STATEMENT	31/12/2011	31/12/2010
10. Interest income and similar revenues	47,686,849	38,036,066
20. Interest expense and similar charges	-22,668,613	-11,132,597
NET INTEREST INCOME	25,018,236	26,903,469
30. Commission income	36,383,058	38,204,788
40. Commission expense	-5,891,692	-6,032,621
NET COMMISSION INCOME	30,491,366	32,172,167
60. Net trading income	10,480	-245
INCOME FROM BANKING ACTIVITIES	55,520,082	59,075,391
100. Net impairment adjustments on:	-17,349,428	-26,889,299
<i>a) financial assets</i>	-18,943,665	-28,778,730
<i>b) other financial operations</i>	1,594,237	1,889,431
110. Administrative expenses:	-22,723,022	-18,888,974
<i>a) personnel expenses</i>	-11,840,239	-10,378,770
<i>b) other administrative expenses</i>	-10,882,783	-8,510,204
120. Net adjustments to property, plant and equipment	-88,392	-73,063
130. Net adjustments to intangible assets	-27,792	-23,320
150. Net provisions for risks and charges	24,677	350,800
160. Other operating income and expenses	2,569,865	3,642,444
OPERATING PROFIT (LOSS)	17,925,990	17,193,979
180. Gains (losses) on disposal of investments	2,700	22,571
PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES	17,928,690	17,216,550
190. Income taxes on current operations	-8,145,287	-7,202,408
NET PROFIT (LOSS) OF CURRENT OPERATIONS NET OF INCOME TAXES	9,783,403	10,014,142
NET PROFIT (LOSS) FOR THE YEAR	9,783,403	10,014,142



PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 December 2011

(in euro)

ASSETS	31/12/2011	31/12/2010
B) NON-CURRENT ASSETS		
I Intangible assets		
03 Industrial patent rights and intellectual property rights	1,135	-
Total I	1,135	-
II Property, plant and equipment		
01 Land and buildings	3,048,815	3,119,471
02 Equipment and machinery	249,901	275,596
03 Industrial and commercial equipment	75,023	46,567
04 Other assets	8,884	2,193
05 Assets under construction and advances	7,676	7,676
Total II	3,390,299	3,451,503
III Financial assets		
01 Equity investments		
<i>b) in associated companies</i>	307,481	302,145
<i>d) in other companies</i>	2,199	2,199
Total 01	309,680	304,344
Total III	309,680	304,344
TOTAL NON-CURRENT ASSETS	3,701,114	3,755,847
C) CURRENT ASSETS		
I Inventories		
04 Finished products and merchandise	33,426	59,432
Total I	33,426	59,432
II Receivables		
01 Due from customers		
a) within 12 months	6,493	27,276
Total 01	6,493	27,276
04 Due from Parent Company		
a) within 12 months	116,453	171,583
Total 04	116,453	171,583
04-bis Due from tax authorities		
a) within 12 months	3,520	14,378
Total 04-bis	3,520	14,378
05 Due from others		
a) within 12 months	7,364	3,979
Total 05	7,364	3,979
Total II	133,830	217,216
IV Cash and banks		
03 Cash and cash equivalents on hand	405	356
Total IV	405	356
TOTAL CURRENT ASSETS	167,661	277,004
D) ACCRUED INCOME AND PREPAYMENTS		
01 Accrued income and prepayments	3,290	3,247
TOTAL ACCRUED INCOME AND PREPAYMENTS	3,290	3,247
TOTAL ASSETS	3,872,065	4,036,098

LIABILITIES AND EQUITY	31/12/2011	31/12/2010
A) EQUITY		
I Share capital	2,064,000	2,064,000
III Valuation reserves	192,104	192,104
IV Legal reserve	5,959	5,959
VII Other reserves		
10 Payments to cover losses	232,397	648,105
12 Translation reserve	3	1
Total VII	232,400	648,106
IX Net profit (loss) for the year	(340,042)	(415,708)
TOTAL EQUITY	2,154,421	2,494,461
C) TERMINATION INDEMNITIES	118,023	106,436
D) PAYABLES		
06 Advance payments		
a) within 12 months	-	3,285
Total 06	-	3,285
07 Trade payables		
a) within 12 months	107,146	135,404
Total 07	107,146	135,404
10 Due to associated companies		
a) within 12 months	6,700	43,373
Total 10	6,700	43,373
11 Due to Parent Company		
a) within 12 months	1,438,971	1,213,055
Total 11	1,438,971	1,213,055
12 Taxes payable		
a) within 12 months	14,634	8,200
Total 12	14,634	8,200
13 Due to social security institutions		
a) within 12 months	7,183	7,940
Total 13	7,183	7,940
14 Other payables		
a) within 12 months	20,466	19,523
Total 14	20,466	19,523
TOTAL PAYABLES	1,595,100	1,430,780
E) ACCRUED EXPENSES AND DEFERRED INCOME		
01 Accrued expenses and deferred income	4,521	4,421
TOTAL ACCRUED INCOME AND PREPAYMENTS	4,521	4,421
TOTAL LIABILITIES AND EQUITY	3,872,065	4,036,098



MEMORANDUM ACCOUNTS	31/12/2011	31/12/2010
01 PERSONAL GUARANTEES RECEIVED		
d) Sureties given on our behalf by the Parent Bank	6,733	6,733
Total 1	6,733	6,733
TOTAL MEMORANDUM ACCOUNTS	6,733	6,733

INCOME STATEMENT	31/12/2011	31/12/2010
A) PRODUCTION VALUE		
01 Revenues from sales and services	1,451,082	1,296,269
05 Other revenues and income		
<i>a) other revenues and income</i>	54,155	38,205
Total 05	54,155	38,205
TOTAL PRODUCTION VALUE	1,505,237	1,334,474
B) PRODUCTION COSTS		
06 Raw materials, consumables and goods	(320,357)	(313,975)
07 Services	(782,107)	(797,061)
09 Personnel costs		
<i>a) wages and salaries</i>	(454,972)	(473,459)
<i>b) social security contributions</i>	(139,233)	(148,307)
<i>c) termination indemnities</i>	(27,697)	(26,923)
<i>e) other costs</i>	(778)	(532)
Total 09	(622,680)	(649,221)
10 Depreciation, amortisation and write-downs		
<i>a) amortisation of intangible assets</i>	(1,135)	(3,895)
<i>b) depreciation of property, plant and equipment</i>	(148,544)	(148,992)
Total 10	(149,679)	(152,887)
11 Change in raw materials, consumables and goods	(26,007)	(15,481)
14 Sundry operating costs	(45,414)	(45,954)
TOTAL PRODUCTION COSTS	(1,946,244)	(1,974,579)
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	(441,007)	(640,105)
C) FINANCIAL INCOME AND CHARGES		
17 Interest and other financial charges		
<i>c) versus parent companies</i>	(14,190)	(15,014)
<i>d) versus other companies</i>	(301)	(302)
Total 17	(14,491)	(15,316)
TOTAL FINANCIAL INCOME AND CHARGES	(14,491)	(15,316)
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
18 Revaluations		
<i>a) of equity investments</i>	5,336	68,843
Total 18	5,336	68,843
TOTAL ADJUSTMENTS	5,336	68,843
E) EXTRAORDINARY ITEMS		
20 Income		
<i>b) other extraordinary income</i>	1	1
Total 20	1	1
21 Charges		
<i>c) other extraordinary charges</i>	(248)	(714)
Total 21	(248)	(714)
TOTAL EXTRAORDINARY ITEMS	(247)	(713)
PRE-TAX PROFIT (LOSS)	(450,409)	(587,291)
22 Current income taxes and change in deferred tax assets and liabilities		
Total 22	110,367	171,583
23 NET PROFIT (LOSS)	(340,042)	(415,708)



SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 December 2011

(in euro)

ASSETS	31/12/2011	31/12/2010
A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS	-	-
Of which already called €		
B) NON-CURRENT ASSETS		
I - Intangible assets	-	-
II - Property, plant and equipment		
1) Land and buildings		
1 - owned	62,878,095	59,368,340
5) Assets under construction and advances		
1 - owned	702,753	529,664
Total property, plant and equipment	63,580,848	59,898,004
III - Financial assets		
1) equity investments in		
a) subsidiary companies	20,000	20,000
Total financial assets	20,000	20,000
TOTAL NON-CURRENT ASSETS	63,600,848	59,918,004
C) CURRENT ASSETS		
I - Inventories	-	-
II - Receivables		
1) due from customers		
a) due within 12 months	39,854	45,859
2) due from subsidiary companies		
a) due within 12 months	8,673,863	10,695,489
4 bis) due from tax authorities		
a) due within 12 months	346,376	480,550
4 ter) deferred tax assets		
b) due within 12 months	-	359,594
5) due from others		
a) due within 12 months	2,407,561	2,401,501
Total receivables	11,467,654	13,982,993
III - Financial assets not held as non-current assets	-	-
IV - Cash and banks		
3) cash and cash equivalents on hand	33	-
Total cash and banks	33	-
TOTAL CURRENT ASSETS	11,467,687	13,982,993
D) ACCRUED INCOME AND PREPAYMENTS		
1) accrued income and prepayments	41,221	27,221
TOTAL ACCRUED INCOME AND PREPAYMENTS	41,221	27,221
TOTAL ASSETS	75,109,756	73,928,218

LIABILITIES AND EQUITY	31/12/2011	31/12/2010
A) EQUITY		
I - Share capital	60,000,000	50,000,000
II - Share premium reserve	-	-
III - Valuation reserves	-	-
IV - Legal reserve	2,040,000	2,040,000
V - Statutory reserves	-	-
VI - Reserve for treasury shares	-	-
VII - Other reserves		
d) rounding differences on conversion to euro	-	-1
VIII - Retained earnings	7,423,683	7,786,567
IX - Loss for the year	-2,358,719	-362,883
TOTAL EQUITY	67,104,964	59,463,683
B) RESERVES FOR RISKS AND CHARGES		
2) for taxation; also deferred	772,692	1,545,384
TOTAL RESERVES FOR RISKS AND CHARGES	772,692	1,545,384
C) RESERVE FOR TERMINATION INDEMNITIES	-	-
D) PAYABLES		
7) due to suppliers		
a) due within 12 months	209,274	263,892
9) due to subsidiary companies		
a) due within 12 months	5,682	233,281
b) due beyond 12 months	-	359,594
11) due to parent companies		
a) due within 12 months	7,003,233	12,045,640
12) taxes payable		
a) due within 12 months	1,740	1,189
b) due beyond 12 months	8,814	13,220
TOTAL PAYABLES	7,228,743	12,916,816
E) ACCRUED EXPENSES AND DEFERRED INCOME		
1) Accrued expenses and deferred income	3,357	2,335
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	3,357	2,335
TOTAL LIABILITIES AND EQUITY	75,109,756	73,928,218



MEMORANDUM ACCOUNTS	31/12/2011	31/12/2010
b) Preliminary commitments for the purchase of property outstanding at 31.12	3,700,000	8,200,000
TOTAL MEMORANDUM ACCOUNTS	3,700,000	8,200,000

INCOME STATEMENT	31/12/2011	31/12/2010
A) PRODUCTION VALUE		
1) revenues from sales and services		
e) office rents	1,882,804	876,515
g) office expense reimbursements	81,005	61,034
5) other revenues and income		
c) other revenues	4,499	-
TOTAL PRODUCTION VALUE	1,968,308	937,549
B) PRODUCTION COSTS		
7) for services	533,076	209,806
10) depreciation, amortisation and write-downs		
b) Depreciation of property, plant and equipment	1,438,063	914,174
14) sundry operating costs		
a) other operating costs and charges	168,075	127,822
b) non-deductible charges	77,405	52,669
TOTAL PRODUCTION COSTS	2,216,619	1,304,471
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	-248,311	-366,922
C) FINANCIAL INCOME AND CHARGES		
16) other financial income		
d) other financial income		
2) from parent companies	-	167
17) interest and other financial charges		
b) parent banks	332,167	146,004
c) third parties	65	280
TOTAL FINANCIAL INCOME AND CHARGES	-332,232	-146,117
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
19) Write-downs		
a) of equity investments	1,995,662	-
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	-1,995,662	-
E) EXTRAORDINARY ITEMS		
20) income		
b) other extraordinary income	5,666	20,979
21) charges		
b) other charges	4,324	682
c) taxes relating to prior years	3,926	-
d) rounding differences on conversion to euro	1	-
TOTAL EXTRAORDINARY ITEMS	-2,585	20,297
PRE-TAX PROFIT (LOSS)	-2,578,790	-492,742
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	552,621	642,833
c) Deferred taxes	-772,692	-772,692
23) LOSS OF THE YEAR	-2,358,719	-362,883

Attestation pursuant to art. 154-bis, para. 5 of Decree 58/98 on the separate financial statements.

The undersigned Piero Melazzini as Chairman and Chief Executive Officer and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Decree 58 of 24 February 1998, confirm:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for the formation of the separate financial statements during the course of the period between 1 January 2011 and 31 December 2011.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

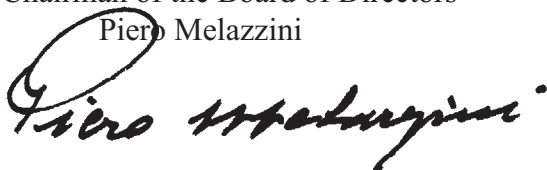
We also confirm that the separate financial statements at 31 December 2011:

- have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
- agree with the balances on the books of account and the accounting entries;
- are able to provide a true and fair view of the issuer's assets and liabilities, results and financial position.

The report on operations contains a reliable analysis of the trend and results of operations, together with a description of the main risks and uncertainties to which the Bank is exposed.

Sondrio, 8 March 2012

The Chairman of the Board of Directors
Piero Melazzini



The Financial Reporting Officer
Maurizio Bertoletti



Relazione della società di revisione ai sensi degli artt. 14 e 16 del D.Lgs. 27 gennaio 2010, n. 39

Ai Soci della
Banca Popolare di Sondrio S.C.p.A.

- 1 Abbiamo svolto la revisione contabile del bilancio d'esercizio, costituito dallo stato patrimoniale, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario e dalla relativa nota integrativa, della Banca Popolare di Sondrio S.C.p.A. chiuso al 31 dicembre 2011. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05, compete agli amministratori della Banca Popolare di Sondrio S.C.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.
- 2 Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se i risultati, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 24 marzo 2011.

- 3 A nostro giudizio, il bilancio d'esercizio della Banca Popolare di Sondrio S.C.p.A. al 31 dicembre 2011 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico e i flussi di cassa della Banca Popolare di Sondrio S.C.p.A. per l'esercizio chiuso a tale data.

- 4 La responsabilità della redazione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari, pubblicata nella sezione "informativa societaria" del sito internet della Banca Popolare di Sondrio S.C.p.A., in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli amministratori della Banca Popolare di Sondrio S.C.p.A.. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e delle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b), dell'art. 123-bis del D.Lgs. 58/98, presentate nella relazione sul governo societario e gli assetti proprietari, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione n. 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b), dell'art. 123-bis del D.Lgs. 58/98 presentate nella relazione sul governo societario e gli assetti proprietari sono coerenti con il bilancio d'esercizio della Banca Popolare di Sondrio S.C.p.A. al 31 dicembre 2011.

Milano, 29 marzo 2012

KPMG S.p.A.



Paolo Valsecchi
Socio

Banca Popolare di Sondrio

**CONSOLIDATED FINANCIAL
STATEMENTS OF THE
BANCA POPOLARE DI SONDRIO
BANKING GROUP**

REPORT ON OPERATIONS

Shareholders,

As parent bank of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Bank:

Banca Popolare di Sondrio s.c.p.a. – Sondrio;

Group companies:

Banca Popolare di Sondrio (SUISSE) SA – Lugano CH.

The parent bank holds all the capital of Banca Popolare di Sondrio (Suisse) SA, 100,000,000 CHF, which is fully paid-up.

Factorit spa – Milan.

The parent bank holds 60.5% of the capital of Factorit spa, 85,000,002 euro.

Sinergia Seconda Srl – Milan.

The parent bank holds all the capital of Sinergia Seconda Srl, 60,000,000 euro.

Equity investments are consolidated as follows:

FULLY CONSOLIDATED SHAREHOLDINGS:

Name	Location	Share capital (in thousands)	% held %
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 100,000	100
Factorit spa	Milano	85,000	60.5
Sinergia Seconda srl	Milano	60,000	100
Pirovano Stelvio spa	Sondrio	2,064	100
Immobiliare San Paolo srl	Tirano	10 *	100
Immobiliare Borgo Palazzo srl	Tirano	10 *	100

* held by Sinergia Seconda srl.



SHAREHOLDINGS CONSOLIDATED UNDER THE EQUITY METHOD:

Name	Location	Share capital (in thousands)	% held %
Alba Leasing spa	Milano	255,000	20.950
Arca Vita spa	Verona	144,000	15.036
Banca della Nuova Terra spa	Milano	45,000	19.500
Polis Fondi SGRPA	Milano	5,200	19.600
Rajna Immobiliare srl	Sondrio	20	50.000
Sofipo SA	Lugano	(CHF) 2,000 *	30.000

* held by Banca Popolare di Sondrio (SUISSE) SA.

GENERAL ECONOMIC CONTEXT

The report on operations accompanying the parent bank's financial statements contains information on the international, Swiss and Italian economic situation during the year 2011.

TERRITORIAL EXPANSION

The Group's expansion policy gives preference to territorial roots and a strong relationship with the communities that it serves. The general financial and economic crisis has confirmed yet again the validity of a strategic decision that we took to give preference to our relationship with the local economies. From this point of view, during the year under review we again continued to strengthen our peripheral network, both in Italy and in Switzerland.

The parent bank inaugurated ten new branches, raising the total to 300. Four new branches in Lombardy, two in Rome, the rest in Veneto, Emilia Romagna, Piedmont and Val d'Aosta, where we now have a presence in the regional capital, Aosta.

Banca Popolare di Sondrio (SUISSE) SA has opened a branch in Samedan, in Upper Engadine, near to those already operating in Saint Moritz, Celerina and Pontresina.

At the end of 2011, the Group had a total of 323 branches.

GROUP PERFORMANCE

Funding

In a difficult general context, to say the least, dominated by tensions and uncertainties, we have seen a gradual depletion of deposits and an increase

in its cost. For our Group a priority was to strengthen the bond of trust with customers, making an equivalent effort to broaden relations, thanks to the refinement of our commercial offer. The results are there to be seen, as shown by the amount of direct customer deposits, which posted 22,679 million, an increase of 8.79%.

Deposits received from banks have risen to 3,560 million, +40.12%, and are featuring strong growth in the exposure to central banks, mainly because of the loan obtained by the parent bank as part of the refinancing of the banking system by the European Central Bank on 21 December 2011.

Indirect customer deposits have risen by 2.36% to 25,613 million, while insurance deposits went up by to 0.33% to 612 million. Indirect deposits from banks amounted to 3,730 million, -8.53%.

Direct customer deposits amounted to 48,904 million, +5.22%. The table «Direct customer deposits» shows the various components in more detail with respect to the Notes.

Analysis of the individual items shows, on an homogeneous basis, that there has been a drop to 15,111 million, -2.95%, in current accounts in euro, which account for 66.63% of the whole direct customer deposits of the Group.

DIRECT CUSTOMER DEPOSITS

(thousands of euro)	2011	% of total	2010	% of total	% change
Savings deposits	623,845	2.75	684,017	3.28	-8.80
Certificates of deposit	27,784	0.12	30,315	0.15	-8.35
Bonds	2,607,679	11.50	1,971,667	9.46	32.26
Repo transactions	1,272,472	5.61	1,747,431	8.38	-27.18
Bank drafts and similar	106,245	0.47	74,380	0.36	42.84
Current accounts	13,309,516	58.69	13,986,308	67.09	-4.84
Time deposit accounts	2,930,083	12.92	769,615	3.69	280.72
Current accounts in foreign currency	1,801,074	7.94	1,583,030	7.59	13.77
Total	22,678,698	100.00	20,846,763	100.00	8.79

TOTAL FUNDING

(thousands of euro)	2011	% of total	2010	% of total	% change
Total direct customer deposits	22,678,698	40.36	20,846,763	39.26	8.79
Total indirect customer deposits	25,613,013	45.58	25,022,949	47.12	2.36
Total insurance-related deposits	612,232	1.09	610,206	1.15	0.33
Total	48,903,943	87.03	46,479,918	87.53	5.22
Due to banks	3,560,383	6.33	2,540,918	4.79	40.12
Indirect funding from banks	3,729,910	6.64	4,077,835	7.68	-8.53
Grand total	56,194,236	100.00	53,098,671	100.00	5.83



Time deposit accounts increased by 280.72% to 2,930 million, thanks to the trend in interest rates. On the other hand, repo transactions have fallen by 27.18% to 1,272 million. Bonds grew to 2,608 million, +32.26%, also thanks to the step-up subordinate Lower Tier II bond issued by the parent bank. Savings deposits fell by 8.80% to 624 million.

Assets under management reported 3,836 million, -12.02%.

Loans

Our Group did not fail to support the economy of the areas that we serve by directing our lending activities according to criteria of responsibility and merit. In this way we have correctly implemented our corporate mission in line with the cooperative status of our bank; we have also worked to manage in the best way possible the risk inherent in lending activities and to price it correctly to obtain a fair return.

In terms of credit quality, due to the general economic situation, which continues to be very negative, we have made substantial adjustments on the basis of our usual conservative valuation criteria.

Loans to customers have grown to 23,669 million, +11.61%, mainly directed at households and businesses resident in the areas we serve.

DUE FROM CUSTOMERS

(thousands of euro)	2011	% of total	2010	% of total	% change
Current accounts	6,789,780	28.69	6,291,307	29.66	7.92
Foreign currency loans	1,785,817	7.54	1,810,391	8.54	-1.36
Advances	445,570	1.88	357,055	1.68	24.79
Advances with recourse	307,879	1.30	260,468	1.23	18.20
Discounted portfolio	12,207	0.05	14,679	0.07	-16.84
Artisan loans	22,176	0.09	24,403	0.12	-9.13
Agricultural loans	31,720	0.13	31,820	0.15	-0.31
Personal loans	111,748	0.47	85,150	0.40	31.24
Other unsecured loans	3,852,322	16.28	3,489,734	16.46	10.39
Mortgage loans	8,130,167	34.36	7,298,486	34.41	11.40
Net non-performing loans	272,597	1.15	207,572	0.98	31.33
Repo transactions	325,505	1.38	6,469	0.03	-
Factoring	1,581,447	6.68	1,329,623	6.27	18.94
Total	23,668,935	100.00	21,207,157	100.00	11.61

Several different technical forms have contributed to varying degrees to the positive trend in loans. The table «Due from customers» shows the various components in more detail and with other criteria with respect to the Notes.

Current account overdrafts increased to 6,790 million, +7.92%. Mortgage loans, which came to 8,130 million, +11.40%, are the main component of customer loans at 34.36%. The other unsecured loans come to 3,852 million, +10.39%. Factoring has gone up substantially to 1,581 million, +18.94%. Foreign currency loans amount to 1,786 million, -1.36%, while advances come to 446 million, +24.79%, and advances subject to collection have gone up to 308 million, +18.20,

As regards credit quality, net non-performing loans, i.e. after writedowns, amounted to 273 million, +31.33%, equal to 1.15% of total loans to customers, versus 0.98% the previous year. This has been determined by the difficult general economic context; in any case, the magnitude of our non-performing loans remains well below the average for the system, indicating a risk profile that is carefully monitored.

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, grew to 378 million euro, +49.62%, or 1.60% of total loans to customers compared with 1.19% in the previous year.

Restructured loans amount to 83 million, +32.17%, as companies have been making more use of loan restructuring procedures in accordance with arts. 67 and 182 of the Bankruptcy Law. Impaired past-due loans calculated according to the new rules issued by the Bank of Italy come to 222 million (-3.29%). In accordance with the terms established by Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that the amount of loans to customers included loans made to central and local government for 58 million, local or state-owned enterprises for 367 million and to various other entities for 179 million.

Portfolio of financial assets

At 31 December 2011, the net interbank position showed a negative amount of 2,086 million; at the end of 2010 we had a negative balance of 1,521 million. The increase in our interbank transactions relates to the significant rise in loans to customers and a decrease in deposits. Despite the tensions registered on the interbank market, the parent bank's treasury did not have any difficulty in its day-to-day operations. To be noted the increase in exposure to central banks.

Our interbank transactions were carried out on the e-MID (electronic deposits market) and on the New MIC (collateralised interbank market) without counterparty risk on account of the guarantee given by the Cassa di Compensazione e Garanzia.



Together, the portfolios of financial assets at 31 December 2011 come to a total of 3,173 million, a decrease of 2.90%. The following table summarises the various amounts:

FINANCIAL ASSETS

(thousands of euro)	2011	2010	% change
Financial assets held for trading (HFT - Held For Trading)	2,167,324	2,818,721	-23.11%
<i>of which, derivatives</i>	102,429	83,101	23.26%
Financial assets at fair value (CFV - Carried at Fair Value)	81,713	91,888	-11.07%
Financial assets available for sale (AFS - Available For Sale)	703,662	106,969	557.82%
Financial assets held to maturity (HTM - Held to Maturity)	220,332	249,304	-11.62%
Hedging derivatives	-	940	-
Total	3,173,031	3,267,822	-2.90%

The overall decline is of 95 million and is mainly due to the sizeable reduction in the HFT portfolio, offset by growth in the AFS portfolio.

In accordance with the terms established by Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that these portfolios included bonds that form part of the sovereign debt (i.e. issued by local and central governments), for a total of 2,208 million. There are no securities issued by peripheral Euro-zone countries.

Financial assets held for trading

Financial assets held for trading (HFT), amounting to 2,167 million as shown in the following table, have decreased by 23.11%:

(thousands of euro)	2011	2010	% change
Floating-rate Italian government securities	1,469,663	2,184,758	-32.73%
Fixed-rate Italian government securities	187,259	121,242	54.45%
Bank bonds	271,591	202,477	34.13%
Bonds of other issuers	37,677	67,951	-44.55%
Securitisations	42,465	98,993	-57.10%
Variable-yield securities and mutual funds	56,240	60,199	-6.58%
Net book value of derivative contracts	102,429	83,101	23.26%
Total	2,167,324	2,818,721	-23.11%

The HFT portfolio, the composition of which continued to be made up principally of CCTs, even if they have decreased as a result of sales during the year, has been affected by the sovereign debt crisis, which hit the prices of Government bonds. The overall result is therefore negative for 94.030 million, compared with the 2010 balance, also negative, of 59.541 million «Net trading income», which refers to total fixed-yield securities, includes net trading profits of 8.484 million, losses of 86.509 million and gains of 0.836 million. To these we have to add 2.832 million of variable-yield securities and mutual funds, gains of 0.303 million and net losses on these securities of 19.976 million.

Last year, on the other hand, the portfolio included: gains of 8.924 million; net profits of 5.143 million and losses of 73.608 million.

The composition of the HFT portfolio confirms the prevailing presence of CCTs, which, even if declining, still account for 67.81% of it. Bonds amounted to 309 million, +14.36%, of which bank bonds accounted for 272 million. Securities that are part of securitisations are all senior and have fallen to 42 million, because of partial reimbursements and sales. As regards fixed-rate Italian government securities, 187 million, they were made up of BTPs, which have increased as a result of purchases. Equities and mutual funds have gone down to 56 million, though this is marginal, whereas derivatives rise by 23.26% to 102 million.

Financial assets carried at fair value

Financial assets carried at fair value (CFV) come to 82 million, -11.07%, mainly because of the disposal of units in a mutual fund. They are made up of mutual funds and sicavs of various kinds for 55 million and CCTs for 27 million.

Financial assets available for sale

The portfolio of financial assets available for sale (AFS) amount to 704 million, an increase of 597 million, +557.82%.

This increase is due to the decision to include in this portfolio securities intended for repurchase agreements with customers and therefore held with the idea that they will not be sold in the short term. This at least partly in order to contain the impact on the income statement of the volatility posted by the securities portfolio because of the turmoil in financial markets. It also includes 68 million of variable-yield securities and 60 million in mutual funds. Negative valuation reserves have been booked to equity for losses, mainly on Italian government securities, of 43.56 million, net of tax.

Financial assets held to maturity

At 31 December 2011, financial assets held to maturity (HTM) amounts to 220 million, -11.62 due to reimbursements.

We would remind you, with regards to the content of the portfolio, that in 2008 the anomalous performance of equity and bond markets persuaded the Bank to take advantage of the amendment to IAS 39, issued by the International Accounting Standards Board (IASB) on 13 October 2008 and endorsed by the European Commission with Regulation (EC) 1004/2008 of 15 October 2008, which amended Regulation (EC) 1725/2003.

In exceptional circumstances, this measure allows companies to disregard the ban on transferring financial assets (apart from derivatives) from the category of those designated at *fair value* through profit and loss to another category where securities are booked at amortised cost. As a result, we transferred from the HFT portfolio to the HTM portfolio unlisted bonds that were illiquid and not expected to be sold. These had a par value of 243 million and were carried at 233 million, whereas their *fair value* at 31 December 2008 was 193 million, generating a theoretical loss, prior to the tax effect, of 40 million.

At 31 December 2011, these securities amount to 163 million, with a decrease of 17.83% following reimbursements compared with 199 million in the previous year. They have a *fair value* of 143 million. The theoretical loss, before the tax effect, therefore amounts to 20 million. The BPS stock, which is listed on the MTA, the screen-based market, *Blue Chips* segment, of the Italian Stock Exchange, saw its price improved by 0.98%, compared with -25.20% of the FTSE MIB index and, above all, with -45.12% of the banking industry index

Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Sinergia Seconda srl did not carry out any transactions in their own shares or those of the parent bank.

The other consolidated companies did not carry out any transactions in their own or the parent bank's shares either.

There are no cross-holdings among the companies included within the scope of consolidation.

EQUITY INVESTMENTS

Equity investments amount to 128.375 million, with a rise of 5.46%. The reader is referred to the report accompanying the parent bank's financial statements and to the notes Part B, sections 10 for the related comments.

Related party transactions

Related party transactions, as identified in accordance with IAS 24 and with the «Regulation on related party transactions», issued by CONSOB with resolution 17221 and subsequent amendments, form part of the Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2011, the parent bank's corporate bodies decided the following transactions of greater relevance:

- Alba Leasing spa, associated company; granting of a guarantee of € 12,675,000 repayable on demand; resolution of 25/01/2011;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal/granting of lines of credit totalling € 718,640,197 repayable on demand; resolution of 11/03/2011;
- Banca della Nuova Terra spa, associated company; renewal/granting of lines of credit totalling € 188,000,000 repayable on demand; resolution of 11/03/2011;
- Alba Leasing spa, associated company; granting of an overdraft facility of € 100,000,000 repayable on demand; resolution of 11/03/2011;
- Alba Leasing spa, associated company; granting of an overdraft facility of € 50,000,000 repayable on 01/08/2012 and another for the same amount repayable on demand; resolution of 26/07/2011;
- Falck spa, indirectly held by Federico Falck, a director of the Bank; granting of a repo line of credit of € 1,500,000 repayable on demand; resolution of 29/08/2011. The prescribed information document was published in connection with this transaction;
- Factorit spa, subsidiary; granting of an overdraft facility of € 200,000,000 repayable on demand; resolution of 26/09/2011;
- Alba Leasing spa, associated company; granting of an overdraft facility of € 15,000,000 repayable on 15/03/2012; resolution of 6/10/2011;
- Factorit spa, subsidiary; granting of an overdraft facility of € 100,000,000 repayable on demand; resolution of 21/12/2011;
- Factorit spa, subsidiary; granting of an overdraft facility of € 270,000,000 repayable on demand and of a financial credit limit for guarantees to be given to residents of € 15,000,000 repayable on demand; resolution of 30/12/2011.



During 2011, no transactions of greater or lesser relevance were carried out with related parties, which could have had a significant impact on the Group's balance sheet or results. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Group's balance sheet or results with regard to related party transactions carried out during 2010; in any case none were atypical, unusual or not on market terms.

In relation with the Consob communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Group's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related party transactions» includes a table that summarises these figures.

During 2011 and the current year, there have not been any positions or transactions deriving from atypical or unusual operations. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	2011	2010	2011	2010
ASSETS'				
Due from banks	48,023	67,000	-	-
Due from customers	383,768	335,763	58	242
Other financial assets	82,730	11,839	-	-
LIABILITIES AND EQUITY				
Due to banks	-	-	-	-
Due to customers	16,138	7,169	627	1,344
Other financial liabilities	-	-	-	-
GUARANTEES AND COMMITMENTS				
Guarantees given	48,906	48,202	1,699	1,654
Commitments	52,371	2,371	-	-

GOODWILL

Following the parent bank's acquisition of control of Factorit spa – accounted for in accordance with IFRS 3 – in the previous year, the measurement and recognition of goodwill was performed as required by IAS 36. This goodwill amounts to 8.959 million, of which 7.847 million relates to the acquisition of Factorit spa and 1.112 million to the absorption of InFactor spa by Factorit spa in 1999. From a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the original amounts. The criteria used in the impairment test are explained in part B of the notes. Together, the evaluation processes did not highlight any need to write down the balance of goodwill on the books.

HUMAN RESOURCES

At the end of 2011 the Group had 3,042 employees, an increase of 2.29% compared with 2,974 at the end of the previous year.

This rise is due to the territorial expansion of the parent bank.

The personnel department has been heavily involved in selecting, training and managing the staff to ensure that the necessary professional resources are available for the Group's operational development and growth.

A breakdown of personnel by individual category is contained in the notes.

CAPITAL AND RESERVES

At 31 December 2011 capital and reserves amounted to a 1,822.663 million, with a decrease of 21.461 million -1.16% – including net profit for the year. The share capital, consisting of 308,147,985 ordinary shares with par value of 3 euro, is unchanged at 924.444 million. The share premium reserve, 172.511 million, decreased by 1.03% because of the allocation of losses resulting from trading in treasury shares of 1.804 million. The reserves rose to 720,808 million (+12.24%) due to allocation of a large part of the net profit for 2011. The valuation reserves are negative for 43.373 million, having been positive for 0.806 million, because of the losses reported in the assets held for sale portfolio, mainly due to the sale of Italian Government bonds.

As regards treasury shares, it is worth noting that at the end of 2011 the parent bank held 3,063,000 shares worth 26.079 million compared with 32.821 at the end of 2010. Purchases were made using the specific provision of 87 million shown in the financial statements under reserves. During the year, trading aimed at favouring the circulation of our shares included purchases of 17,000 shares, for a total of 51,000 euro at par (0.006% of the share capital) and sales of 804,000 shares, for a total of 2,412,000 euro at par (0.261% of the share capital). The market value of purchases was 0.103 million;

that of sales 5.041 million. These trades resulted in a loss of 1.804 million (at average negotiation price), which was booked to equity.

The capital ratios by current regulation of the Bank of Italy show our capital adequacy. The Group's solvency ratio (Total Capital Ratio) is expected at 10.33%, compared with the minimum required of 8%, while Tier 1 Capital Ratio is at 7.77%.

The relationship between capital and the principal financial parameters is summarised below:

- *capital/direct customer deposits*
8.04%, with respect to 8.85%;
- *capital/customer loans*
7.70%, with respect to 8.70%;
- *capital/financial assets*
57.44%, with respect to 56.43%;
- *capital/total assets*
6.22%, with respect to 7.02%;
- *net non-performing loans/capital*
14.96%, with respect to 11.26%.

RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles «net profit for the year» and «equity» as shown in the parent bank's financial statements and the equivalent figures in the consolidated financial statements.

RECONCILIATION OF THE EQUITY AND NET PROFIT FOR THE YEAR REPORTED BY THE PARENT BANK WITH THE CONSOLIDATED FINANCIAL STATEMENTS

(thousands of euro)

	Equity	of which: Net profit for the year
Equity of the parent bank as of 31/12/2011	1,676,473	57,284
Consolidation adjustments	13,054	13,054
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	133,914	2,066
– companies valued using the equity method	(778)	1,948
Balance as of 31/12/2011, as reported in the consolidated financial statements	1,822,663	74,352

INCOME STATEMENT

The negative consequences of the situation of general uncertainty and the continuing weakness in the economy have affected the Group's operations, with these negative effects being amplified by the sovereign debt crisis that hit Italy directly.

For these reasons, our Group could not achieve the desired results. The net profit for the year pertaining to the parent bank amounted to 74.352 million, with a decline of 44.99%.

The comparison with the previous year also has to take into account the fact that 2010 benefited from more than 58 million of extraordinary items from the partial sale of the interest in Arca Vita spa and the total sale of Arca Assicurazioni spa. In addition to the lack of significant extraordinary income, other items that contributed to the decline in net profit were net trading result and loan writedowns, the former due to the negative performance of financial markets and the latter due to the effects of current crisis.

Net interest income has risen from 426.644 million to 502.352 million, +17.75%, benefiting from the positive trend in rates, despite the marked increase in funding cost, especially in the latter part of the year. Net interest income benefited from a good increase in volumes handled, as well as from the steps taken to ensure a fair remuneration for the risks taken on. In addition to meeting the principles of sound and proper management, these steps became even more important for the liquidity crisis that hit the banking system and led to the depletion of deposits, which are a bank's raw material.

Net commission income has risen from 253.663 million to 281.476 million, +10.96%.

Dividends went from 3.397 to 3.757 million, +10.6%. The result of financial activities is negative for 67.247 million, versus a negative result of 34.726 million the previous year. Above all, it feels the effects of the sovereign debt crisis, which lowered the price of Italian government bonds and meant booking sizeable losses on them.

Within financial activities, the net trading result, which was already negative for 34.955 million, fell to 65.121 million, essentially because of losses on securities. Analysing its component parts, trading income on securities has increased from 5.143 million to 11.316 million. The difference between gains and losses is negative for 105.346 million, versus a negative balance of 64.684 million the previous year; exchange gains and differences have passed from 15.355 to 15.158 million; unrealized gains on foreign currency came to 11.973 million, on 7.919 million. Lastly, derivatives come to 1.778 million, from 1.312 million.

The result of financial assets available for sale and held to maturity (HTM) is positive for 4.527 million, mainly thanks to the gain arisen on the sale of the interest held in Centrobanca spa of 3.027 million. Financial assets carried at fair value, which last year made a profit of +0.806 million, was negative for 6.641 million.

Income from banking activities went up from 648.978 to 720.338

million, +11%. Analysing the elements making up this item, net interest income passed from 65.74% to 69.74%, while the weighting of trading profits and dividends has fallen from 34.26% to 30.26%.

The persistently unfavourable economic environment, which in previous years had a negative impact on credit risk, is also reflected in the loan loss provisions, which remain at a high level.

Net adjustments to loans, financial assets available for sale and those held to maturity came to 181.783 million compared with 141.061 million (+28.87%). Of this item, the element relating to customer loans went from 135.147 to 175.723 million, +30.02%, reflecting both the difficulties generated by the ongoing negative cycle in the economy and the prudent valuations made by the bank's credit committees. Impairment adjustments to securities have gone from 5.106 to 7.154 million and concerns certain listed equities and mutual funds for which an objective impairment has been ascertained comparing market prices with their original book values, while adjustments

SUMMARY CONSOLIDATED INCOME STATEMENT

	2011	2010	(+/-)	% change
Net interest income	502,352	426,644	75,708	17.75%
Dividends	3,757	3,397	360	10.60%
Net commission income	281,476	253,663	27,813	10.96%
Results of financial activities	-67,247	-34,726	-32,521	-
Income from banking activities	720,338	648,978	71,360	11.00%
Net adjustments to loans and financial assets	-181,783	-141,061	-40,722	28.87%
Balance of financial management	538,555	507,917	30,638	6.03%
Personnel costs	-213,757	-203,279	-10,478	5.15%
Other administrative expenses	-201,585	-184,463	-17,122	9.28%
Other operating income/expense	45,017	41,868	3,149	7.52%
Net provisions for risks and charges	3,795	2,430	1,365	56.17%
Adjustments to property, plant and equipment and intangible assets	-27,983	-26,004	-1,979	7.61%
Operating costs	-394,513	-369,448	-25,065	6.78%
Operating profit (loss)	144,042	138,469	5,573	4.02%
Share of profit (loss) of equity investments and other investments	2,915	59,318	-56,403	-
Profit (loss) before tax	146,957	197,787	-50,830	-25.70%
Income taxes on current operations	-68,741	-60,988	-7,753	12.71%
Net profit (loss)	78,216	136,799	-58,583	-42.82%
Profit pertaining to minority interests	-3,864	-1,650	-2,214	-
Profit pertaining to the parent bank	74,352	135,149	-60,797	-44.99%

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.

on other financial transactions amount to 1.094 million for the writedown of endorsement credits. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has therefore gone up from 0.64% to 0.74%.

The balance of financial management therefore comes to 538.555 million, +6.03%.

Operating costs amounted to 394.513 million, +6.78%. Personnel expenses grow from 203.279 to 213.757 million, +5.15%. Other administrative expenses are up from 184.463 to 201.585 million, +9.28%. This increase, though generalised, concerns in particular rents, IT and data processing costs, taxes because of the increases that took place during the year and costs for deferred charges. Adjustments to property, plant and equipment and amortisation of software amounted to 27.983 million, +7.61%.

Other operating income, net of other operating expenses, resulted in a positive balance of 45,017 million, +7.52%. This trend is due to a decrease in operating income, -22.97%, and by a reduction of 73.80% in operating expenses, both due to a contraction in consolidation adjustments. The largest item in this caption is tax recoveries, while the related cost is included in other expenses.

Net movements on provisions for risks and charges amount to 3,795 million because of the difference between the provisions made during the year and the release and use of provisions made in prior years. The ratio of operating costs/income from banking activities was 54.77%, compared with 56.93%.

The operating profit therefore came to 144.042 million, +4.02%.

Profits/losses on equity and other investments show a positive balance of 2.915 million compared with the positive amount of 59.318 million the previous year. This derives from: for 0.801 million from the realised gains on the sale of the interest in B. & A. Broker spa; for 2.125 million from the positive contribution made by equity investments on consolidation; for 0.005 million from write-backs; and for 0.168 million from losses on disposal of property, plant and equipment. The result of ordinary operations reached 146.957 million, -25.70%. After deducting income taxes of 68.741 million, up by 12.71%, the net profit for the year comes to 78.216 million, which, after deducting the net profit pertaining to minority interests of 3.864 million, comes to net profit pertaining to the parent bank of 74.352 million, -44.99%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, comes to 46.78% compared with 30.84% the previous year, which benefited from the special tax regime applied to gains on sales of equity investments.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the parent bank's financial statements for information on events that took place after 31



December 2011. There is nothing worth noting with regard to Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Sinergia Seconda srl.

As for the outlook, the current situation seems to suggest that there may be a gradual stabilisation of the global financial situation. On the other hand, the banking system will have to cope with a situation of economic difficulty for a while yet, which will have a knock-on effect on the quality of credit. For our Group, the net interest income is expected basically stable, while the commissions are estimated to increase slightly. The result of financial activities should invert the trend of the last two years, thanks to the recovery in Italian government bond prices. The credit quality, and therefore the amount of writedowns and provisions, will inevitably be linked to the persistent unfavourable trend in the national economy. The rationalization of the cost structure, which has been going on for years, should help keep them under control. As a result, the bottom line ought to grow at a reasonable rate.

Sondrio, 9 March 2012

THE BOARD OF DIRECTORS

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2011**



CONSOLIDATED BALANCE SHEET

(thousands of euro)

ASSETS ITEMS	31-12-2011	31-12-2010
10. CASH AND BALANCES WITH CENTRAL BANKS	121,014	127,102
20. FINANCIAL ASSETS HELD FOR TRADING	2,167,324	2,818,721
30. FINANCIAL ASSETS CARRIED AT FAIR VALUE	81,713	91,888
40. FINANCIAL ASSETS AVAILABLE FOR SALE	703,663	106,969
50. FINANCIAL ASSETS HELD TO MATURITY	220,332	249,304
60. DUE FROM BANKS	1,474,093	1,019,729
70. DUE FROM CUSTOMERS	23,668,935	21,207,157
80. HEDGING DERIVATIVES	-	940
100. EQUITY INVESTMENTS	128,375	121,731
120. PROPERTY, PLANT AND EQUIPMENT	224,634	219,294
130. INTANGIBLE ASSETS	20,550	20,938
of which:		
- Goodwill	8,959	8,959
140. TAX ASSETS	118,655	93,103
a) current	4,409	22,074
b) deferred	114,246	71,029
160. OTHER ASSETS	353,626	205,508
TOTAL ASSETS	29,282,914	26,282,384

CHAIRMAN
Piero Melazzini

THE BOARD OF STATUTORY AUDITORS
Egidio Alessandri, Chairman
Pio Bersani - Piergiuseppe Forni



EQUITY AND LIABILITY ITEMS		31-12-2011	31-12-2010
10.	DUE TO BANKS	3,560,383	2,540,918
20.	DUE TO CUSTOMERS	19,936,990	18,770,401
30.	DEBT SECURITIES IN ISSUE	2,741,708	2,076,362
40.	FINANCIAL LIABILITIES HELD FOR TRADING	104,875	100,517
60.	HEDGING DERIVATIVES	47,110	23,601
80.	TAX LIABILITIES	41,574	23,319
	a) current	12,462	-
	b) deferred	29,112	23,319
100.	OTHER LIABILITIES	806,369	679,714
110.	RESERVE FOR TERMINATION INDEMNITIES	38,067	37,769
120.	PROVISIONS FOR RISKS AND CHARGES	117,246	121,982
	a) post-employment benefits	77,831	77,216
	b) other provisions	39,415	44,766
140.	VALUATION RESERVES	(43,373)	806
170.	RESERVES	720,808	642,231
180.	SHARE PREMIUM RESERVE	172,511	174,315
190.	SHARE CAPITAL	924,444	924,444
200.	TREASURY SHARES (-)	(26,079)	(32,821)
210.	EQUITY PERTAINING TO MINORITY INTERESTS (+/-)	65,929	63,677
220.	NET PROFIT (LOSS) FOR THE YEAR	74,352	135,149
TOTAL LIABILITIES AND EQUITY		29,282,914	26,282,384

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti



CONSOLIDATED INCOME STATEMENT

(thousands of euro)

ITEMS	2011	2010
10. INTEREST INCOME AND SIMILAR REVENUES	832,906	633,171
20. INTEREST EXPENSE AND SIMILAR CHARGES	(330,554)	(206,527)
30. NET INTEREST INCOME	502,352	426,644
40. COMMISSION INCOME	302,995	271,009
50. COMMISSION EXPENSE	(21,519)	(17,346)
60. NET COMMISSION INCOME	281,476	253,663
70. DIVIDENDS AND SIMILAR INCOME	3,757	3,397
80. NET TRADING INCOME	(65,121)	(34,955)
90. NET HEDGING GAINS (LOSSES)	(12)	(217)
100. GAINS/LOSSES ON DISPOSAL OR REPURCHASE OF:	4,527	(360)
b) financial assets available for sale	2,959	(327)
c) financial assets held to maturity	124	-
d) financial liabilities	1,444	(33)
110. NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE	(6,641)	806
120. INCOME FROM BANKING ACTIVITIES	720,338	648,978
130. NET IMPAIRMENT ADJUSTMENTS:	(181,783)	(141,061)
a) loans	(175,723)	(135,147)
b) financial assets available for sale	(7,154)	(5,106)
d) other financial transactions	1,094	(808)
140. BALANCE OF FINANCIAL MANAGEMENT	538,555	507,917
170. BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT	538,555	507,917
180. ADMINISTRATIVE EXPENSES:	(415,342)	(387,742)
a) personnel expenses	(213,757)	(203,279)
b) other administrative expenses	(201,585)	(184,463)
190. NET PROVISIONS FOR RISKS AND CHARGES	3,795	2,430
200. NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(16,853)	(16,027)
210. NET ADJUSTMENTS TO INTANGIBLE ASSETS	(11,130)	(9,977)
220. OTHER OPERATING CHARGES/INCOME	45,017	41,868
230. OPERATING COSTS	(394,513)	(369,448)
240. SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS	2,931	59,486
270. PROFIT/LOSS FROM DISPOSAL OF INVESTMENTS	(16)	(168)
280. PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES	146,957	197,787
290. INCOME TAXES ON CURRENT OPERATIONS	(68,741)	(60,988)
300. PROFIT (LOSS) ON CURRENT OPERATIONS AFTER INCOME TAXES	78,216	136,799
320. NET PROFIT (LOSS) FOR THE YEAR	78,216	136,799
330. NET PROFIT (LOSS) FOR THE YEAR PERTAINING TO MINORITY INTERESTS	(3,864)	(1,650)
340. NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT BANK	74,352	135,149

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items	2011	2010
10. Net profit (loss) for the year	78,216	136,799
Other income items net of income taxes		
20. Financial assets available for sale	(44,179)	1,127
110. Total other income items net of income taxes	(44,179)	1,127
120. Comprehensive income (item 10+110)	34,037	137,926
130. Consolidated comprehensive income pertaining to minority interests	(3,864)	(1,650)
140. Consolidated comprehensive income pertaining to the parent bank	30,173	136,276



STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2010	Change in opening balances	Opening balance at 1.1.2011	Allocation of prior year results		Change in reserves
				Reserves	Dividends and other allocations	
Share capital						
a) ordinary shares	958,019	-	958,019	-	-	-
b) other shares	-	-	-	-	-	-
Share premium reserve	178,672	-	178,672	-	-	-
Reserves						
a) from earnings	660,789	-	660,789	70,787	-	8,244
b) other	5,602	-	5,602	-	-	(416)
Valuation reserves	741	-	741	-	-	-
Equity instruments	-	-	-	-	-	-
Treasury shares	(32,821)	-	(32,821)	-	-	-
Net profit for the year	136,799	-	136,799	(70,787)	(66,012)	-
Equity attributable to the group	1,844,124	-	1,844,124	-	(64,400)	7,828
Equity attributable to minority interests	63,677	-	63,677	-	(1,612)	-

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2009	Change in opening balances	Opening balance at 1.1.2010	Allocation of prior year results		Change in reserves
				Reserves	Dividends and other allocations	
Share capital						
a) ordinary shares	924,444	-	924,444	-	-	-
b) other shares	-	-	-	-	-	-
Share premium reserve	176,085	-	176,085	-	-	-
Reserves						
a) from earnings	541,065	-	541,065	100,110	-	(2,589)
b) other	-	-	-	-	-	3,645
Valuation reserves	(321)	-	(321)	-	-	-
Equity instruments	-	-	-	-	-	-
Treasury shares	(40,211)	-	(40,211)	-	-	-
Net profit for the year	201,064	-	201,064	(100,110)	(100,954)	-
Equity attributable to the group	1,802,126	-	1,802,126	-	(100,954)	1,056
Equity attributable to minority interests	-	-	-	-	-	-

The 2010 figures have been adjusted for comparison purposes.

Changes during the year

Equity transactions							Comprehensive income	Equity attributable to the group at 31.12.2011	Equity pertaining to minority interests at 31.12.2011
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives of treasury shares	Stock options				
-	-	-	-	-	-	-	924,444	33,575	
-	-	-	-	-	-	-	-	-	
(1,804)	-	-	-	-	-	-	172,511	4,357	
-	-	-	-	-	-	-	717,579	22,241	
-	-	-	-	-	-	-	3,229	1,957	
-	-	-	-	-	-	(44,179)	(43,373)	(65)	
-	-	-	-	-	-	-	-	-	
6,845	(103)	-	-	-	-	-	(26,079)	-	
-	-	-	-	-	-	78,216	74,352	3,864	
5,041	(103)	-	-	-	-	30,173	1,822,663	-	
-	-	-	-	-	-	3,864	-	65,929	

Changes during the year

Equity transactions							Comprehensive income	Equity attributable to the group at 31.12.2010	Equity pertaining to minority interests at 31.12.2010
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives of treasury shares	Stock options				
-	-	-	-	-	-	-	924,444	33,575	
-	-	-	-	-	-	-	-	-	
(1,770)	-	-	-	-	-	-	174,315	4,357	
-	-	-	-	-	-	-	638,586	22,203	
-	-	-	-	-	-	-	3,645	1,957	
-	-	-	-	-	-	1,127	806	(65)	
-	-	-	-	-	-	-	-	-	
9,920	(2,530)	-	-	-	-	-	(32,821)	-	
-	-	-	-	-	-	135,149	135,149	1,650	
8,150	(2,530)	-	-	-	-	136,276	1,844,124	-	
-	-	-	-	-	-	1,650	-	63,677	



CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	31-12-2011	31-12-2010
A. OPERATING ACTIVITIES		
1. Cash generated from operations	459,522	359,507
- net profit for the year (+/-)	74,352	135,149
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	101,177	56,958
- net hedging gains (losses) (-/+)	12	217
- net impairment adjustments (+/-)	194,827	124,143
- net adjustments to property, plant and equipment and intangible assets (+/-)	27,983	26,005
- provisions for risks and charges and other costs/revenues (+/-)	1,922	-870
- unpaid taxes and duties (+)	68,741	60,988
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	-	-
- other adjustments (+/-)	-9,492	-43,083
2. Cash generated/absorbed by financial assets	-3,155,316	-1,648,535
- financial assets held for trading	601,830	42,334
- financial assets carried at fair value	3,648	7,427
- financial assets available for sale	-646,532	2,535
- due from banks: sight	-54,680	-70,406
- due from banks: other receivables	-376,185	220,609
- due from customers	-2,558,354	-1,947,561
- other assets	-125,043	96,527
3. Cash generated/absorbed by financial liabilities	2,764,072	1,456,990
- due to banks: sight	-546,838	435,817
- due to banks: other payables	1,545,923	-501,316
- customer deposits	1,097,984	1,038,298
- debt securities in issue	659,647	318,808
- financial liabilities held for trading	-21,708	15,543
- financial liabilities carried at fair value	-	-
- other liabilities	29,064	149,840
Net cash generated/absorbed by operating activities	68,278	167,962

	31-12-2011	31-12-2010
B. INVESTING ACTIVITIES		
1. Cash generated by	25,458	137,091
- sales of equity investments	1,166	106,964
- dividends collected from equity investments	176	-
- sales and reimbursements of financial assets held to maturity	24,000	29,500
- sales of property, plant and equipment	116	627
- sales of intangible assets	-	-
- sale of business divisions	-	-
2. Cash absorbed by	-40,329	-214,232
- purchases of equity investments	-1,609	-24,780
- purchases of financial assets held to maturity	-6,377	-12,779
- purchases of property, plant and equipment	-21,639	-60,172
- purchases of intangible assets	-10,704	-13,651
- purchases of business divisions	-	-102,850
Net cash generated/absorbed by investing activities	-14,871	-77,141
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	4,938	5,620
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	-66,012	-100,953
Net cash generated/absorbed by financing activities	-61,074	-95,333
NET CASH GENERATED/ABSORBED IN THE YEAR	-7,667	-4,512

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31-12-2011	31-12-2010
Cash and balances with central banks at beginning of year	127,102	122,898
Total net cash generated/absorbed in the year	-7,667	-4,512
Cash and balances with central banks: effect of change in exchange rates	1,579	8,716
Cash and balances with central banks at end of year	121,014	127,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with International Financial Reporting Standards*

Banca Popolare di Sondrio s.c.p.a. declares that these consolidated financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2011 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4 para 1 and 2 of Decree 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation 1606/2002 concerning international accounting standards».

The format of the consolidated financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by D.Lgs 38/2005, 38/2005, taking account of the update issued on 18 November 2009.

Section 2 *Basis of preparation*

The financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern: The financial statements have been prepared on a going concern basis and, accordingly, assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention, that this assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations.

Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, and even taking into account the difficulties encountered by sovereign debt securities in recent months, management is of the opinion that there are no critical areas that could negatively influence the Group's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.

2) Accruals basis: Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.

3) Consistency of presentation: Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless change is required by an international accounting standard or related interpretation, or unless it is clear that a different presentation or classification would be more appropriate for the meaningful and reliable presentation of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, unless this is not feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 (1st update of 18.11.2009).



- 4) Significance and grouping: Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
- 5) No offsetting of balances: Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
- 6) Comparative information: Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements for the current year.

The financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 87/92, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.), the audit (art. 2409-bis c.c.).

The figures in the notes are shown in thousands of euro.

Section 3 *Scope of consolidation and methodology*

The consolidated financial statements represent the economic and financial position of the Banca Popolare di Sondrio banking group as of and for the year ended 31.12.2011; they comprise the financial statements of the parent bank, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.A. and Sinergia Seconda Srl, and those companies in which the parent bank holds, directly or indirectly, the majority of voting rights.

The following companies have been consolidated on a line-by-line basis:

Name	Location	Type of relationship ⁽¹⁾	Share capital (in thousands)	% held %	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 100,000	100	100
Factorit S.p.a.	Milano	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milano	1	60,000	100	100
Pirovano Stelvio S.p.a.	Sondrio	1	2,064	100	100
Immobiliare San Paolo S.r.l.	Tirano	1	10*	100	100
Immobiliare Borgo Palazzo S.r.l.	Tirano	1	10*	100	100

⁽¹⁾ 1 = majority of voting rights at ordinary shareholders' meeting.

* held by Sinergia Seconda S.r.l.

The joint venture shown below is valued at equity (IAS 31):

Name	Location	Type of relationship ⁽¹⁾	Share capital (in thousands)	% held %	% of votes
Rajna Immobiliare srl	Sondrio	7	20	50	50

⁽¹⁾ 7 = joint control.

The scope of consolidation also includes the equity investments where the Parent Bank exercises a significant influence in that the shareholding is between 20% and 50%; or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

- a) the Group has a representative on the Board of Directors or the equivalent body of the affiliate;

- b) the Bank takes part in the decision-making process, including decisions regarding dividends;
- c) there are significant transactions between the parent company and the affiliate;
- d) there is an exchange of managers;
- e) essential technical information if being provided.

These holdings are valued using the equity method, except for insignificant interests which are valued at cost.

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the year pertaining to the bank is shown in a specific item in the income statement.

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% of votes
Alba Leasing S.p.a.	Milano	255,000	20.950
Arca Vita S.p.a.	Verona	144,000	15.036
Banca della Nuova Terra S.p.a.	Milano	45,000	19.500
Polis Fondi Srgpa	Milano	5,200	19.600
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milano	75	33.333
Sofipo S.A.	Lugano	(CHF) 2,000*	30
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27
Sifas S.p.a.	Bolzano	1,209**	21.614

* held by Banca Popolare di Sondrio (Suisse) SA

** held by Pirovano Stelvio S.p.a.

With line-by-line consolidation, the book value of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the group.

Companies in which the bank does not have an investment, but for which it has received pledged voting shares are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits.

Translation of financial statements in currencies other than the euro

The financial statements of Banca Popolare di Sondrio (Suisse) SA are translated into euro at the official year-end exchange rate for balance sheet items, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation of the financial statements are booked to reserves.

Section 4 *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 9/3/2012 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.



Section 5 *Other aspects*

The accounting policies applied during the year under review are consistent with those of the previous year.

The financial statements, accompanied by the directors' report on operations, consist of the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the financial statements.

Preparing financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets, on the basis of business continuity and excluding forced sales of assets. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements. The bank and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2011, as required by prevailing accounting standards and relevant regulation. These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The outcome of this work supports the carrying amount of these items at 31 December 2011. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, featuring abnormal volatility in all financial measures used for valuation purposes, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used for verifying the values mentioned above have been heavily affected by the particularly uncertain macroeconomic and market environment which could, like in recent months, experience currently unforeseeable rapid changes, with a consequent impact, including materially, on the amounts reported in the financial statements at 31 December 2011.

The financial statements are audited by KPMG spa in accordance with the shareholders' resolution of 29 March 2008 which appointed them as auditors for the nine year period from 2008 to 2016.

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

1. Financial assets held for trading

Classification

This caption comprises fixed-yield and variable-yield securities and units in mutual funds held for trading. It also includes derivative contracts with a positive fair value, excluding hedges but including those recorded separately from the underlying structured financial instrument, when the requirements for making this distinction are met. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index; it is settled on maturity and requires a limited initial net investment. A derivative is separated from a complex financial instrument when its economic characteristics and risks are not strictly related to the characteristics of the underlying contract, when the embedded instruments comply with the definition of a derivative even after separation, and the hybrid instruments to which they belong are not measured at fair value through the income statement.

Recognition

Assets held for trading are recorded at the settlement date with reference to their fair value, usually represented by the consideration paid, while the transaction costs and revenues are reflected directly in the income statement.

Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recording, trading financial instruments are stated at their fair value at the reference date. With regard to instruments listed on active markets, fair value is represented by their official bid price at the close of trading, while the fair value of instruments not listed on active markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If the fair value of equity instruments cannot be determined on a reliable basis, they are stated at cost.

Recognition of components affecting the income statement

The components of income generated by financial instruments held for trading are recognised in the income statement for the period in which they arise as «Net trading income». An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. The original value is not reinstated, even if the losses no longer exist. Realised gains and losses from the sale or reimbursement and unrealised gains and losses deriving from the change in the fair value of the trading portfolio, as well as the impairment of financial assets carried at cost are booked to the income statement under «net trading income».

Interest income and dividends are reported in the income statement under «Interest income and similar revenues» and «Dividends and similar income» respectively.

Derecognition

Financial assets held for trading are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

2. Financial assets available for sale

Classification

This caption comprises financial assets that are not derivatives and which are not classified as Receivables, Financial assets held for trading or Assets held to maturity. In particular, this caption includes securities not held for trading and equity interests, also not held for trading, that do not represent investments in subsidiary companies, associated companies or companies under joint control.



Recognition

The assets classified in this caption are recorded on the settlement date. Available-for-sale securities are initially recognised at their fair value, which is usually represented by the fair value of the consideration paid to acquire them, as adjusted by any directly-related transaction costs and revenues.

Aside from the exceptions allowed under IAS 39, it is not possible to transfer assets from the available-for-sale portfolio to other portfolios, or vice versa. The value recorded on any reclassification from Assets held to maturity reflects the fair value of the asset concerned at the time of transfer.

Accounting policies

Subsequent to initial recording, available for-sale financial assets are stated at their fair value, determined on the basis described in relation to Financial assets held for trading.

Variable-yield securities whose fair value cannot be determined reliably are stated at cost. These comprise equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates. These instruments show that equities represent the majority in this portfolio. The fair value of these investments cannot be reliably determined, given that the valuation techniques applied to them would have to make significant use of discretionary, non-market factors.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

The rules adopted by the bank prescribe that an impairment test has to be carried out on variable-yield securities in one of the following cases:

- a cumulative reduction in the fair value exceeding 20% of the original cost gives rise to the need to evaluate the presence of other characteristics which might make it necessary to carry out an impairment test. In any case, a cumulative reduction in fair value exceeding 50% of the original cost automatically leads to an impairment test.
- a cumulative reduction in the fair value of the instrument for at least 9 months gives rise to the need to evaluate the presence of other characteristics which might make it necessary to carry out an impairment test. In any case, a cumulative reduction in the fair value of the original cost for more than 18 months automatically leads to an impairment test.

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the amortisation of transaction costs and the difference between cost and redemption value, is recorded in the income statement.

Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; the accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment. Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

Derecognition

Financial assets available for sale are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

3. Financial assets held to maturity

Classification

These are almost entirely unlisted fixed-yield securities that the Group has the capacity and the willingness to hold to maturity.

Recognition

Assets due to be held to maturity are initially recorded on the settlement date at their fair value, which normally coincides with the amount paid by the bank, including transaction costs.

Any assets booked under the terms of the amendment to IAS 39 regarding the application of fair value, as adopted by the European Union with EC Regulation 1004/2008 of 15/10 are measured at their fair value as of 31 July 2008, providing they were on the books as of 1/7/2008; those booked subsequently are shown at their fair value at the date of reclassification.

Accounting policies

After initial recognition, they are measured at amortised cost using the effective interest method, subjecting such assets to impairment testing if there are any signs of a deterioration in the solvency of the issuers.

Recognition of components affecting the income statement

Components affecting the income statement are recognised according to the process of financial amortisation.

Derecognition

Financial assets held to maturity are derecognised on expiry of the contractual rights over the related financial flows.

4. Loans

4.1 Cash loans and deposits

Classification

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, are not listed on an active market.

Recognition

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently. Loans include the advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also

include receivables assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee. Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them. The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans without a specific repayment date and loans repayable on demand are booked at their historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this value. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

The following categories of impaired loan are subjected to specific analysis:

- a) non-performing loans;
- b) watchlist loans;
- c) restructured loans.

Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. Recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- a) value of contractual cash flows net of any expected losses, estimated with reference to the ability of borrowers to meet their obligations and the value of any secured or personal guarantees obtained;
- b) expected timing of recoveries, considering the progress made by recovery procedures;
- c) internal rate of return.

The specific analysis of non-performing loans takes the following parameters into account:

- a) recoveries forecast by the account managers;
- b) expected timing of recoveries based on historical-statistical data;
- c) original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

The specific analysis of watchlist loans takes the following parameters into account:

- a) recoveries forecast by the offices concerned;
- b) expected timing of recoveries based on historical-statistical data;
- c) original discounting rates represented by the actual contractual rates applying at the time the loans were added to the watchlist.

The specific analysis of restructured loans takes the following parameters into account:

- a) plans for the recovery and/or restructuring of the loans, considering the assessment made by the offices concerned;
- b) discounting rates represented by the actual or contractual interest rates applying prior to reaching agreement with the borrowers.

Past due/overdrawn loans determined in accordance with the latest rules introduced by the Supervisory Authority are valued on the basis of a series of adjustment percentages that depend on historical loss statistics recorded for the same type of transaction.

Performing loans that do not show any objective signs of impairment are valued on a collective basis. Such loans aggregated in homogeneous classes with similar characteristics have applied to them impairment coefficients that are estimated on the basis of statistical data and expressed as the probability of default (PD) by the customer and the extent of the loss given default (LGD).

Recognition of components affecting the income statement

Interest on loans is shown under «Interest income and similar revenues».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement.

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

Loans are derecognised when substantially all the related risks and benefits have been transferred and no control over them is retained.

4.2 Endorsement loans

Classification

Endorsement loans consist of all secured and unsecured guarantees given for third-party obligations.

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form loan, taking into account the creditworthiness of the borrower.

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under «fee and commission income». Impairment losses, and subsequent write-backs, are booked to the income statement



under «net impairment adjustments to other financial assets» with the contra-entry to other assets.

5. Financial assets carried at fair value

The portfolio of «Financial assets carried at fair value» comprises the securities for which the «fair value option» has been applied. The recognition, measurement and derecognition criteria applied are the same as those adopted in relation to financial assets held for trading.

The income elements relating to instruments classified as financial assets carried at fair value booked to the income statement in the period when they arise to «net change in financial assets and liabilities carried at fair value».

6. Hedging transactions

Classification and recognition

The portfolio of hedging derivatives comprises the derivative instruments used by the Bank to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- a) fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- b) cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

A transaction can be recorded as a «hedge» if it satisfies the following conditions: a) the hedging relationship must be formally documented; b) the hedge must be effective at its inception and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end. If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio.

Hedging instruments are recorded using the «contract date» method.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- 1) hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;
- 2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item. With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition

criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- 1) derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
- 2) the hedged item continues to be valued on the basis applicable to the category concerned.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out of terminated early, or when they cease to satisfy the recognition criteria.

7. Equity investments

Classification

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. It is assumed that control exists when more than half of the voting rights are held directly or indirectly, or if there is a dominant influence. A company is an associated company if the Group exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

- a) the Group has a representative on the Board of Directors or the equivalent body of the affiliate;
- b) the bank takes part in the decision-making process, including decisions regarding dividends;
- c) there are significant transactions between the parent company and the affiliate;
- d) there is an exchange of managers;
- e) essential technical information is being provided.

There is joint control when the voting rights and control over the affiliate are split equally with others.

Recognition

Equity investments are initially recorded at cost on the settlement date, which normally coincides with the amount paid, including transaction costs.

Accounting policies

Investments are subsequently valued at equity, determined with reference to the value indicated in the latest approved financial statements.

The initially-recorded value of each equity investment is increased or decreased in proportion to the net profit or loss for the year of the company concerned, and is reduced



by the amount of any dividends collected. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting income statement

The negative differences on initial recognition, the interest in net profits or losses for the year, gains and losses on disposal and impairment losses are recorded in the «share of profit/loss of equity investments» caption of the income statement.

Derecognition

Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

8. Property, plant and equipment

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery.

As required by IAS 17, assets held under finance leases are also classified in this caption.

Recognition

Property, plant and equipment are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service.

Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Accounting policies

Following initial recognition, property, plant and equipment are stated at cost net of accumulated depreciation and any permanent impairment of value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, plant and equipment are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying value with respect to their recoverable value is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and writebacks are recorded in the «net adjustments to property, plant and equipment» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

Derecognition

Property, plant and equipment are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

9. Intangible assets

Classification

This caption comprises identifiable, intangible, non-monetary assets that will benefit future years.

Intangible assets comprise software and goodwill.

Recognition

Intangible assets are recorded at purchase cost, as adjusted for any related charges, only if it is probable that the future economic benefits attributable to them will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned.

Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units. If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference («badwill») is booked directly to the income statements.

Accounting policies

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment in value.

Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned.

If there is evidence of impairment at the reporting date, the asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable value is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.



Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «net adjustments to intangible assets» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

10. Non-current assets held for sale and discontinued operations

Non-current assets are only included in this item when it is considered very probable that they will be sold.

They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to equity; in this case, the matching entries are also recorded within equity.

12. Provisions for risks and charges

This caption comprises the following provisions:

- a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of the reserve for termination indemnities; once again, the actuarial gains and losses deriving from actuarial estimates are booked to the income statement. These are:
 - 1) Post-employment benefits. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The parent bank has not adopted the «corridor» method allowed by IAS 19. The parent bank is responsible for any unfunded liabilities.
 - 2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».
- b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined, which can be recognised in the financial statements when:

- 1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
- 2) it is likely that settlement of the obligation will involve the use of economic resources;
- 3) a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

13. Payables and debt securities in issue

Classification

Amounts due to customers and banks and debt securities in issue comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions and the value of the consideration still to be paid to the assignor in factoring transactions that involve an assignment of receivables with the transfer of the related risks and benefits versus the assignee.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected by the bank. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs.

The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected. Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest expense and similar charges».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses on disposals or repurchases of financial liabilities».

Derecognition

Financial liabilities are derecognised when they expire or are settled.

Funding liabilities that are subsequently repurchased are eliminated from the financial statements.



14. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

15. Financial liabilities at fair value

The financial statements do not include any financial liabilities at fair value.

16. Currency transactions

Classification

They include all assets and liabilities denominated in currencies other than Euro.

Recognition

Assets and liabilities denominated in currencies other than the euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Long-term investments expressed in foreign currency are converted at the exchange rate ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

Exchange differences on assets defined as available for sale are recorded under valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

17. Termination indemnities

Termination indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity

that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out each year by an independent actuary.

As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements. The actuarial gains and losses arising from adjustments to the actuarial estimates are recorded in the income statement with reference to the estimated residual period of service of employees.

18. Other information

All assets sold have been eliminated from the financial statements. The bank and other Group companies have not established any stock option plans.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection.

Dividends are recorded upon collection.

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.



A.3 INFORMATION ON FAIR VALUE

A.3.1 Transfers between portfolios

A.3.1.1 Reclassified financial assets: book value, fair value and the impact on comprehensive income

Type of financial instruments (¹)	Portfolio of origin (²)	Portfolio of destination (³)	Book value at 31.12.2011 (⁴)	Fair value at 31.12.2011 (⁵)	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation (⁶)	Others (⁷)	Valuation (⁸)	Others (⁹)
A. Debt securities	HFT	HTM	163,343	142,904	(11,082)	3,162	1,654	3,162

Income items include securities service employees' post-employment benefits.

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those transferred.

As in the previous year, the bank did not carry out any reclassifications of financial assets. A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments. The table shows the profits and losses that would have been made if the bank had not taken advantage of this possibility.

A.3.2 Fair value hierarchy

Amendment to IFRS 7 approved by EU Regulation European 1165 of 27/11/2009 introduced the obligation to classify value measurements on the basis of a hierarchy of levels that reflect the reliability of the inputs used in valuing financial instruments.

These levels are:

- prices (without adjustments) on active markets - according the definition of IAS 39 - for the assets and liabilities being measured (level 1);
- inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
- inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the bank.

A.3.2.1 Accounting portfolios: breakdown by level of fair value

Financial assets/liabilities carried at fair value	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	1,720,101	440,746	6,477	2,425,009	385,007	8,705
2. Financial assets carried at fair value	27,937	53,776	-	31,002	60,886	-
3. Financial assets available for sale	513,271	180,698	9,694	15,943	79,192	11,834
4. Hedging derivatives	-	-	-	-	940	-
Total	2,261,309	675,220	16,171	2,471,954	526,025	20,539
1. Financial assets held for trading	70	104,805	-	203	100,314	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	47,110	-	-	23,601	-
Total	70	151,915	-	203	123,915	-

There were no significant transfers between the various levels during the year.

A.3.2.2 Changes during the year in financial assets carried at fair value (level 3)

	FINANCIAL ASSETS			
	held for trading	carried at fair value	available for sale	for hedging
1. Opening balance	8,705	-	11,834	-
2. Increases	211	-	2,713	-
2.1. Purchases	-	-	1,674	-
2.2. Income booked to:	63	-	1,039	-
2.2.1. Income statement	63	-	-	-
- of which realized gains	63	-	-	-
2.2.2. Equity	-	-	1,039	-
2.3. Transfers from other levels	-	-	-	-
2.4. Other increases	148	-	-	-
3. Decreases	2,439	-	4,853	-
3.1. Sales	-	-	-	-
3.2. Reimbursements	2,273	-	-	-
3.3. Losses booked to:	30	-	825	-
3.3.1. Income statement	30	-	-	-
- of which realized losses	30	-	-	-
3.3.2. Equity	-	-	825	-
3.4. Transfers to other levels	-	-	-	-
3.5. Other decreases	136	-	4,028	-
4. Closing balance	6,477	-	9,694	-

A.3.2.3 Changes during the year in financial liabilities carried at fair value (level 3)

There are no financial liabilities carried at a level 3 fair value.

A.3.3 Information on the so-called «day one profit/loss»

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».



PART B *Information on the balance sheet*

Assets

Section 1 *Cash and cash equivalents - line item 10*

1.1 Cash and balances with central banks: analysis

	31/12/2011	31/12/2010
a) Cash	97,275	94,515
b) Unrestricted deposits with central banks	23,739	32,587
Total	121,014	127,102

Section 2 *Financial assets held for trading - line item 20*

2.1 Financial assets held for trading: breakdown by sector

Items/Amounts	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Fixed-yield securities	1,676,244	325,935	6,477	2,379,257	287,458	8,705
1.1 Structured securities	-	15,961	2,120	-	16,439	2,037
1.2 Other fixed-yield securities	1,676,244	309,974	4,357	2,379,257	271,019	6,668
2. Variable-yield securities	40,201	1,796	-	43,451	1,754	-
3. Mutual funds	3,584	10,658	-	2,277	12,717	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	1,720,029	338,389	6,477	2,424,985	301,929	8,705
B. Derivatives						
1. Financial derivatives:	72	102,357	-	24	83,078	-
1.1 for trading	72	102,357	-	24	83,078	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	72	102,357	-	24	83,078	-
Total (A+B)	1,720,101	440,746	6,477	2,425,009	385,007	8,705

The other debt securities shown under level 3 are made up of a bond deriving from the securitisation of loans. The valuation of this instrument was made using internal valuation models based on discounting future cash flows and applying an average credit spread for Italian ABS with a corresponding rating.

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

Items/Amounts	31/12/2011	31/12/2010
A. Cash assets		
1. Fixed-yield securities	2,008,656	2,675,420
a) Governments and central banks	1,659,815	2,334,263
b) Other public entities	2,534	5,702
c) Banks	271,590	202,477
d) Other issuers	74,717	132,978
2. Variable-yield securities	41,997	45,205
a) Banks	14,597	19,216
b) Other issuers:	27,400	25,989
- insurance companies	3,224	4,095
- financial companies	407	1,228
- non-financial companies	23,769	20,666
- other	-	-
3. Mutual funds	14,242	14,994
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	2,064,895	2,735,619
B. Derivatives		
a) Banks	44,138	35,659
- fair value	44,138	35,659
b) Customers	58,291	47,443
- fair value	58,291	47,443
Total B	102,429	83,102
Total (A + B)	2,167,324	2,818,721

Mutual funds are made up of bond funds and sicavs for € 13.969 million and real estate funds for € 0.273 million.



2.3 Cash financial assets held for trading: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
A. Opening balance	2,675,420	45,205	14,994	-	2,735,619
B. Additions	5,410,886	108,032	16,325	-	5,535,243
B.1 Purchases	5,342,269	104,987	15,884	-	5,463,140
B.2 Positive changes in fair value	821	73	1	-	895
B.3 Other changes	67,796	2,972	440	-	71,208
C. Decreases	6,077,650	111,240	17,077	-	6,205,967
C.1 Disposals	5,746,489	91,476	14,884	-	5,852,849
C.2 Reimbursements	197,917	-	-	-	197,917
C.3 Negative changes in fair value	86,318	19,426	2,189	-	107,933
C.4 Transfer to other portfolios	-	-	-	-	-
C.5 Other changes	46,926	338	4	-	47,268
D. Closing balance	2,008,656	41,997	14,242	-	2,064,895

Section 3 Financial assets carried at fair value - line item 30

3.1 Financial assets carried at fair value: breakdown by sector

Items/Amount	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	26,754	-	-	29,224	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	26,754	-	-	29,224	-	-
2. Variable-yield securities	-	-	-	-	-	-
3. Mutual funds	1,183	53,776	-	1,778	60,886	-
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	27,937	53,776	-	31,002	60,886	-
Cost	31,259	57,297	-	32,592	58,826	-

This portfolio includes all securities, other than those booked to the trading portfolio, which the bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

3.2 Financial assets carried at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2011	31/12/2010
1. Fixed-yield securities	26,754	29,224
a) Governments and central banks	26,754	29,224
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Variable-yield securities	-	-
a) Banks	-	-
b) Other issuers	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Mutual funds	54,959	62,664
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	81,713	91,888

Mutual funds are made up of bond funds and sicavs for € 16.828 million, funds and sicavs for € 27.372 million, real estate funds for € 1.183 million, monetary funds for € 3.561 million and flexible funds for € 6.015 million.

3.3 Financial assets carried at fair value: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2011
A. Opening balance	29,224	-	62,664	-	91,888
B. Additions	764	-	5,303	-	6,067
B.1 Purchases	-	-	5,000	-	5,000
B.2 Positive changes in fair value	-	-	263	-	263
B.3 Other changes	764	-	40	-	804
C. Decreases	3,234	-	13,008	-	16,242
C.1 Disposals	-	-	8,791	-	8,791
C.2 Reimbursements	-	-	-	-	-
C.3 Negative changes in fair value	2,727	-	4,217	-	6,944
C.4 Other changes	507	-	-	-	507
D. Closing balance	26,754	-	54,959	-	81,713



Section 4 Financial assets available for sale - line item 40

4.1 Financial assets available for sale: breakdown by sector

Items/Amount	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	500,886	74,427	-	609	30,100	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	500,886	74,427	-	609	30,100	-
2. Variable-yield securities	12,385	56,065	-	15,334	49,092	-
2.1 Carried at fair value	12,385	-	-	15,334	6,538	-
2.2 Carried at cost	-	56,065	-	-	42,554	-
3. Mutual funds	-	50,206	9,694	-	-	11,834
4. Loans	-	-	-	-	-	-
Total	513,271	180,698	9,694	15,943	79,192	11,834

Unlisted equities remain at cost, adjusted if necessary for impairment, because of the problems involved in establishing their fair value at the year end.

A comparison between the cost and net equity of these unlisted equities based on the latest available financial statements did not give rise to impairment losses.

Mutual funds all consist of closed-end unlisted equity funds and an open-end bond. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV).

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	31/12/2011	31/12/2010
1. Fixed-yield securities	575,313	30,709
a) Governments and central banks	500,076	-
b) Other public entities	1,325	1,320
c) Banks	73,154	28,631
d) Other issuers	758	758
2. Variable-yield securities	68,450	64,426
a) Banks	18,012	13,768
b) Other issuers:	50,438	50,658
- insurance companies	1,298	1,607
- financial companies	38,177	32,714
- non-financial companies	10,961	16,335
- other	2	2
3. Mutual funds	59,900	11,834
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	703,663	106,969

Mutual funds consist of bond funds for € 50.206 million and equity funds for € 9.694 million.

4.4 Financial assets available for sale: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2011
A. Opening balance	30,709	64,426	11,834	-	106,969
B. Additions	616,556	24,406	52,919	-	693,881
B.1 Purchases	606,650	16,818	51,674	-	675,142
B.2 Positive changes in FV	-	51	1,245	-	1,296
B.3 Write-backs	-	-	-	-	-
- booked to income statement	-	-	-	-	-
- booked to equity	-	-	-	-	-
B.4 Transfer from other portfolios	-	-	-	-	-
B.5 Other changes	9,906	7,537	-	-	17,443
C. Decreases	71,952	20,382	4,853	-	97,187
C.1 Disposals	-	9,396	-	-	9,396
C.2 Reimbursements	-	-	-	-	-
C.3 Negative changes in FV	66,186	900	-	-	67,086
C.4 Writedowns - from impairment	-	6,113	825	-	6,938
- booked to income statement	-	6,113	825	-	6,938
- booked to equity	-	-	-	-	-
C.5 Transfer to other portfolios	-	2,407	-	-	2,407
C.6 Other changes	5,766	1,566	4,028	-	11,360
D. Closing balance	575,313	68,450	59,900	-	703,663

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

This increase is due to the decision to include in this portfolio securities intended for repurchase agreements with customers and therefore held with the idea that they will not be sold in the short term. They were included in this portfolio also with a view to reducing the volatility of the overall securities portfolio, given the turmoil that hit financial markets. The main changes relate to purchases of € 606.650 million of fixed-yield securities, as described above, and € 50 million of shares of the Az Fund 1 Reserve open-end bond fund, while for variable-yield securities the increase in the interest in I.C.B.P.I. for € 8.866 million, Cartasi Spa for € 6.337 million and Polis Fondi SGRPA for € 1.608 million. Other increases are made up primarily of interest accrued and accounted for, and the gain from the sale of the interest in Centrobanca spa for € 3.027 million.

Decreases, in addition to negative changes in fair value of € 67.086 million, are given by the sale of the interest in Centrobanca spa for € 9.355 million and impairment adjustments to variable-yield securities, mainly listed equities and mutual funds for € 6.938 million. Among the other decreases, coupons collected for 5.743 million and redemptions of shares of collective investment undertakings for 4.028 million.



Section 5 Financial assets held to maturity - line item 50

5.1 Financial assets held to maturity: breakdown by sector

Type of transaction/Amounts	31/12/2011				31/12/2010			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Fixed-yield securities	220,332	5,771	187,577	-	249,304	6,732	233,795	-
- structured	11,729	-	9,127	-	11,657	-	10,284	-
- other	208,603	5,771	178,450	-	237,647	6,732	223,511	-
2. Loans -	-	-	-	-	-	-	-	-

In 2008 we transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

If the securities transferred, which are currently in portfolio at an amount of € 167.108 million at par, had been measured at fair value at the date of the financial statements, they would have been worth € 142.904 million with a loss of € 20.438 million.

5.2 Financial assets held to maturity: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2011	31/12/2010
1. Fixed-yield securities	220,332	249,304
a) Governments and central banks	7,158	7,139
b) Other public entities	-	-
c) Banks	99,439	143,137
d) Other issuers	113,735	99,028
2. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	220,332	249,304

5.4 Financial assets held to maturity: changes during the year

	Fixed-yield securities	Loans	Total
A. Opening balance	249,304	-	249,304
B. Increases	14,430	-	14,430
B.1 Purchases	6,377	-	6,377
B.2 Write-backs	-	-	-
B.3 Transfers from other asset portfolios	-	-	-
B.4 Other changes	8,053	-	8,053
C. Decreases	43,402	-	43,402
C.1 Disposals	-	-	-
C.2 Reimbursements	24,000	-	24,000
C.3 Write-downs	-	-	-
C.4 Transfers to other asset portfolios	-	-	-
C.5 Other changes	19,402	-	19,402
D. Closing balance	220,332	-	220,332

Other increases concern interest coupons and premiums and the positive element of amortised cost.

Other decreases consist of collected coupons and the negative element of amortised cost. Item C2. relates to the repayment of securities expired.

Section 6 Due from banks - line item 60

6.1 Loans and advances to banks: breakdown by sector

Type of transaction/Amounts	31/12/2011	31/12/2010
A) Deposits with central banks	444,665	341,901
1. Time deposits	-	-
2. Compulsory reserve	444,665	341,901
3. Repurchase agreements	-	-
4. Other	-	-
B) Due from banks	1,029,428	677,828
1. Current accounts and sight deposits	291,695	224,920
2. Time deposits	711,599	439,516
3. Other loans	26,069	13,256
3.1 Repurchase agreements	-	-
3.2 Financial leases	-	-
3.3 Other	26,069	13,256
4. Fixed-yield securities	65	136
4.1 Structured securities	-	-
4.2 Other fixed-yield securities	65	136
Total (book value)	1,474,093	1,019,729
Total (fair value)	1,474,093	1,019,729

These receivables are not specifically hedged.

Their fair value is equal to their book value as they are short-term loans repayable on demand.

Section 7 Due from customers - line item 70

7.1 Due from customers: breakdown by sector

Type of transaction/Amounts	31/12/2011		31/12/2010	
	Performing	Impaired	Performing	Impaired
1. Current accounts	6,643,889	388,826	6,238,111	281,001
2. Repurchase agreements	325,505	-	6,469	-
3. Mortgage loans	10,303,488	405,126	9,331,682	335,450
4. Credit cards, personal loans and assignments of one-fifth of salary	115,326	5,572	90,008	5,243
5. Financial lease	-	-	-	-
6. Factoring	1,545,840	44,230	1,263,086	68,648
7. Other transactions	3,778,846	112,287	3,524,873	62,586
8. Fixed-yield securities	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-
Total (book value)	22,712,894	956,041	20,454,229	752,928
Total (fair value)	23,098,864	956,041	20,845,963	752,928

Part of these receivables are specifically hedged, as shown in table 7.3.1.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.



7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Avounts	31/12/2011		31/12/2010	
	Performing	Impaired	Performing	Impaired
1. Fixed-yield securities:				
a) Governments	-	-	-	-
b) Other public entities	-	-	-	-
c) Other issuers	-	-	-	-
- non-financial companies	-	-	-	-
- financial companies	-	-	-	-
- insurance companies	-	-	-	-
- other	-	-	-	-
2. Loans to:				
a) Governments	1	-	171	-
b) Other public entities	97,060	13,078	89,030	589
c) Other parties	22,615,833	942,963	20,365,028	752,339
- non-financial companies	15,422,910	703,803	13,893,323	574,317
- financial companies	1,689,859	15,727	1,271,857	15,910
- insurance companies	1,270	-	2,333	343
- other	5,501,794	223,433	5,197,515	161,769
Total	22,712,894	956,041	20,454,229	752,928

7.3 Due from customers: assets covered by micro hedges

Type of transaction/Avounts	31/12/2011	31/12/2010
1. Loans covered by micro fair-value hedges	1,102,362	883,285
a) interest rate risks	1,102,362	883,285
b) exchange risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans covered by micro cash-flow hedges	-	-
a) interest rate risks	-	-
b) exchange risk	-	-
c) other	-	-
Total	1,102,362	883,285

Section 8 Hedging derivatives - line item 80

8.1 Hedging derivatives: breakdown by type of hedge and by level

	Fair Value 31/12/2011			Value 31/12/2011	Fair Value 31/12/2010			Value 31/12/2010
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	-	-	-	9,049	-	940	-	49,584
1. Fair value	-	-	-	9,049	-	940	-	49,584
2. Financial flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1. Fair value	-	-	-	-	-	-	-	-
2. Financial flows	-	-	-	-	-	-	-	-
Total	-	-	-	9,049	-	940	-	49,584

The fair value of these derivatives is lower than the exposure limit foreseen for the notes to the consolidated financial statements.

Section 10 Equity investments - line item 100

10.1 Investments in companies under joint control (valued at equity) and companies subject to significant influence: disclosures

Name	Location	Type of relationship	Type of investment	
			Parent company	% held %
B. Companies				
ALBA LEASING SPA	Milano	8	Banca Popolare di Sondrio SCPA	20.950
ARCA VITA SPA	Verona	8	Banca Popolare di Sondrio SCPA	15.036
BANCA DELLA NUOVA TERRA SPA	Milano	8	Banca Popolare di Sondrio SCPA	19.500
POLIS FONDI SGRPA	Milano	8	Banca Popolare di Sondrio SCPA	19.600
RAJNA IMMOBILIARE SRL	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000
SOFIPO SA	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000

Key:

- 1 = control as per art. 2359 c.c., para. 1, no. 1 (majority of voting rights at ordinary shareholders' meetings).
- 2 = control as per art. 2359 c.c., para. 1, no. 2 (dominant influence at the ordinary shareholders' meeting).
- 3 = control as per art. 23 T.U., para. 2, no. 1 (agreements with other shareholders).
- 4 = other forms of control.
- 5 = single management as per art. 26 of Decree 87/92.
- 6 = single management as per art. 26 of Decree 87/92.
- 7 = joint control.
- 8 = associated company.



10.2 Investments in companies under joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Equity	Consolidated book value
A.1 Under joint control					
RAJNA IMMOBILIARE SRL	908	147	59	799	400
A.2 Subject to significant influence					
ALBA LEASING SpA	4,831,771	84,817	(5,309)	325,673	67,116
ARCA VITA SpA	4,246,068	858,680	40,745	317,943	47,806
BANCA DELLA NUOVA TERRA SpA	508,261	24,542	(9,946)	52,535	10,244
POLIS FONDI SGRPA	10,461	6,090	817	8,892	1,743
SOFIPO SA	3,024	3,418	(97)	2,414	724

The fair value is not shown for companies that are not listed on active markets.

10.3 Equity investments: changes during the year

	31/12/2011	31/12/2010
A. Opening balance	121,731	109,897
B. Additions	12,005	25,031
B.1 Purchases	-	10,125
B.2 Write-backs	5	69
B.3 Revaluations	-	-
B.4 Other changes	12,000	14,837
C. Decreases	(5,361)	(13,197)
C.1 Disposals	(456)	-
C.2 Adjustments	-	-
C.3 Other changes	(4,905)	(13,197)
D. Closing balance	128,375	121,731
E. Total revaluations	-	-
F. Total write-downs	(43,731)	(43,731)

The increases consist of € 2.407 million for the inclusion of Polis Fondi SGRpa, already classified under assets available for sale, and € 9.593 million for increases in portions of net equity held.

Decreases mainly consist of the sale of the equity investments in B&A Broker spa for € 0.456 million and decreases in portions of net equity held for € 4.905 million.

10.4 - 10.5 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the bank has made a specific risk provision.

Section 12 *Property, plant and equipment - line item 120*

12.1 Property, plant and equipment: analysis of assets valued at cost

Assets/Values	31/12/2011	31/12/2010
A. Assets used in business		
1.1 owned	192,782	186,882
a) land	52,039	51,032
b) buildings	111,969	107,530
c) furniture	9,786	9,620
d) IT equipment	8,034	8,046
e) other	10,954	10,654
1.2 purchased under finance leases	31,852	32,412
a) land	6,803	6,803
b) buildings	25,049	25,609
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
Total A	224,634	219,294
B. Investment property	-	-
2.1 owned	-	-
a) land	-	-
b) buildings	-	-
2.2 purchased under finance leases	-	-
a) land	-	-
b) buildings	-	-
Total B	-	-
Total A+B	224,634	219,294



12.3 Property, plant and equipment used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Others	Total 31/12/2011
A. Opening gross amount	57,917	202,798	26,331	26,376	46,318	359,740
A.1 Total impairment, net	82	69,659	16,711	18,330	35,664	140,446
A.2 Opening net amount	57,835	133,139	9,620	8,046	10,654	219,294
B. Additions	1,007	10,043	2,711	2,653	5,915	22,329
B.1 Purchases	941	6,301	2,655	2,487	5,886	18,270
B.2 Capitalised improvement expenditure	-	3,369	-	-	-	3,369
B.3 Write-backs	-	-	-	-	-	-
B.4 Fair value increases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate adjustments	66	373	56	166	29	690
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	-	6,164	2,545	2,665	5,615	16,989
C.1 Disposals	-	36	-	40	12	88
C.2 Amortisation and depreciation	-	6,116	2,537	2,609	5,591	16,853
C.3 Impairment charges booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	12	8	16	12	48
C.6 Transfer to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets related to discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Closing net amount	58,842	137,018	9,786	8,034	10,954	224,634
D.1 Total net reductions in value	82	76,037	19,401	21,107	41,515	158,142
D.2 Closing gross balance	58,924	213,055	29,187	29,141	52,469	382,776
E. Valuation at cost	58,842	137,018	9,786	8,034	10,954	224,634

Section 13 Intangible assets - line item 130

13.1 Intangible assets: breakdown by type

Assets/Value	31/12/2011		31/12/2010	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	-	8,959	-	8,959
A.1.1 attributable to the banking group	-	8,959	-	8,959
A.1.2 pertaining to minority interests	-	-	-	-
A.2 Other intangible assets:	11,591	-	11,979	-
A.2.1 Carried at cost	11,591	-	11,979	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	11,591	-	11,979	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	11,591	8,959	11,979	8,959

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

Goodwill booked for € 8.959 million refers to the acquisition of Factorit SpA. The accounting treatment is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

The amount is made up of:

- € 7.847 million relates to the acquisition of control of Factorit Spa in 2010. Based on IFRS 3, the allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned.

It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. The Bank therefore booked a provisional figure of € 7.847 million, which was the difference between the price paid and the book net equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date. From a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the values attributed at the time of the acquisition, which meant that there was no need to adjust the value of goodwill booked on a provisional basis. No impairment of goodwill has been recorded as the tests carried out in accordance with IAS 36, which requires annual impairment testing for goodwill to identify any impairment loss, did not show any loss in value.

- € 1.112 million is the goodwill generated by the merger in 1999 of Factorit Spa with InFactor Spa. Also for this goodwill, we are of the opinion that there is no cause for impairment based on an estimate of the revenue flows coming from the customers acquired at the time of the merger and/or subsequently under commercial agreements deriving from it.



13.2 Intangible assets: change during the year

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total 31/12/2011
		Specified	Indefinite life	Specified	Indefinite life	
A. Opening balance	8,959	-	-	75,942	-	84,901
A.1 Total net reductions in value	-	-	-	63,963	-	63,963
A.2 Opening net amount	8,959	-	-	11,979	-	20,938
B. Additions	-	-	-	10,742	-	10,742
B.1 Purchases	-	-	-	10,703	-	10,703
B.2 Increases in internally generated intangible assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	39	-	39
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	11,130	-	11,130
C.1 Disposals	-	-	-	-	-	-
C.2 Adjustments	-	-	-	11,130	-	11,130
- Amortisation	-	-	-	11,130	-	11,130
- Write-downs	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net amount	8,959	-	-	11,591	-	20,550
D.1 Total net reductions in value	-	-	-	75,695	-	75,695
E. Closing gross amount	8,959	-	-	87,286	-	96,245
F. Valuation at cost	8,959	-	-	11,591	-	20,550

Key

FIN: finite life

IND: indefinite life

Section 14 *Tax assets and liabilities - asset line item 140 and liability line item 80*

14.1 Deferred tax assets: breakdown

	31/12/2011	31/12/2010
- Loans	60,554	46,401
- Provisions for risks and charges	12,802	11,796
- Deferred charges	17,201	10,485
- Securities and equity investments	22,320	550
- Administrative expenses	199	474
- Amortisation	1,170	1,323
Total	114,246	71,029

14.2 Deferred tax liabilities: breakdown

	31/12/2011	31/12/2010
- Owned buildings	6,638	7,259
- Accelerated depreciation	3,136	2,840
- Leased buildings	1,981	1,980
- Revaluation of securities and gains	812	394
- Administrative expenses	1,702	1,981
- Loans	14,843	8,865
Total	29,112	23,319

14.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2011	31/12/2010
1. Opening balance	70,699	42,227
2. Increases	34,418	35,014
2.1 Deferred tax assets arising during the year	34,122	18,356
a) relating to prior years	-	40
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	34,122	18,316
2.2 New taxes or increases in tax rates	10	-
2.3 Other increases	286	16,658
3. Decreases	12,826	6,542
3.1 Deferred tax assets eliminated during the year	11,712	6,542
a) reversals	11,105	6,542
b) written down as no longer recoverable	-	-
c) change in accounting policies	-	-
d) other	607	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1,114	-
4. Closing balance	92,291	70,699



14.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2011	31/12/2010
1. Opening balance	21,705	18,545
2. Increases	6,739	4,888
2.1 Deferred tax liabilities arising during the year	5,821	2,184
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	5,821	2,184
2.2 New taxes or increases in tax rates	246	-
2.3 Other increases	672	2,704
3. Decreases	1,416	1,728
3.1 Deferred tax liabilities eliminated during the year	1,198	955
a) reversals	960	289
b) due to changes in accounting policies	-	-
c) other	238	666
3.2 Reduction in tax rates	-	-
3.3 Other decreases	218	773
4. Closing balance	27,028	21,705

14.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2011	31/12/2010
1. Opening balance	330	154
2. Increases	21,934	220
2.1 Deferred tax assets arising during the year	21,929	24
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	21,929	24
2.2 New taxes or increases in tax rates	5	-
2.3 Other increases	-	196
3. Decreases	309	44
3.1 Deferred tax assets eliminated during the year	309	44
a) reversals	309	44
b) written down as no longer recoverable	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	21,955	330

This amount relates to the tax on the losses on Securities available for sale booked to equity.

14.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2011	31/12/2010
1. Opening balance	1,614	1,350
2. Increases	489	276
2.1 Deferred tax liabilities arising during the year	437	37
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	437	37
2.2 New taxes or increases in tax rates	9	-
2.3 Other increases	43	239
3. Decreases	19	12
3.1 Deferred tax liabilities eliminated during the year	19	12
a) reversals	19	12
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	2,084	1,614

This amount relates to the tax on the gains on securities available for sale booked to equity.

Section 16 Other assets - line item 160

16.1 Other assets: breakdown

	31/12/2011	31/12/2010
Advances paid to tax authorities	20,719	18,811
Withholdings on interest due to customers	3,562	47
Tax credits and related interest	1,331	20,329
Current account cheques drawn on third parties	56,985	38,694
Current account cheques drawn on Group banks	17,016	21,548
Transactions in customers' securities	51,760	475
Treasury transactions	52,760	-
Inventories	11,724	15,245
Costs pertaining to the subsequent year	1,614	981
Advances to suppliers	587	827
Advances to customers awaiting collections	11,088	8,142
Miscellaneous debits in transit	36,189	25,477
Liquidity of pension fund	2,860	1,762
Accrued expenses not allocated	23,362	21,403
Prepayments not allocated	5,370	5,492
Guarantee deposits for the purchase of property	13,449	-
Differences on elimination	1,539	963
Residual items	41,711	25,312
Total	353,626	205,508

Liabilities and equity

Section 1 Due to banks - line item 10

1.1 Deposits from banks: breakdown by type

Type of transaction/Members of the Group	31/12/2011	31/12/2010
1. Due to central banks	1,576,314	20,959
2. Due to banks	1,984,069	2,519,959
2.1 Current accounts and sight deposits	286,629	831,183
2.2 Time deposits	1,038,047	839,499
2.3. Loans	644,688	839,004
2.3.1 Repurchase agreements	103,291	-
2.3.2 Other	541,397	839,004
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	14,705	10,273
Total	3,560,383	2,540,918
Fair value	3,560,383	2,540,918

These payables are not specifically hedged.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.5 Payables for finance leases

	31/12/2011	31/12/2010
Payables for finance leases	6,034	15,165

Section 2 Due to customers - line item 20

2.1 Customer deposits: breakdown by sector

Type of transaction/Members of the Group	31/12/2011	31/12/2010
1. Current accounts and sight deposits	15,122,106	15,688,294
2. Time deposits	3,522,500	1,314,859
3. Loans	1,291,457	1,747,431
3.1 Repurchase agreements	1,272,472	1,747,431
3.2 Other	18,985	-
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	927	19,817
Total	19,936,990	18,770,401
Fair value	19,936,990	18,770,401

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.

2.5 Payables for finance leases

	31/12/2011	31/12/2010
Payables for finance leases	4,746	-

Section 3 Debt securities in issue - line item 30

3.1 Debt securities in issue : breakdown by sector

Type of security/Amounts	31/12/2011				31/12/2010			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	2,607,679	-	2,569,028	-	1,971,667	-	1,965,406	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	2,607,679	-	2,569,028	-	1,971,667	-	1,965,406	-
2. Other securities	134,029	-	134,029	-	104,695	-	104,695	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	134,029	-	134,029	-	104,695	-	104,695	-
Total	2,741,708	-	2,703,057	-	2,076,362	-	2,070,101	-

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.



Section 4 Financial liabilities held for trading - line item 40

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/ Members of the Group	31/12/2011					31/12/2010				
	Fair Value				FV*	Fair Value				FV*
NV	Level 1	Level 2	Livello 3	NV		Level 1	Level 2	Level 3		
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	-	70	104,805	-	-	-	203	100,314	-	-
1.1 For trading	-	70	104,805	-	-	-	203	100,314	-	-
1.2 Connected with the fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-	-	-	-	-
2.2 Connected with the fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-
Total B	-	70	104,805	-	-	-	203	100,314	-	-
Total (A+B)	-	70	104,805	-	-	-	203	100,314	-	-

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value

Section 6 Hedging derivatives - line item 60

6.1 Hedging derivatives: breakdown by type of hedge and by level

Type of derivatives/ Underlying assets	Fair Value 31/12/2011			Nominal value 31/12/2011	Fair Value 31/12/2010			Nominal value 31/12/2010
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	-	47,110	-	1,050,346	-	23,601	-	814,579
1) Fair value	-	47,110	-	1,050,346	-	23,601	-	814,579
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
Total	-	47,110	-	1,050,346	-	23,601	-	814,579

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

Transaction/ Type of hedge	Fair Value					Financial flows			
	Micro					Macro	Micro	Macro	Foreign investments
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risk				
1. Financial assets available for sale	-	-	-	-	-	-	-	-	-
2. Loans	47,110	-	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-	-	-
4. Portfolio	-	-	-	-	-	-	-	-	-
5. Other transactions	-	-	-	-	-	-	-	-	-
Total assets	47,110	-	-	-	-	-	-	-	-
1. Financial liabilities	-	-	-	-	-	-	-	-	-
2. Portfolio	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-
1. Expected transactions	-	-	-	-	-	-	-	-	-
2. Portfolio of financial assets and liabilities	-	-	-	-	-	-	-	-	-



Section 8 Tax liabilities

The line item amounts to € 41.574 million and relates for € 12.462 million to current taxes and for € 29.112 million to deferred taxes. Current taxes are net of advances paid.

As regards the composition and amount of deferred taxes, please read «Assets Section 14 of these notes».

The bank's tax years up to 2005 have been closed. For 2006, the bank received a notice of assessment from the Tax Authorities relating to IRES and IRAP concerning the deductibility of interest paid to customers and banks resident in country that are considered tax havens. For the same year, it received a notice of assessment for VAT purposes for not applying VAT on the commissions received as a custodian bank. The Tax Authorities have contested this approach with other banks as well, interrupting a treatment that has practically always been applied by the sector. After careful consideration and believing the bank's conduct to be entirely proper, we have appointed tax advisers to appeal against this assessment.

As regards Factorit's fiscal disputes concerning direct taxes and VAT for the years 2005 to 2009, during the year the company took steps to settle all of the matters outstanding. In particular, the dispute concerning 2005 has been settled by means of a court conciliation, whereas the disputes for 2006 to 2009 have been settled by accepting the assessments in accordance with Decree 218/97.

The litigation involving two real estate companies that we told you about last year, saying that both had been settled, instead one of the two has reached the final level due to a last-minute appeal by the Tax Authorities.

Section 10 Other liabilities

10.1 Other liabilities: breakdown

	31/12/2011	31/12/2010
Amounts at the disposal of third parties	213,806	137,995
Taxes to be paid on behalf of third parties	59,392	40,370
Taxes to be paid	2,397	2,029
Employee salaries and contributions	21,976	20,901
Trade payables	13,387	11,902
Transit accounts for sundry entities	24,342	3,507
Invoices to be received	9,055	10,233
Credits in transit for financial transactions	68,396	493
Value date differentials on portfolio transactions	17,628	159,545
Directors' and statutory auditors' emoluments	987	963
Loans disbursed to customers to be finalised	17,006	13,112
Miscellaneous credit items being settled	282,472	205,023
Accrued expenses not allocated	4,483	4,540
Deferred income not allocated	12,958	9,587
Allowance for risks on guarantees and commitments	8,029	9,123
Differences on elimination	25,419	12,292
Residual items	24,636	38,099
Total	806,369	679,714

The 2010 figures have been adjusted for comparison purposes.

Section 11 Termination indemnities - line item 110

11.1 Termination indemnities: change during the year

	2011	2010
A. Opening balance	37,769	35,754
B. Additions	8,873	10,595
B.1 Provisions	8,676	8,397
B.2 Other increases	197	2,198
C. Decreases	8,575	8,580
C.1 Payments made	1,496	1,430
C.2 Other decreases	7,079	7,150
D. Closing balance	38,067	37,769

Section 12 Provisions for risks and charges - line item 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2011	31/12/2010
1. Post-employment benefits	77,831	77,216
2. Other provisions for risks and charges	39,415	44,766
2.1 legal disputes	31,435	37,596
2.2 personnel expenses	7,087	6,491
2.3 other	893	679
Total	117,246	121,982

At year end, the Group is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonable to conclude that there are no contingent liabilities.

12.2 Provisions for risks and charges: change during the year

Items/Components	Post-employment benefits	Other provisions	31/12/2011
A. Opening balance	77,216	44,766	121,982
B. Increases	4,179	16,610	20,789
B.1 Provisions	2,581	15,807	18,388
B.2 Changes due to the passage of time	-	194	194
B.3 Changes due to variations in the discount rate	-	130	130
B.4 Other changes	1,598	479	2,077
C. Decreases	3,564	21,961	25,525
C.1 Utilisations during the year	3,381	20,250	23,631
C.2 Changes due to variations in the discount rate	-	23	23
C.3 Other changes	183	1,688	1,871
D. Closing balance	77,831	39,415	117,246



12.3 Defined-benefit pension plans

12.3.1. Description of plans

The bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Parent Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 443 employees and 225 pensioners. Employees have been given the chance to join other supplementary pension schemes as laid down by law and by contract.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

12.3.2 Defined-benefit pension plans: annual changes

	2011	2010
At 1 January	77,216	74,669
service cost	1,612	1,523
interest cost	3,605	3,509
actuarial gains/losses	(1,219)	788
payments	(3,383)	(3,273)
At 31 December	77,831	77,216

12.3.3 Defined-benefit pension plans - Changes in plan assets during the year

The changes in the fair value of plan assets during the year are summarised below:

	2011	2010
At 1 January	77,216	74,669
yield	1,598	3,915
contributions	2,581	2,344
payments	(3,564)	(3,712)
At 31 December	77,831	77,216

The fair value of pension plan assets is summarised in the following table:

	31/12/2011	31/12/2010
Fixed-yield securities	66,601	64,795
Variable-yield securities	1,436	2,375
Mutual funds invested in shares	6,661	7,892
Mutual funds invested in property	273	392
Other assets	2,860	1,762
Total	77,831	77,216

12.3.4 Defined-benefit pension plans – Reconciliation between the present value of the plans, the present value of the plan assets and the assets and liabilities shown in the financial statements

	31/12/2011	31/12/2010
Present value of the obligations to plan members	77,831	77,216
Fair value of assets	77,831	77,216
Difference	-	-

12.3.5 Defined-benefit pension plans – Description of the principal actuarial assumptions

	31/12/2011	31/12/2010
Discount rate	4.75%	4.70%
Expected increase in salaries	2.00%	2.00%
Rate of inflation	1.50%	1.50%
Underlying rate of salary increases	1.50%	1.50%

12.3.6 Comparative information

The amount of the fund increases by € 0.615 million, +0.80%, while payments amount to € 3,366 million on € 3,273 million. The contributions paid by the employees totalled € 0.256 million (€ 0.276 million in the prior year).

12.4 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2011	31/12/2010
Provision for legal disputes	31,435	37,596
Provision for personnel expenses	7,087	6,491
Provision for charitable donations	893	679
Total	39,415	44,766

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The Group makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice. The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2011 as the discount rate. This decrease of € 6.161 million, -16.39%, arises from the difference between the provision of the year and the release of provisions set aside in prior years.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. The total increase came to € 0.596 million, + 9.18%.

The provision for charitable donations comprises an allocation from net profits authorised by the shareholders which is used to make approved payments. The increase of € 0.500 million reflects the allocation of 2010 net profit, while the reduction of € 0.286 million was a consequence of payments made during the year.

Section 15 *Equity - Items 140, 160, 170, 180, 190, 200 and 220*

15.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 308,147,985 issued and fully-paid ordinary shares, par value € 3 each, totalling € 924.444 million. Shares in circulation have dividend and voting rights from 1/1/2011. At the year-end, the bank held treasury shares with a carrying value of € 26.079 million.

15.2 Share capital - Number of shares of the parent bank: change during the year

Items/Type	Ordinary	Others
A. Shares at the beginning of the year	308,147,985	-
- fully paid	308,147,985	-
- not fully paid	-	-
A.1 Treasury shares (-)	3,850,000	-
A.2 Shares in circulation opening balance	304,297,985	-
B. Additions	804,000	-
B.1 New issues	-	-
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- others	-	-
- free of charge	-	-
- to employees	-	-
- to directors	-	-
- others	-	-
B.2 Sales of treasury shares	804,000	-
B.3 Other changes	-	-
C. Decreases	17,000	-
C.1 Cancellation	-	-
C.2 Purchases of treasury shares	17,000	-
C.3 Business disposals	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	305,084,985	-
D.1 Treasury shares (+)	3,063,000	-
D.2 Shares in existence at the end of the year	308,147,985	-
- fully paid	308,147,985	-
- not fully paid	-	-

15.3 Share capital: other information

Share premium reserve

This amounts to € 172.511 million with a decrease of € 1.804 million, - 1.03% due to the allocation of the loss deriving from the sale of treasury shares in portfolio.

15.4 Profit reserves: other information

Revenue reserves contribute to the capital adequacy of the Group, considering both current and future operations. They amount to € 720.808 million and increase by € 78.577 million, + 12.24%. Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 87.000 million (it has been used for € 26.079 million).

Section 16 *Equity pertaining to minority interests - Line item 210*

16.1 Equity instruments: breakdown and change in year

The line item equity of minority interests amounts to € 65.929 million and is made up of the share capital of € 33.575 million, the share premium reserve of € 4.357 million, reserves of € 24.198 million, valuation reserves of € - 0.065 million and profits of € 3.864 million.

Other information

1. Guarantees given and commitments

Operations	31/12/2011	31/12/2010
1) Financial guarantees	621,507	573,746
a) banks	42,790	29,664
b) customers	578,717	544,082
2) Commercial guarantees	3,163,842	2,825,295
a) banks	37,587	28,979
b) customers	3,126,255	2,796,316
3) Irrevocable commitments to make loans	1,602,500	2,313,202
a) banks	70,921	26,024
i) certain to be called on	58,303	26,019
ii) not certain to be called on	12,618	5
b) customers	1,531,579	2,287,178
i) certain to be called on	191,819	82,140
ii) not certain to be called on	1,339,760	2,205,038
4) Commitments underlying credit derivatives: protection sold	-	-
5) Assets lodged to guarantee the commitments of third parties	26,529	16,248
6) Other commitments	27,982	36,682
Total	5,442,360	5,765,173

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2011	31/12/2010
1. Financial assets held for trading	1,584,052	2,166,413
2. Financial assets carried at fair value	26,317	28,757
3. Financial assets available for sale	387,149	-
4. Financial assets held to maturity	58,510	-
5. Due from banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-
Total	2,056,028	2,195,170

Assets held for trading comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances; financial assets carried at fair value comprise the guarantee deposit paid in relation to the issue of bankers' drafts.

Assets held for trading comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances.

The financial assets held to maturity are to guarantee the advances received from the Bank of Italy.

As part the ECB's refinancing of the banking system last December, we received a loan of € 1,000 million secured by a certificate of deposit issued by us and repurchased under a guarantee from the Italian Government in accordance with art. 8 of Decree Law 201 of 6 December 2011.

5. Management and intermediation for third parties

Type of service	Importo
1. Execution of orders on behalf of customers	14,264,555
a) Purchases	7,971,891
1. settled	6,973,669
2. not settled	998,222
b) Sales	6,292,664
1. settled	5,419,533
2. not settled	873,131
2. Portfolio management	1,862,226
a) Individual	1,862,226
b) Collective	-
3. Custody and administration of securities	45,342,405
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	4,603,008
1. Securities issued by the reporting bank	-
2. Other securities	4,603,008
b) Other third-party securities on deposit (excluding portfolio management): other	16,245,515
1. Securities issued by the reporting bank	3,090,369
2. Other securities	13,155,146
c) Third-party securities on deposit with third parties	21,145,527
d) Own securities on deposit with third parties	3,348,355
4. Other transactions	-
Total	61,469,186

PART C *Information on the consolidated income statement*

Section 1 *Interest - line items 10 and 20*

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	Total 31/12/2011	Total 31/12/2010
1. Financial assets held for trading	54,021	-	-	54,021	34,980
2. Financial assets carried at fair value	764	-	-	764	500
3. Financial assets available for sale	9,883	-	-	9,883	399
4. Financial assets held to maturity	4,749	-	-	4,749	4,291
5. Due from banks	2	14,877	-	14,879	12,053
6. Due from customers	-	748,610	-	748,610	578,410
7. Hedging derivatives	-	-	-	-	2,538
8. Other assets	-	-	-	-	-
Total	69,419	763,487	-	832,906	633,171

1.2 Interest and similar income: differentials on hedging transactions

Items	31/12/2011	31/12/2010
A. Positive differentials on hedging transactions	-	2,538
B. Negative differentials on hedging transactions	-	-
C. Net total (A-B)	-	2,538

1.3 Interest income and similar revenues: other information

1.3.1 Interest income and similar revenue on foreign currency assets

	31/12/2011	31/12/2010
Interest income and similar revenue on foreign currency assets	87,865	73,646

1.4 Interest expense and similar charges: breakdown

Items/Technical forms	Payables	Securities	Other liabilities	Total 31/12/2011	Total 31/12/2010
1. Due to central banks	(2,146)	-	-	(2,146)	(78)
2. Due to banks	(43,640)	-	-	(43,640)	(17,539)
3. Due to customers	(207,366)	-	-	(207,366)	(117,269)
4. Debt securities in issue	-	(62,308)	-	(62,308)	(57,244)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	-	-	(15)
8. Hedging derivatives	-	-	(15,094)	(15,094)	(14,382)
Total	(253,152)	(62,308)	(15,094)	(330,554)	(206,527)

1.5 Interest expense and similar charges: differentials on hedging transactions

Items	31/12/2011	31/12/2010
A. Positive differentials on hedging transactions	-	-
B. Negative differentials on hedging transactions	(15,094)	(14,382)
C. Net total (A-B)	(15,094)	(14,382)

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on foreign currency liabilities

	31/12/2011	31/12/2010
Interest expense on foreign currency liabilities	(37,354)	(33,863)

1.6.2 Interest expense on finance lease transactions

	31/12/2011	31/12/2010
Interest expense on finance lease transactions	(251)	(251)

Section 2 Commissions - line items 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31/12/2011	31/12/2010
a) guarantees given	17,850	14,629
b) credit derivatives	-	-
c) management, intermediation and consultancy services:	84,162	84,306
1. trading in financial instruments	19,754	19,672
2. trading in foreign currencies	6,114	6,107
3. portfolio management	6,601	6,701
3.1 individual	6,601	6,701
3.2 collective	-	-
4. custody and administration of securities	10,273	10,504
5. custodian bank	4,814	4,092
6. placement of securities	10,245	11,940
7. order receipt and transmission	13,395	13,453
8. consultancy	72	37
8.1 investments	-	-
8.2 corporate finance	72	37
9. distribution of third-party services	12,894	11,800
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	7,403	6,895
9.3 other products	5,491	4,905
d) collection and payment services	56,597	52,195
e) services for securitisation transactions	-	-
f) services for factoring transactions	35,038	18,037
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) management of current accounts	-	-
j) other services	109,348	101,842
Total	302,995	271,009



The 2010 figures have been adjusted for comparison purposes.

This line item increases by € 31.986 million, + 11.80%, also due to the partial consolidation of Factorit spa last year. The increase is mainly due to factoring services, which have gone from € 18.037 million to € 35.038 million, but also to good performances on the part of other services, particularly «loan commissions», as well as collection and payment services, which went from € 52.195 million to € 56.597 million, and commissions on guarantees given, which went from € 14.629 million to € 17.850 million.

2.2 Commission expense: breakdown

Services/Amounts	31/12/2011	31/12/2010
a) guarantees received	(287)	(92)
b) credit derivatives	-	-
c) management and intermediation services:	(3,962)	(3,460)
1. trading in financial instruments	(2,054)	(1,565)
2. trading in foreign currencies	-	-
3. portfolio management	-	-
3.1. own	-	-
3.2. delegated by third parties	-	-
4. custody and administration of securities	(1,908)	(1,895)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
d) collection and payment services	(8,498)	(7,575)
e) other services	(8,772)	(6,219)
Total	(21,519)	(17,346)

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

Items/Income	31/12/2011		31/12/2010	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,399	115	1,374	39
B. Financial assets available for sale	2,189	-	1,906	17
C. Financial assets carried at fair value	-	54	-	61
D. Equity investments	-	-	-	-
Total	3,588	169	3,280	117

Section 4 Net trading income - line item 80

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
1. Financial assets held for trading	13,112	31,403	(106,485)	(4,578)	(66,548)
1.1 Fixed-yield securities	836	12,757	(86,509)	(4,273)	(77,189)
1.2 Variable-yield securities	298	2,864	(18,800)	(244)	(15,882)
1.3 Mutual funds	5	273	(1,176)	(61)	(959)
1.4 Loans	-	-	-	-	-
1.5 Others	11,973	15,509	-	-	27,482
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial Other assets and liabilities: exchange differences	-	-	-	-	(351)
4. Derivatives	908	9,012	(1,686)	(6,461)	1,778
4.1 Financial derivatives:	908	9,012	(1,686)	(6,461)	1,778
- On debt securities and interest rates	172	5,676	(957)	(5,299)	(408)
- On equities and equity indices	-	2,130	-	-	2,130
- On currency and gold	-	-	-	-	5
- Other	736	1,206	(729)	(1,162)	51
4.2 Credit derivatives	-	-	-	-	-
Total	14,020	40,415	(108,171)	(11,039)	(65,121)

Net trading income has been heavily influenced by significant losses on fixed-yield securities, government securities in particular, to an even greater extent than last year, when the losses were already considerable.

The income from trading in «other financial assets» is made up of exchange gains.

This table does not include the result of the securities in the pension fund, which is shown under another item.



Section 5 Net hedging gains (losses) - line item 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31/12/2011	31/12/2010
A. Income from:		
A.1 Fair value hedging derivatives	-	-
A.2 Hedged financial assets (fair value)	22,977	7,497
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedges	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total income from hedging activities (A)	22,977	7,497
B. Charges from:		
B.1 Derivatives hedging fair value	(22,989)	(7,714)
B.2 Hedged financial assets (fair value)	-	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedges	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total charges from hedging activities (B)	(22,989)	(7,714)
C. Net hedging gains (losses) (A - B)	(12)	(217)

Costs include € 22.989 million for the valuation at fair value of hedging derivatives, versus a positive valuation of the loans being hedged of € 22.977 million at fair value. The net result of measuring the hedging structure at fair value is a negative balance of € 0.012 million.

Section 6 Gains (losses) on disposals/repurchases - line item 100

6.1 Gains (losses) on disposals/repurchases - breakdown

Items/Income items	31/12/2011			31/12/2010		
	Profit	Losses	Net profit (loss)	Profit	Losses	Net profit (loss)
Financial assets	-	-	-	-	-	-
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Financial assets available for sale	3,027	(68)	2,959	-	(327)	(327)
3.1 Fixed-yield securities	-	-	-	-	-	-
3.2 Variable-yield securities	3,027	(68)	2,959	-	(327)	(327)
3.3 Mutual funds	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	124	-	124	-	-	-
Total assets	3,151	(68)	3,083	-	(327)	(327)
Financial liabilities	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	1,472	(28)	1,444	244	(277)	(33)
Total liabilities	1,472	(28)	1,444	244	(277)	(33)

Section 7 *Net change in financial assets and liabilities carried at fair value - line item 110*

7.1 Net change in financial assets/liabilities carried at fair value: breakdown

Transactions/Income items	Gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	Net profit (loss) [(A+B)-(C+D)]
1. Financial assets	101	40	(6,945)	-	(6,804)
1.1 Fixed-yield securities	-	-	(2,727)	-	(2,727)
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	101	40	(4,218)	-	(4,077)
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: exchange differences	-	-	-	-	163
4. Credit and financial derivatives	-	-	-	-	-
Total	101	40	(6,945)	-	(6,641)

The gains recognised mainly concern mutual funds, whereas the losses relate to mutual funds and Italian government securities.

Section 8 *Net impairment adjustments - line item 130*

8.1 Net impairment adjustments to loans: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)				Total 31/12/2011	Total 31/12/2010
	Specific			Specific		Portfolio			
	Write-offs	Others	Portfolio	A	B	A	B		
A. Due from banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
B. Due from customers	(84,517)	(114,025)	(29,687)	1,103	29,424	-	21,979	(175,723)	(135,147)
- Loans	(84,517)	(114,025)	(29,687)	1,103	29,424	-	21,979	(175,723)	(135,147)
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
C. Total	(84,517)	(114,025)	(29,687)	1,103	29,424	-	21,979	(175,723)	(135,147)

Key:

A = Interest

B = Other write-backs



8.2 Net impairment adjustments to available for sale financial assets: breakdown

Transactions/Income items	Adjustments (1)		Write-backs (2)		Total 31/12/2011	Total 31/12/2010
	Specific		Specific			
	Write-offs	Others	A	B		
A. Debt securities	-	-	-	-	-	-
B. Variable-yield securities	-	(5,986)	-	-	(5,986)	(4,865)
C. Mutual funds	-	(1,168)	-	-	(1,168)	(241)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(7,154)	-	-	(7,154)	(5,106)

Key:

A = Interest

B = Other write-backs

8.4 Net impairment adjustments on other financial transactions: composition

Transactions/ Income items	Adjustments (1)			Write-backs (2)			Total 31/12/2011	Total 31/12/2010	
	Specific			Specific		Portfolio			
	Write-offs	Others	Portfolio	A	B	A			B
A. Guarantees given	-	(1,231)	-	-	2,325	-	-	1,094	(808)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to make loans	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
Total	-	(1,231)	-	-	2,325	-	-	1,094	(808)

Key:

A = Interest

B = Other write-backs

Section 11 Administrative expenses - line item 180

11.1 Personnel expenses: breakdown

Type of expenses/Sectors	31/12/2011	31/12/2010
1) Employees	(207,137)	(196,372)
a) Wages and salaries	(142,690)	(133,353)
b) Social security contributions	(33,370)	(31,030)
c) Termination indemnities	(16)	(17)
d) Pension expenses	(3,500)	(3,159)
e) Provision for employee termination indemnities	(8,676)	(8,002)
f) Provision for post-employment benefits and similar commitments:	(3,799)	(5,984)
- defined contribution	-	-
- defined benefits	(3,799)	(5,984)
g) Payments to external supplementary pension funds:	(3,045)	(2,593)
- defined contribution	(3,045)	(2,593)
- defined benefits	-	-
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(12,041)	(12,234)
2) Other working personnel	(3,925)	(4,446)
3) Directors and Statutory auditors	(2,632)	(2,461)
4) Retired personnel	(63)	-
Total	(213,757)	(203,279)

11.2 Average number of employees by category

Type of expense/Amounts	31/12/2011	31/12/2010
Employees	3,031	2,976
a) Managers	26	25
b) Officials	716	699
c) Other employees	2,289	2,252
Other personnel	98	111

	31/12/2011	31/12/2010
Number of employees at year-end		
- Employees	3,042	2,974
- Other personnel	89	115



11.3 Defined-benefit pension plans: total costs

	31/12/2011	31/12/2010
Service cost	1,612	1,523
Interest cost	3,605	3,509
Actuarial gains/losses	(1,219)	788
Contributions from employees	(256)	(276)
Reductions and payments	56	440
Total charge to income statement (A)	3,798	5,984
Yield from assets servicing the fund (B)	1,598	3,915
Total charge (A-B)	2,200	2,069

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and related changes during the year, and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements.

The parent bank has not adopted the «corridor method» for the recognition of actuarial gains/losses; accordingly, there are no unrecorded gains/losses of this type.

11.4 Other employee benefits

This caption essentially comprises the cost of meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

11.5 Other administrative expenses: breakdown

	31/12/2011	31/12/2010
Telephone, post and data transmission	(15,638)	(16,367)
Maintenance of property, plant and equipment	(8,807)	(8,462)
Rent of buildings	(26,657)	(24,457)
Security	(6,444)	(6,188)
Transportation	(4,195)	(3,580)
Professional fees	(12,352)	(9,642)
Office materials	(2,803)	(2,883)
Electricity, heating and water	(5,095)	(4,859)
Advertising and entertainment	(4,549)	(4,013)
Legal	(10,151)	(8,948)
Insurance	(1,751)	(1,731)
Company searches and information	(4,291)	(4,180)
Indirect taxes and dues	(37,096)	(33,313)
Software and hardware rental and maintenance	(11,355)	(10,768)
Data entry by third parties	(949)	(936)
Cleaning	(5,167)	(4,929)
Membership fees	(1,907)	(1,939)
Services received from third parties	(3,113)	(2,953)
Outsourced activities	(19,079)	(18,986)
Deferred charges	(8,613)	(5,950)
Others	(11,573)	(9,379)
Total	(201,585)	(184,463)

The 2010 figures have been adjusted for comparison purposes.

Section 12 *Net provisions for risks and charges - line item 190*

12.1 Net provisions for risks and charges: breakdown

The line item amounts to € 3.795 million.

Section 13 *Net adjustments to property, plant and equipment - line item 200*

13.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write- backs (c)	Net result (a+b-c)
A. Property, plant and equipment				
A.1 Owned	(15,842)	-	-	(15,842)
- for business purposes	(15,842)	-	-	(15,842)
- for investment purposes	-	-	-	-
A.2 Purchased under finance leases	(1,011)	-	-	(1,011)
- for business purposes	(1,011)	-	-	(1,011)
- for investment purposes	-	-	-	-
Total	(16,853)	-	-	(16,853)

Section 14 *Net adjustments to intangible assets - line item 210*

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write- backs (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned	(11,130)	-	-	(11,130)
- Internally generated	-	-	-	-
- Other	(11,130)	-	-	(11,130)
A.2 Purchased under finance leases	-	-	-	-
Total	(11,130)	-	-	(11,130)

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year, accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 15 *Other operating income and expense - Line item 220*

15.1 Other operating expenses: breakdown

	31/12/2011	31/12/2010
Out-of-period expense	(2,706)	(2,350)
Other	(2,997)	(1,805)
Consolidation differences	(876)	(20,956)
Total	(6,579)	(25,111)



15.2 Other operating income: breakdown

	31/12/2011	31/12/2010
Recovery of charges on deposits and overdrafts	72	82
Recovery of expenses	1,491	533
Rental income from buildings	1,080	1,045
Recovery of taxes	30,264	28,048
Financial income of post-employment benefits plan	1,598	3,915
Out-of-period income	3,040	887
Other	12,255	7,997
Consolidation differences	1,796	24,472
Total	51,596	66,979

Section 16 *Share of profit (loss) of equity investments - line item 240*

16.1 Share of profit (loss) of equity investments: breakdown

Income item/amounts	31/12/2011	31/12/2010
2) Associated companies		
A. Income	7,122	61,431
1. Revaluations	6,316	2,958
2. Gains on disposal	801	58,404
3. Write-backs	5	69
4. Other income	-	-
B. Charges	(4,191)	(1,945)
1. Write-downs	(4,191)	(1,945)
2. Impairment write-downs	-	-
3. Loss from disposals	-	-
4. Other charges	-	-
Net profit (loss)	2,931	59,486

Section 19 *Gains (losses) on disposal of investments - line item 270*

19.1 Gains (losses) on disposal of investments: breakdown

Income items/Segments	31/12/2011	31/12/2010
A. Buildings	-	(108)
- Gains on disposal	-	-
- Losses on disposal	-	(108)
B. Other assets	(16)	(60)
- Gains on disposal	17	51
- Losses on disposal	(33)	(111)
Net profit (loss)	(16)	(168)

Section 20 *Income taxes on current operations - line item 290*

20.1 Income taxes on current operations: breakdown

Income items/Segments	31/12/2011	31/12/2010
1. Current taxes (-)	(86,292)	(72,684)
2. Change in prior period income taxes (+/-)	-	340
3. Reduction in current taxes (+)	-	-
4. Change in deferred tax assets (+/-)	22,420	11,668
5. Change in deferred tax liabilities (+/-)	(4,869)	(312)
6. Income taxes for the year (-) (-1+/-2+3/-4+/-5)	(68,741)	(60,988)

20.2 Reconciliation between the theoretical and effective tax burden

Income taxes are calculated on the basis of the specific tax legislation in the country where each company is resident.

The total tax charge for the year can be reconciled as follows:

INCOME TAXES OF THE COMPANY	Tax base	Tax
Theoretical tax burden	146,957	(40,406)
Increases	108,616	(29,841)
Decreases	(34,170)	9,658
Effective tax burden	221,403	(60,589)

REGIONAL BUSINESS TAX (IRAP)	Tax base	Tax
Theoretical tax burden	145,256	(7,431)
Increases	402,330	(22,359)
Decreases	(71,315)	4,087
Effective tax burden	476,271	(25,703)
Total effective tax burden	-	(86,292)

The main changes relate to the Parent Bank. For details, reference should therefore be made to Part C Information on the income statement of the company, Section 18 Table 18.2.



Section 24 *Earnings per share*

24.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in net profit is unchanged with respect to the prior year.

	31/12/2011	31/12/2010
numbers of shares	308,147,985	308,147,985

24.2 Other information

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the net profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted and there are no activities to be sold for which basic and diluted EPS must be stated separately.

	31/12/2011	31/12/2010
earnings per share - €	0.241	0.439

PART D Consolidated comprehensive income

Analytical statement of consolidated comprehensive income

Items/Amounts	Gross amount	Income taxes	Net amount
10. Net profit (loss) for the year	-	-	78,216
Other income items			
20. Financial assets available for sale:	(65,574)	21,395	(44,179)
a) changes in fair value	(65,789)	21,504	(44,285)
b) transfer to income statement	215	(109)	106
- adjustments for impairment	215	(109)	106
- gains/losses from disposals	-	-	-
c) other changes	-	-	-
30. Property, plant and equipment	-	-	-
40. Intangible assets	-	-	-
50. Hedges of foreign investments:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
60. Cash-flow hedges:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
70. Exchange differences:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
80. Non-current assets held for sale and discontinued operations:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
90. Actuarial profits (losses) on defined-benefit plans	-	-	-
100. Share of valuation reserves of equity investments valued at net equity:	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
- adjustments for impairment	-	-	-
- gains/losses from disposals	-	-	-
c) other changes	-	-	-
110. Total other income items net of income taxes	(65,574)	21,395	(44,179)
120. Comprehensive income (item 10+110)	-	-	34,037
130. Consolidated comprehensive income pertaining to minority interests	-	-	(3,864)
140. Consolidated comprehensive income pertaining to the parent bank	-	-	30,173

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Section IV, Chapter 1 of the New Supervisory instructions for Banks is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

Section 1 *Risks of the Banking Group*

1.1 Credit risk

QUALITATIVE INFORMATION

1. General matters

The parent bank manages and coordinates the activities of the Swiss subsidiary, thereby ensuring harmonisation of credit policies at group level and a standard approach to risk management.

As outlined in the equivalent section of the notes to the parent bank's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration.

These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market in question.

2. Credit risk management policies

2.1 Organisational aspects

The process of credit risk management adopted by the parent bank and the structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the parent bank, allowing for differences in size and the area in which they operate.

2.2 Systems for managing, measuring and monitoring

As part of its coordination activities, the parent bank requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which it applies to customer loans. This system does not use statistical methods, which would in any case be inapplicable because of the brevity of the historical database; instead, it is based entirely on the subjective assessment and discretion of the credit and loans department. This approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed.

2.3 Credit risk mitigation techniques

As part of its functions of coordination and control, the parent bank requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained.

This risk is controlled by the subsidiary Banca Popolare di Sondrio (Suisse) SA by means of monitoring tools that are substantially similar to those of the parent bank, as described in the corresponding Section in the explanatory notes. Note that lending to households and businesses with mortgage backing or financial collateral is long-standing practice in Switzerland.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind.

2.4 Impaired financial assets

As part of its functions of coordination and control, the parent bank requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the parent bank, as explained in the corresponding section of the notes on the Bank.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality	Banking group					Other businesses		Total 31/12/2011
	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures	Other assets	Impaired loans	Others	
1. Financial assets held for trading	5,527	245	103	55	2,105,155	-	-	2,111,085
2. Financial assets available for sale	-	-	-	-	575,313	-	-	575,313
3. Financial assets held to maturity	586	-	-	-	219,746	-	-	220,332
4. Due from banks	-	-	-	-	1,474,093	-	-	1,474,093
5. Due from customers	272,597	378,001	83,339	222,104	22,712,709	-	185	23,668,935
6. Financial assets measured at fair value	-	-	-	-	26,754	-	-	26,754
7. Financial assets being sold	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-
Total 31/12/2011	278,710	378,246	83,442	222,159	27,113,770	-	185	28,076,512
Total 31/12/2010	213,685	252,647	63,053	229,661	24,536,286	-	253	25,295,585

The word exposures is understood as excluding equities and mutual funds.



A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/Quality	Impaired loans			Performing			Total net exposure
	Gross exposure	Specific adjustment	Net exposure	Gross exposure	General portfolio adjustment	Net exposure	
A. Banking group							
1. Financial assets held for trading	5,930	-	5,930	2,105,155	-	2,105,155	2,111,085
2. Financial assets available for sale	-	-	-	575,313	-	575,313	575,313
3. Financial assets held to maturity	586	-	586	219,746	-	219,746	220,332
4. Due from banks	-	-	-	1,474,093	-	1,474,093	1,474,093
5. Due from customers	1,331,015	374,974	956,041	22,845,339	132,630	22,712,709	23,668,750
6. Financial assets measured at fair value	-	-	-	26,754	-	26,754	26,754
7. Financial assets being sold	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total A	1,337,531	374,974	962,557	27,246,400	132,630	27,113,770	28,076,327
B. Other businesses							
1. Financial assets held for trading	-	-	-	-	-	-	-
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	-	-	-	-
5. Due from customers	-	-	-	185	-	185	185
6. Financial assets measured at fair value	-	-	-	-	-	-	-
7. Financial assets being sold	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total B	-	-	-	185	-	185	185
Total 31/12/2011	1,337,531	374,974	962,557	27,246,585	132,630	27,113,955	28,076,512
Total 31/12/2010	1,084,483	325,437	759,046	24,654,889	118,350	24,536,539	25,295,585

With reference to financial assets held for trading and those at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

The following table shows, for the aggregate «Performing loans to customers», the figures for loans subject to renegotiation under collective agreements (such as the ABI-MEF Framework Agreement for households and SMEs) and other exposures, with an ageing of any repayments that are past due.

Loans to customers of which:	Net exposure	Repayments past due for 3 months	Repayments past due from 3 to 6 months	Repayments past due over 6 months	Repayments past due for over 1 year
Subject to renegotiation under collective agreements	63,533	-	1,527	139	-

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

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. Cash exposures				
a) Non-performing loans	-	-	-	-
b) Watchlist loans	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Past due exposures	-	-	-	-
e) Other assets	1,917,272	-	-	1,917,272
Total A	1,917,272	-	-	1,917,272
B. Off-balance sheet exposures				
a) Impaired	-	-	-	-
b) Other	152,732	-	-	152,732
Total B	152,732	-	-	152,732
Total A+B	2,070,004	-	-	2,070,004

Cash exposures include the amounts due from banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives.

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

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. Cash exposures				
a) Non-performing loans	558,902	280,192	-	278,710
b) Watchlist loans	450,132	72,131	-	378,001
c) Restructured exposures	91,142	7,803	-	83,339
d) Past due exposures	236,952	14,848	-	222,104
e) Other assets	25,229,080	-	132,630	25,096,450
Total A	26,566,208	374,974	132,630	26,058,604
B. Off-balance sheet exposures				
a) Impaired	52,830	8,029	-	44,801
b) Other	5,347,263	-	-	5,347,263
Total B	5,400,093	8,029	-	5,392,064
Total A+B	31,966,301	383,003	132,630	31,450,668

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives.



A.1.7 Banking group - Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Watchlist loans	Restructure exposures	Past due exposures
A. Opening gross exposure	471,638	305,320	65,995	241,526
- of which: sold but not eliminated from the balance sheet	-	-	-	-
B. Increases	277,005	321,925	41,454	312,737
B.1 transfer from performing exposures	107,426	260,320	28,296	239,969
B.2 transfers from other categories of impaired exposure	152,392	49,402	7,979	13,007
B.3 other increases	17,187	12,203	5,179	59,761
C. Decreases	189,741	177,113	16,307	317,311
C.1 transfers to performing loans	1,015	23,919	270	80,201
C.2 write-offs	128,801	298	-	-
C.3 collections	57,840	45,543	5,940	106,501
C.4 proceeds from disposals	-	-	-	-
C.5 transfers to other categories of impaired exposure	129	105,299	10,097	107,255
C.6 other decreases	1,956	2,054	-	23,354
D. Closing gross exposure	558,902	450,132	91,142	236,952
- of which: sold but not eliminated from the balance sheet	-	-	-	-

A.1.8 Banking group - Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans	Watchlist loans	Restructure exposures	Past due exposures
A. Total opening adjustments	257,953	52,677	2,942	11,865
- of which: sold but not eliminated from the balance sheet	-	-	-	-
B. Increases	164,184	57,351	7,525	21,624
B.1 adjustments	120,437	51,115	6,089	20,641
B.2 transfers from other categories of impaired exposure	43,480	6,057	1,436	965
B.3 other increases	267	179	-	18
C. Decreases	141,945	37,897	2,664	18,641
C.1 write-backs on valuation	7,870	2,712	724	211
C.2 write-backs due to collections	4,736	1,434	8	462
C.3 write-offs	128,755	298	-	-
C.4 transfers to other categories of impaired exposure	57	32,235	1,932	17,714
C.5 other decreases	527	1,218	-	254
D. Total closing adjustments	280,192	72,131	7,803	14,848
- of which: sold but not eliminated from the balance sheet	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Banking Group - Distribution of cash loans and off-balance sheet items by external rating class

Exposure	External rating classes						Unrated	Total 31/12/2011
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposures	2,296,936	571,765	691,058	26,210	733	6,387	24,382,787	27,975,876
B. Derivatives	72	40,794	1,083	-	-	-	60,480	102,429
B.1 Financial derivatives	72	40,794	1,083	-	-	-	60,480	102,429
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	16,044	84,917	119,085	20,106	-	-	3,562,529	3,802,681
D. Commitments to make loans	52,113	50,328	32,908	-	-	-	1,504,337	1,639,686
Total	2,365,165	747,804	844,134	46,316	733	6,387	29,510,133	33,520,672

The distribution of loans to banks and customers is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations (see Circular no. 263 of 27.12.2006 «New Supervisory Instructions for Banks»).

The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Group.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
Fitch Ratings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	below B-
Standard & Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	below B-



A.2.2 Banking Group - Distribution of cash loans and off-balance sheet exposures by internal rating class

BANCA POPOLARE DI SONDRIO - PRIVATE CUSTOMERS - Exposure						Internal rating classes	
	01	02	03	04	05	06	07
A. Cash exposures	344,047	43,162	76,608	410,711	710,819	584,792	208,373
B. Derivatives	110	32	7	380	467	179	11
B.1 Financial derivatives	110	32	7	380	467	179	11
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	130,154	225	4,109	15,411	16,394	12,348	2,917
D. Commitments to make loans	1	767	6	7,713	8,406	4,355	194
Total	474,312	44,186	80,730	434,215	736,086	601,674	211,495

BANCA POPOLARE DI SONDRIO - SMALL BUSINESS Exposure						Internal rating classes	
	01	02	03	04	05	06	07
A. Cash exposures	12,227	319,904	104,192	316,219	1,067,472	300,520	173,346
B. Derivatives	-	54	7	79	406	111	152
B.1 Financial derivatives	-	54	7	79	406	111	152
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	1,785	7,695	2,694	9,484	32,801	37,435	3,913
D. Commitments to make loans	1	445	2,793	19,033	12,024	3,807	9,005
Total	14,013	328,098	109,686	344,815	1,112,703	341,873	186,416

BANCA POPOLARE DI SONDRIO - MICRO-ENTERPRISES - Exposure						Internal rating classes	
	01	02	03	04	05	06	07
A. Cash exposures	61,882	76,448	126,198	286,938	883,050	1,018,357	855,112
B. Derivatives	886	292	29	216	945	123	17
B.1 Financial derivatives	886	292	29	216	945	123	17
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	5,457	4,380	11,459	33,352	110,018	66,108	42,196
D. Commitments to make loans	2,194	2,873	1,786	15,044	84,870	54,789	51,198
Total	70,419	83,993	139,472	335,550	1,078,883	1,139,377	948,523

BANCA POPOLARE DI SONDRIO - SMEs - Exposure						Internal rating classes	
	01	02	03	04	05	06	07
A. Cash exposures	42,933	33,038	91,379	195,683	744,990	1,107,965	704,843
B. Derivatives	39	36	44	26	1,417	1,901	406
B.1 Financial derivatives	39	36	44	26	1,417	1,901	406
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	28,107	8,219	21,912	27,448	203,716	145,265	85,693
D. Commitments to make loans	2,207	2,485	6,103	9,218	41,388	39,520	35,002
Total	73,286	43,778	119,438	232,375	991,511	1,294,651	825,944

08	09	10	11	12	13	Insolvent	Total 31/12/2011
162,070	78,115	38,751	45,497	24,620	84,686	162,138	2,974,389
808	2	-	1	-	-	17	2,014
808	2	-	1	-	-	17	2,014
-	-	-	-	-	-	-	-
1,551	434	227	1,326	231	514	955	186,796
453	79	50	26	-	66	817	22,933
164,882	78,630	39,028	46,850	24,851	85,266	163,927	3,186,132

08	09	10	11	12	13	Insolvent	Total 31/12/2011
157,304	61,877	49,975	84,200	27,889	77,207	116,248	2,868,580
1	33	-	1,342	-	-	-	2,185
1	33	-	1,342	-	-	-	2,185
-	-	-	-	-	-	-	-
5,901	1,661	1,217	2,095	1,127	1,986	2,121	111,915
3,198	754	511	68	253	253	287	52,432
166,404	64,325	51,703	87,705	29,269	79,446	118,656	3,035,112

08	09	10	11	12	13	Insolvent	Total 31/12/2011
692,862	279,376	111,189	60,370	44,759	106,454	365,097	4,968,092
28	26	4	-	-	-	245	2,811
28	26	4	-	-	-	245	2,811
-	-	-	-	-	-	-	-
36,186	15,297	3,274	4,913	2,431	3,027	5,202	343,300
41,264	1,069	6,281	1,001	102	2,273	7,232	271,976
770,340	295,768	120,748	66,284	47,292	111,754	377,776	5,586,179

08	09	10	11	12	13	Insolvent	Total 31/12/2011
480,361	348,962	173,257	100,074	41,016	97,039	164,133	4,325,673
40	401	1	-	-	373	103	4,787
40	401	1	-	-	373	103	4,787
-	-	-	-	-	-	-	-
25,554	33,221	7,428	3,436	863	5,830	9,375	606,067
10,598	15,848	7,584	301	35	3,000	4,040	177,329
516,553	398,432	188,270	103,811	41,914	106,242	177,651	5,113,856



BANCA POPOLARE DI SONDRIO - LARGE AND PUBLIC ENTERPRISES -							Internal rating classes	
Exposure	01	02	03	04	05	06	07	
A. Cash exposures	17,812	77,717	216,631	371,013	359,544	109,550	78,989	
B. Derivatives	114	5,582	1	506	247	292	-	
B.1 Financial derivatives	114	5,582	1	506	247	292	-	
B.2 Credit derivatives	-	-	-	-	-	-	-	
C. Guarantees given	38,804	85,244	215,935	537,265	281,774	75,094	39,837	
D. Commitments to make loans	-	7,048	2	82,819	6,230	5,880	2,317	
Total	56,730	175,591	432,569	991,603	647,795	190,816	121,143	

BANCA POPOLARE DI SONDRIO BANKS - Exposure				Internal rating classes	
	01	02	03	04	
A. Cash exposures	-	-	31,382	27,997	
B. Derivatives	-	-	1	394	
B.1 Financial derivatives	-	-	1	394	
B.2 Credit derivatives	-	-	-	-	
C. Guarantees given	-	-	15,794	1,439	
D. Commitments to make loans	-	-	100	205	
Total	-	-	47,277	30,035	

BANCA POPOLARE DI SONDRIO (SUISSE) - CUSTOMERS - Exposure				Internal rating classes	
	R1	R2	R3	R3G	
A. Cash exposures	-	2,540	337,039	290,726	
Total	-	2,540	337,039	290,726	

Banca Popolare di Sondrio (Suisse) SA has its own customer rating system, which it only applies to customer loans. This system splits the loan book into 10 different risk categories. The 1st category identifies customers with the lowest risk, while the R7 and R8 categories indicate a state of insolvency.

Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

08	09	10	11	12	13	Insolvent	Total 31/12/2011
88,534	89,465	60,540	34,095	13,623	4,116	44,603	1,566,232
88	760	-	-	-	-	-	7,590
88	760	-	-	-	-	-	7,590
-	-	-	-	-	-	-	-
24,535	23,623	15,777	62,214	896	9,746	789	1,411,533
4,000	6,966	-	-	5,260	-	2,513	123,035
117,157	120,814	76,317	96,309	19,779	13,862	47,905	3,108,390

05	06	07	08	09	Insolvent	Total 31/12/2011
60,409	33,055	135	686	-	-	153,664
15	30	-	-	-	-	440
15	30	-	-	-	-	440
-	-	-	-	-	-	-
-	7,884	120	1,870	-	-	27,107
-	-	-	-	-	-	305
60,424	40,969	255	2,556	-	-	181,516

R4	R4G	R5	R6	R7	R8	Total 31/12/2011
1,492,663	227,383	66,211	7,460	119	74	2,424,215
1,492,663	227,383	66,211	7,460	119	74	2,424,215



A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Exposure» column are stated net of specific and portfolio adjustments. The guarantees are split on the basis of this exposure.

The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed.

A.3.1 Banking group - Guaranteed cash exposure to banks

	Net exposure	Secured guarantees (1)		Other secured guarantees
		Buildings	Securities	
1. Guaranteed cash exposures:				
1.1 fully guaranteed	9,226	-	824	-
- of which: impaired	-	-	-	-
1.2 partially guaranteed	6,629	-	195	-
- of which: impaired	-	-	-	-
2. Guaranteed off-balance sheet exposures:				
2.1 fully guaranteed	12,250	-	-	-
- of which: impaired	-	-	-	-
2.2 partially guaranteed	360	-	-	-
- of which: impaired	-	-	-	-

A.3.2 Banking group - Guaranteed cash exposure to customers

	Net exposure	Secured guarantees (1)		Other secured guarantees
		Buildings	Securities	
1. Guaranteed cash exposures:				
1.1 fully guaranteed	14,337,351	25,869,256	404,357	162,918
- of which: impaired	678,915	1,325,915	32,625	3,911
1.2 partially guaranteed	1,047,473	3,299	100,505	26,614
- of which: impaired	84,799	929	5,648	1,797
2. Guaranteed off-balance sheet exposures:				
2.1 fully guaranteed	1,524,998	600,873	49,847	37,326
- of which: impaired	22,610	13,066	2,336	12
2.2 partially guaranteed	256,404	-	20,457	4,618
- of which: impaired	1,810	-	148	306

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2011
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Government and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	-	-	3,650	4,900	9,374	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	5,610	-	5,805	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	12,250	12,250	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	349	349	
-	-	-	-	-	-	-	-	-	-	

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2011
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Government and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	-	25,462	169,213	9,758,826	36,390,032	
-	-	-	-	-	-	1,206	1,445	717,877	2,082,979	
-	-	-	-	-	-	2,533	8,252	583,694	724,897	
-	-	-	-	-	-	265	-	34,778	43,417	
-	-	-	-	-	-	211	94,476	1,896,246	2,678,979	
-	-	-	-	-	-	5	-	34,122	49,541	
-	-	-	-	-	-	-	269	150,154	175,498	
-	-	-	-	-	-	-	-	1,258	1,712	



B. Distribution and concentration of lending

B.1 Banking group - Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

Exposures/Counterparties	Government			Other public entities		
	Net exposure	Specific adjustment	Portfolio adjustment	Net exposure	Specific adjustment	Portfolio adjustment
A. Cash exposures						
A.1 Non-performing loans	-	-	-	-	-	-
A.2 Watchlist loans	-	188	-	1,036	372	-
A.3 Restructured exposures	-	-	-	-	-	-
A.4 Past due exposures	12,036	665	-	6	-	-
A.5 Other exposures	2,193,800	-	-	100,920	-	198
Total A	2,205,836	853	-	101,962	372	198
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Watchlist loans	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	77,145	-	-	35,756	-	-
Total B	77,145	-	-	35,756	-	-
Total 31/12/2011	2,282,981	853	-	137,718	372	198
Total 31/12/2010	2,419,210	188	5	125,112	102	45

B.2 Banking group - Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures				
A.1 Non-performing loans	271,135	269,940	1,103	10,151
A.2 Watchlist loans	376,394	71,451	1,602	679
A.3 Restructured exposures	83,339	7,803	-	-
A.4 Past due exposures	220,575	14,800	1,527	48
A.5 Other exposures	22,078,393	117,401	2,879,431	14,954
Total A	23,029,836	481,395	2,883,663	25,832
B. Off-balance sheet exposures				
B.1 Non-performing loans	4,118	5,850	-	1
B.2 Watchlist loans	32,001	2,177	8	1
B.3 Other impaired assets	5,624	-	3,050	-
B.4 Other exposures	4,884,842	-	438,619	-
Total B	4,926,585	8,027	441,677	2
Total 31/12/2011	27,956,421	489,422	3,325,340	25,834
Total 31/12/2010	26,497,882	425,481	2,802,212	23,466



Financial businesses			Insurance companies			Non-financial companies			Other parties		
Net exposure	Specific adjustment	Portfolio adjustment	Net exposure	Specific adjustment	Portfolio adjustment	Net exposure	Specific adjustment	Portfolio adjustment	Net exposure	Specific adjustment	Portfolio adjustment
10,591	7,120	-	-	194	-	218,902	219,900	-	49,217	52,978	-
3,556	1,600	-	-	-	-	287,081	57,325	-	86,328	12,646	-
7,568	293	-	-	-	-	74,912	7,505	-	859	5	-
126	11	-	-	-	-	122,907	8,620	-	87,029	5,552	-
1,828,907	-	7,978	21,505	-	8	15,449,510	-	93,167	5,501,808	-	31,279
1,850,748	9,024	7,978	21,505	194	8	16,153,312	293,350	93,167	5,725,241	71,181	31,279
1	3	-	-	17	-	4,021	5,818	-	96	13	-
-	-	-	-	-	-	25,272	1,489	-	6,737	689	-
-	-	-	-	-	-	8,354	-	-	320	-	-
303,690	-	-	56	-	-	4,370,423	-	-	560,193	-	-
303,691	3	-	56	17	-	4,408,070	7,307	-	567,346	702	-
2,154,439	9,027	7,978	21,561	211	8	20,561,382	300,657	93,167	6,292,587	71,883	31,279
1,797,272	11,873	5,540	22,670	1,900	14	19,253,713	265,266	85,695	5,955,423	54,218	28,064

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
6,472	101	-	-	-	-
4	-	1	-	-	1
-	-	-	-	-	-
1	-	1	-	-	-
114,052	219	21,411	37	3,159	19
120,529	320	21,413	37	3,159	20
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,505	-	2,999	-	17,298	-
3,505	-	2,999	-	17,298	-
124,034	320	24,412	37	20,457	20
210,134	3,897	41,409	48	21,763	18



B.3 Banking group - Distribution by sector of the cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures				
A.1 Non-performing loans	-	-	-	-
A.2 Watchlist loans	-	-	-	-
A.3 Restructured exposures	-	-	-	-
A.4 Past due exposures	-	-	-	-
A.5 Other exposures	1,629,222	-	167,589	-
Total A	1,629,222	-	167,589	-
B. Off-balance sheet exposures				
B.1 Non-performing loans	-	-	-	-
B.2 Watchlist loans	-	-	-	-
B.3 Other impaired assets	-	-	-	-
B.4 Other exposures	66,362	-	72,259	-
Total B	66,362	-	72,259	-
Total 31/12/2011	1,695,584	-	239,848	-
Total 31/12/2010	1,209,070	-	231,363	-

B.4 Significant risks

	31/12/2011	31/12/2010
a1) Amount («nominal»)	7,473,328	8,380,723
a2) Amount («risk position»)	3,088,812	3,172,258
b) Number	14	18

The exposure limit of 10% of capital for supervisory purposes - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
33,817	-	29,588	-	57,056	-
33,817	-	29,588	-	57,056	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
13,276	-	452	-	383	-
13,276	-	452	-	383	-
47,093	-	30,040	-	57,439	-
51,764	-	6,903	-	1,686	-



C. Securitisation transactions and disposal of assets

C.2 Disposals

C.2.1 Financial assets sold and not eliminated from the balance sheet

Technical forms/Portfolio	Financial assets held for trading			Financial assets carried at fair value			Financial assets available for sale		
	A	B	C	A	B	C	A	B	C
A. Cash assets	773,333	-	-	-	-	-	298,287	-	-
1. Fixed-yield securities	773,333	-	-	-	-	-	298,287	-	-
2. Variable-yield securities	-	-	-	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-	-	-	-
Total 31/12/2011	773,333	-	-	-	-	-	298,287	-	-
of which: impaired	-	-	-	-	-	-	-	-	-
Total 31/12/2010	1,732,379	-	-	-	-	-	-	-	-
of which: impaired	-	-	-	-	-	-	-	-	-

Key:

A = financial assets sold and recognised in full (book value)

B = financial assets sold and recognised in part (book value)

C = financial assets sold and recognised in part (full value)

C.2.2 Financial liabilities associated with assets sold and not eliminated from the balance sheet

	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Due from customers	Total 31/12/2011
1. Due to customers	-	-	-	-	-	-	-
a) for assets recognised in full	674,343	-	303,301	-	-	-	977,644
b) for assets recognised in part	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	-	-	-
a) for assets recognised in full	103,291	-	-	-	-	-	103,291
b) for assets recognised in part	-	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
b) for assets recognised in part	-	-	-	-	-	-	-
Total 31/12/2011	777,634	-	303,301	-	-	-	1,080,935
Total 31/12/2010	1,747,431	-	-	-	-	-	1,747,431



Financial assets held to maturity			Due from banks			Due from customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2011	31/12/2010
-	-	-	-	-	-	-	-	-	- 1,071,620	1,732,379
-	-	-	-	-	-	-	-	-	- 1,071,620	1,732,379
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	- 1,071,620	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	- 1,732,379
-	-	-	-	-	-	-	-	-	-	-



1.2 Banking group - Market risk

1.2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

Factorit s.p.a. and Sinergia Seconda S.r.l. are not exposed to rate and price risk related to the trading portfolio.

The interest rate risk deriving from Banca Popolare di Sondrio (Suisse) SA's trading portfolio relates to investments in fixed-yield securities.

These are for both investment purposes - the positions are held until their natural maturity - and trading purposes in a strict sense. The portfolio mainly comprises prime fixed-yield securities with a definite life.

The price risk deriving from the subsidiary's trading portfolio relates to investments in variable-yield securities of prime issuers, above all, in mutual funds managed by the Group (Popso (Suisse) Investment Fund Sicav).

These are mainly held as an investment, for the long term, rather than for trading in the strictest sense.

The subsidiary's accounting department performs a monthly valuation in order to reflect any adverse price changes in the income statement, while the Asset Management office monitors the situation during the month, consistent with the procedure followed in relation to customer assets under administration. The subsidiary's General Management presents a report on the status of the trading portfolio to its Board of Directors every month.

B. Management and measurement of interest rate risk and price risk

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

The parent bank assesses the subsidiary's degree of market risk (measurement of VaR) based on information provided by the company's own risk management unit.

The approach adopted for analysing the sensitivity to interest rate risk - solely in relation to fixed-yield securities held at year end - and to price risk - limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties and relating to period end - essentially reflect the internal model used by the Parent Company to calculate Value at Risk (VaR), as described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the parent bank's trading portfolio for supervisory purposes: as for interest rate risk, fixed-yield securities of the parent bank or of the subsidiary and forward contracts on fixed-yield securities; as for the price risk, variable-yield securities and mutual funds, included in the trading portfolio for supervisory purposes of the parent bank; moreover, the variable-yield securities and mutual funds, of the subsidiary, excluding equity investments and the two variable-yield securities classified as «financial assets available for sale», included in the bank book. The price risk on foreign currency mutual funds also includes exchange risk.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The policies and procedures for the ex post comparison of the model's results with the actual results («back testing») are only applied to the variable-yield securities and mutual funds held by the parent bank in its trading portfolio for supervisory purposes.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	540	1,705,029	328,358	4	227,333	16,466	8,685	-
1.1 Fixed-yield securities	250	1,379,815	328,358	4	227,333	16,466	8,685	-
- with early repayment option	-	42,861	-	-	132	-	-	-
- other	250	1,336,954	328,358	4	227,201	16,466	8,685	-
1.2 Other assets	290	325,214	-	-	-	-	-	-
2. Cash liabilities	1,330	1,070,973	160	-	-	-	-	-
2.1 Repurchase agreements	1,330	1,070,973	160	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	7,125,633	894,615	501,710	874,401	379,824	73,244	-
3.1 With underlying security	-	108,911	84,999	14,657	23,347	-	-	-
- Options	-	8,637	7,884	14,657	4,466	-	-	-
+ Long positions	-	4,323	3,946	7,336	2,234	-	-	-
+ Short positions	-	4,314	3,938	7,321	2,232	-	-	-
- Other derivatives	-	100,274	77,115	-	18,881	-	-	-
+ Long positions	-	47,775	40,911	-	9,425	-	-	-
+ Short positions	-	52,499	36,204	-	9,456	-	-	-
3.2 Without underlying security	-	7,016,722	809,616	487,053	851,054	379,824	73,244	-
- Options	-	15,372	38,827	187,928	567,055	298,142	31,778	-
+ Long positions	-	7,686	19,396	93,981	283,527	149,072	15,889	-
+ Short positions	-	7,686	19,431	93,947	283,528	149,070	15,889	-
- Other derivatives	-	7,001,350	770,789	299,125	283,999	81,682	41,466	-
+ Long positions	-	3,999,035	385,856	148,424	142,928	40,841	20,733	-
+ Short positions	-	3,002,315	384,933	150,701	141,071	40,841	20,733	-

**Currency: USD**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	621	10	-	-
1.1 Fixed-yield securities	-	-	-	-	621	10	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	621	10	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	4,378,704	256,688	283,992	14,063	-	-	-
3.1 With underlying security	-	9,374	8,559	15,698	4,792	-	-	-
- Options	-	9,374	8,559	15,698	4,792	-	-	-
+ Long positions	-	4,687	4,280	7,849	2,396	-	-	-
+ Short positions	-	4,687	4,279	7,849	2,396	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	4,369,330	248,129	268,294	9,271	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	4,369,330	248,129	268,294	9,271	-	-	-
+ Long positions	-	2,203,099	124,652	134,545	4,596	-	-	-
+ Short positions	-	2,166,231	123,477	133,749	4,675	-	-	-

**Currency: CHF**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	1,644	419	7,909	519	-	812
1.1 Fixed-yield securities	-	-	1,644	419	7,909	519	-	812
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	1,644	419	7,909	519	-	812
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	1,939,317	64,987	16,256	2,328	-	-	-
3.1 With underlying security	-	394	-	1,776	-	-	-	-
- Options	-	394	-	1,776	-	-	-	-
+ Long positions	-	197	-	888	-	-	-	-
+ Short positions	-	197	-	888	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	1,938,923	64,987	14,480	2,328	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	1,938,923	64,987	14,480	2,328	-	-	-
+ Long positions	-	467,912	31,121	7,507	337	-	-	-
+ Short positions	-	1,471,011	33,866	6,973	1,991	-	-	-

**Currency: YEN**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Fixed-yield securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	209,580	2,398	6,040	2,196	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	209,580	2,398	6,040	2,196	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	209,580	2,398	6,040	2,196	-	-	-
+ Long positions	-	77,545	1,298	3,046	1,098	-	-	-
+ Short positions	-	132,035	1,100	2,994	1,098	-	-	-

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Fixed-yield securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	569,545	32,091	36,503	16,676	-	-	-
3.1 With underlying security	-	8,810	-	-	-	-	-	-
- Options	-	8,810	-	-	-	-	-	-
+ Long positions	-	4,405	-	-	-	-	-	-
+ Short positions	-	4,405	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	560,735	32,091	36,503	16,676	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	560,735	32,091	36,503	16,676	-	-	-
+ Long positions	-	289,300	16,246	18,840	8,338	-	-	-
+ Short positions	-	271,435	15,845	17,663	8,338	-	-	-

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	Italy	United States	United Kingdom	Japan	Germany	Other	
A. Equities	34,254	-	-	-	2,653	3,294	1,796
- long positions	34,254	-	-	-	2,653	3,294	1,796
- short positions	-	-	-	-	-	-	-
B. Purchase/sale transactions not yet settled in variable-yield securities	64	-	-	-	-	-	-
- long positions	64	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
C. Other derivatives on variable-yield securities	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
D. Derivatives on stock indices	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-



3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities and forward contracts on fixed-yield securities of the parent bank	3,092.0
Fixed-yield securities BPS Suisse	26.1
Total interest rate risk	3,084.7
Parent bank	2,646.6
BPS Suisse	233.3
Total Price risk	2,812.3
Total Interest rate risk and price risk	4,824.0

1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

For Factorit Spa, interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

As with the parent bank, the principal source of interest rate risk for the subsidiary derives from fixed-rate lending (mortgage loans). The General Management of the subsidiary is assisted by the AL.CO. (Asset & Liability Management Committee) which, each month, analyses the gaps by duration in order to monitor risk trends and make the appropriate decisions.

The subsidiary's board of directors has established prudent gap limits in order to minimise risk and receives a specific quarterly report from General Management, which is signed off by the Internal Audit Department.

In accordance with the relevant Swiss regulations, a quarterly gap analysis and duration analysis is performed, covering the entire balance sheet exposure (including therefore both the trading and the investment portfolios), in order to measure the impact on profits and equity of a change of 100 basis points over a twelve-month period in relation to the principal balance sheet currencies.

The measurement and control of interest rate risk essentially consists of an internal model for strategic Asset & Liability Management (ALM) regarding the parent bank, as described in the corresponding section of the notes to the separate financial statements, and a model for the subsidiary bank. In addition to the official report on the overall position of the subsidiary bank, mentioned above, this model reports each month on gaps with a duration of more than one year deriving from fixed-rate funding and lending transactions involving the bank book. In addition, stress tests are performed on a quarterly basis in order to measure the effect on profits and equity of anomalous and unexpected changes in the rate curve for the principal balance sheet currencies.

As for price risk, the parent bank assesses the price risk exposure (measurement of VaR) of the subsidiary using information provided by the latter.

The analysis of sensitivity to price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties and relating to period end – essentially involves application of an internal model of the parent bank for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the parent bank's investment book, excluding investment in Banca Popolare di Sondrio (Suisse) SA Factorit s.p.a. and Sinergia Seconda s.r.l.; in addition, this includes the variable-yield security held by the subsidiary and classified as «financial assets available for sale» and the one classified under «equity investments», as well as the two variable-yield securities belonging to Sinergia Seconda S.r.l., also classified under «equity investments».

These last three unlisted securities were measured at consolidated book value in the VaR calculation. The price risk on foreign currency mutual funds also includes exchange risk.

B. Fair value hedges

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (Suisse) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the parent bank.

C. Cash flow hedges

The Group has not arranged any cash-flow hedges.



QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: CHF

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. Financial derivatives	11,558	539,414	615,037	93,534	597,154	284,798	411	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	11,558	539,414	615,037	93,534	597,154	284,798	411	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	11,558	539,414	615,037	93,534	597,154	284,798	411	-
+ Long positions	11,517	475,248	581,720	2,468	-	-	-	-
+ Short positions	41	64,166	33,317	91,066	597,154	284,798	411	-

2. Bank book - internal models and other methodologies for the analysis of sensitivity Interest rate risk

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

The data supplied by the subsidiary Banca Popolare di Sondrio (Suisse) SA are reported below (including data related to the trading portfolio).

Effect on profits of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-4.036	0.308	-0.050
average	-2.836	-1.239	-0.220
maximum	-5.921	-5.821	-0.853
minimum	2.932	-0.168	0.007

Effect on equity of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-16.050	-0.120	-0.060
average	-15.523	-0.408	-0.038
maximum	-17.270	-0.710	-0.070
minimum	-12.900	-0.120	-0.010

Price Risk

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent bank (excluding the equity investments Suisse, Factorit and Sinergia)	9,588.7
BPS Suisse	14.2
Sinergia Seconda	0.8
Total	9,599.7

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

Exchange risk is marginal for Factorit s.p.a., given the company's policy of systematic hedging of foreign currency amounts. This risk exists principally, though for limited volumes, in the case of: fee and interest income not offset by interest expense in a currency other than the euro; guarantees in foreign currencies versus operations in euro.

Sinergia Seconda S.r.l. is not exposed to exchange risk, as it does not own assets and liabilities in foreign currency.

Except with regard to securities held in the trading portfolio, Banca Popolare di Sondrio (Suisse) SA enters into currency transactions to satisfy customer requirements and to cover transitory treasury mismatches, which in any case are contained within the prudent limits established by the subsidiary's Board of Directors and General Management.

The measurement and control of exchange risk - with reference to the situation at year end - essentially involves application of the parent bank's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to exchange risk included in the parent bank's investment book, excluding financial derivatives (in a strict sense) traded by the Exchange Centre, other than forward contracts on exchange rates and excluding all balances with Banca Popolare di Sondrio (Suisse) SA and the investment in it; it also covers all of the assets and liabilities in foreign currency (excluding gold and currencies other than those taken into consideration by the parent bank), on and off the balance sheet, pertaining to the subsidiary, which are shown on table 1 below, excluding other financial assets (mutual funds in foreign currency, whose exchange risk is included in the price risk. Forward contracts on exchange rates of the parent bank and fixed and variable-yield securities are treated analytically, whereas the overall difference by individual currency of the other items is treated as a deposit (positive or negative) with a due date of one day.

B. Hedging of exchange risk

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

The activities of the subsidiary are consistent with those of the parent bank.

The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.



QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. Financial assets	927,351	13,272	89,540	2,920,559	703	24,876
A.1 Fixed-yield securities	631	-	-	11,303	-	-
A.2 Variable-yield securities	826	1,632	1,592	1,598	-	-
A.3 Loans to banks	150,407	9,704	50,446	22,267	593	14,983
A.4 Loans to customers	775,487	1,936	37,502	2,885,391	110	9,893
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	2,621	834	228	58,641	158	729
C. Financial liabilities	970,271	26,048	32,723	1,722,268	5,251	40,023
C.1 Due to banks	528,664	2,725	25,051	269,994	468	10,080
C.2 Due to customers	441,607	23,323	7,672	1,293,839	4,783	29,943
C.3 Fixed-yield securities	-	-	-	158,435	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	2,308	199	938	145,213	-	16
E. Financial derivatives	4,934,228	328,612	220,212	2,022,886	53,270	272,938
- Options	38,426	-	-	2,170	-	8,810
+ Long positions	19,213	-	-	1,085	-	4,405
+ Short positions	19,213	-	-	1,085	-	4,405
- Other	4,895,802	328,612	220,212	2,020,716	53,270	264,128
+ Long positions	2,467,282	171,177	82,986	506,876	27,490	134,059
+ Short positions	2,428,520	157,435	137,226	1,513,840	25,780	130,069
Total assets	3,416,467	185,283	172,754	3,487,161	28,351	164,069
Total liabilities	3,420,312	183,682	170,887	3,382,406	31,031	174,513
Net balance (+/-)	(3,845)	1,601	1,867	104,755	(2,680)	(10,444)

2. Internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent bank (net of eliminations)	1,225.1
BPS Suisse (net of eliminations)	1,965.6
Factorit (net of eliminations)	456.7
Total	876.1
Details of the principal currencies	
US Dollars	38.4
Sterling	13.6
Japanese Yen	6.3
Swiss Francs	861.1
Canadian Dollars	29.7
Other currencies	108.9
Total	876.1

1.2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

Underlying assets/Type of derivative	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Fixed-yield securities and interest rates	865,376	-	953,782	-
a) Options	159,618	-	264,576	-
b) Swap	705,758	-	689,206	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Variable-yield securities and stock indices	20,880	-	20,880	-
a) Options	20,880	-	20,880	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	6,628,101	-	6,092,557	-
a) Options	93,047	-	76,495	-
b) Swap	40,231	-	-	-
c) Forward	6,494,823	-	6,016,062	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	13,291	-	12,974	-
5. Other underlying assets	-	-	-	-
Total	7,527,648	-	7,080,193	-
Averages	7,303,921	-	6,893,941	-



A.2 Bank book: notional amounts at period end and averages

A.2.1 For hedging

Underlying assets/Type of derivative	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Fixed-yield securities and interest rates	1,059,395	-	864,163	-
a) Options	-	-	-	-
b) Swap	1,059,395	-	864,163	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Variable-yield securities and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	1,059,395	-	864,163	-
Averages	961,779	-	724,512	-

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

Portfolio/Type of derivatives	POSITIVE FAIR VALUE			
	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Trading portfolio for supervisory purposes	102,357	-	83,077	-
a) Options	2,891	-	3,168	-
b) Interest rate swap	17,122	-	15,806	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	81,758	-	62,788	-
f) Futures	-	-	-	-
g) Other	586	-	1,315	-
B. Bank book - for hedging purposes	-	-	940	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	940	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Bank book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	102,357	-	84,017	-



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

Portfolio/Type of derivatives	NEGATIVE FAIR VALUE			
	Total 31/12/2011		Total 31/12/2010	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Trading portfolio for supervisory purposes	104,793	-	100,311	-
a) Options	2,856	-	3,136	-
b) Interest rate swap	14,738	-	13,636	-
c) Cross currency swap	302	-	-	-
d) Equity swap	-	-	-	-
e) Forward	86,336	-	82,241	-
f) Futures	-	-	-	-
g) Other	561	-	1,298	-
B. Bank book - for hedging purposes	47,110	-	23,601	-
a) Options	-	-	-	-
b) Interest rate swap	47,110	-	23,601	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Bank book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	151,903	-	123,912	-

A.5 Over the Counter financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
1) Fixed-yield securities and interest rates							
- notional value	-	15,409	432,543	65,672	-	333,113	18,639
- positive fair value	-	350	341	479	-	16,212	558
- negative fair value	-	15	15,217	67	-	251	5
- future exposure	-	116	1,926	73	-	1,253	85
2) Variable-yield securities and stock indices							
- notional value	-	-	4,940	10,440	5,500	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	296	330	-	-	-
3) Currency and gold							
- notional value	-	8,292	3,816,452	1,309,128	1,045	1,027,552	465,632
- positive fair value	-	322	43,573	23,473	12	5,268	11,183
- negative fair value	-	79	46,222	4,651	10	32,784	4,930
- future exposure	-	83	36,080	13,135	10	10,577	4,638
4) Other assets							
- notional value	-	-	6,645	-	-	6,646	-
- positive fair value	-	-	175	-	-	411	-
- negative fair value	-	-	395	-	-	167	-
- future exposure	-	-	670	-	-	670	-



A.7 OTC financial derivatives - bank book: notional values, gross positive and negative fair values for counterparties - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial businesses	Insurance companies	Non-financial companies	Other parties
1) Fixed-yield securities and interest rates							
- notional value	-	-	1,059,395	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	47,110	-	-	-	-
- future exposure	-	-	7,264	-	-	-	-
2) Variable-yield securities and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Other assets							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

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

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes				
A.1 Financial derivatives on fixed-yield securities and interest rates	360,149	344,459	160,768	865,376
A.2 Financial derivatives on variable-yield securities and stock indices	20,880	-	-	20,880
A.3 Financial derivatives on exchange rates and gold	6,587,954	40,147	-	6,628,101
A.4 Financial derivatives on other instruments	12,711	580	-	13,291
B. Bank book	177,032	597,154	285,209	1,059,395
B.1 Financial derivatives on fixed-yield securities and interest rates	177,032	597,154	285,209	1,059,395
B.2 Financial derivatives on variable-yield securities and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
Total 31/12/2011	7,158,726	982,340	445,977	8,587,043
Total 31/12/2010	6,393,165	1,203,755	347,436	7,944,356

1.3 Banking group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, consists of giving priority to matching assets and liabilities, taking a prudent approach, while at the same time pursuing reasonable levels of profitability.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds. In this context, the parent bank acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The parent bank daily monitors said risk at consolidated level.

The subsidiaries control this type of risk by using adequate monitoring tools according to the type of operations that they carry on; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority. We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5 of the parent bank's financial statements, complies with the requirements of IFRS 7.39.



QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	7,152,106	806,323	476,427	1,175,701	1,310,557	852,159	1,293,144	6,038,609	4,855,378	730,842
A.1 Government securities	17,668	-	-	-	-	-	231,585	1,697,630	242,735	-
A.2 Other fixed-yield securities	6,792	-	1,722	3,070	28,625	5,724	89,751	355,440	132,330	6,114
A.3 Mutual funds	126,031	-	-	-	-	-	-	-	-	-
A.4 Loans	7,001,615	806,323	474,705	1,172,631	1,281,932	846,435	971,808	3,985,539	4,480,313	724,728
- Banks	144,203	342,639	35,000	217,600	40,664	548	293	-	-	444,665
- Customers	6,857,412	463,684	439,705	955,031	1,241,268	845,887	971,515	3,985,539	4,480,313	280,063
Cash liabilities	14,544,888	785,260	627,016	1,439,102	1,161,873	347,407	667,164	3,280,177	493,246	39,319
B.1 Deposits and current accounts	14,426,635	358,460	436,566	1,020,738	948,593	286,724	437,706	1,308,785	-	-
- Banks	569,582	88,779	35,897	51,424	320,760	5,480	100,000	1,300,000	-	-
- Customers	13,857,053	269,681	400,669	969,314	627,833	281,244	337,706	8,785	-	-
B.2 Fixed-yield securities	22,610	440	285	1,633	56,521	59,726	27,875	1,895,352	411,723	-
B.3 Other liabilities	95,643	426,360	190,165	416,731	156,759	957	201,583	76,040	81,523	39,319
Off-balance sheet transactions	951,569	1,335,024	372,204	1,437,072	3,642,732	476,220	378,850	144,741	412,778	29,976
C.1 Financial derivatives with exchange of capital	-	1,318,916	372,203	1,243,502	3,612,321	395,365	285,209	56,698	14,594	-
- Long positions	-	873,710	220,386	735,923	1,938,412	198,238	141,474	30,653	9,212	-
- Short positions	-	445,206	151,817	507,579	1,673,909	197,127	143,735	26,045	5,382	-
C.2 Financial derivatives without exchange of capital	34,616	-	-	-	-	-	-	-	-	-
- Long positions	18,513	-	-	-	-	-	-	-	-	-
- Short positions	16,103	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	916,415	16,108	1	193,515	30,320	79,462	89,992	86,822	397,167	29,976
- Long positions	11,513	16,108	1	193,515	30,320	79,462	89,992	86,822	397,167	14,988
- Short positions	904,902	-	-	-	-	-	-	-	-	14,988
C.5 Financial guarantees issued	538	-	-	55	91	1,393	3,649	1,221	1,017	-

**Currency: USD**

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	43,979	124,567	78,004	226,721	334,295	71,802	28,380	11,300	9,921	4,350
A.1 Government securities	-	-	-	-	-	-	-	-	10	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	621	-	-
A.3 Mutual funds	826	-	-	-	-	-	-	-	-	-
A.4 Loans	43,153	124,567	78,004	226,721	334,295	71,802	28,380	10,679	9,911	4,350
- Banks	23,396	92,061	7,224	17,687	2,942	754	28	-	6,177	-
- Customers	19,757	32,506	70,780	209,034	331,353	71,048	28,352	10,679	3,734	4,350
Cash liabilities	263,034	411,785	52,432	48,643	148,220	38,027	8,411	-	-	-
B.1 Deposits and current accounts	261,815	411,785	52,128	41,755	148,220	36,675	8,360	-	-	-
- Banks	9,715	397,862	16,539	1,893	91,675	1	1,509	-	-	-
- Customers	252,100	13,923	35,589	39,862	56,545	36,674	6,851	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1,219	-	304	6,888	-	1,352	51	-	-	-
Off-balance sheet transactions	32,807	298,363	254,007	950,347	2,905,104	260,350	283,996	14,064	-	-
C.1 Financial derivatives with exchange of capital	-	285,752	254,007	945,947	2,893,000	256,690	283,993	14,064	-	-
- Long positions	-	126,900	128,482	493,637	1,458,767	128,933	142,395	6,992	-	-
- Short positions	-	158,852	125,525	452,310	1,434,233	127,757	141,598	7,072	-	-
C.2 Financial derivatives without exchange of capital	29	-	-	-	-	-	-	-	-	-
- Long positions	15	-	-	-	-	-	-	-	-	-
- Short positions	14	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	32,778	12,611	-	4,400	12,104	3,660	3	-	-	-
- Long positions	-	12,611	-	4,400	12,104	3,660	3	-	-	-
- Short positions	32,778	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-



Currency: CHF

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	178,789	56,531	93,826	111,889	256,656	134,815	177,690	1,014,777	913,341	-
A.1 Government securities	-	-	-	-	-	-	-	4,173	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	1,644	419	3,736	1,331	-
A.3 Mutual funds	651	-	-	-	-	-	-	-	-	-
A.4 Loans	178,138	56,531	93,826	111,889	256,656	133,171	177,271	1,006,868	912,010	-
- Banks	13,271	-	3,738	1,129	3,967	174	-	-	-	-
- Customers	164,867	56,531	90,088	110,760	252,689	132,997	177,271	1,006,868	912,010	-
Cash liabilities	1,071,511	34,282	98,375	140,562	87,179	41,158	145,474	102,029	1,734	-
B.1 Deposits and current accounts	1,070,098	33,658	97,768	139,259	84,793	31,924	106,217	152	-	-
- Banks	3,072	9,049	78,151	119,571	6,582	-	53,570	-	-	-
- Customers	1,067,026	24,609	19,617	19,688	78,211	31,924	52,647	152	-	-
B.2 Fixed-yield securities	1,413	624	607	1,303	2,386	9,234	39,257	101,877	1,734	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	11,560	968,438	89,454	371,466	525,836	70,785	21,059	2,331	-	-
C.1 Financial derivatives with exchange of capital	-	956,889	88,694	370,687	523,050	64,985	16,256	2,331	-	-
- Long positions	-	296,474	7,175	49,199	115,264	31,120	8,395	338	-	-
- Short positions	-	660,415	81,519	321,488	407,786	33,865	7,861	1,993	-	-
C.2 Financial derivatives without exchange of capital	2	32	760	779	2,777	5,768	4,803	-	-	-
- Long positions	1	-	-	-	-	-	1,916	-	-	-
- Short positions	1	32	760	779	2,777	5,768	2,887	-	-	-
C.3 Deposits and loans to be received	11,517	11,517	-	-	-	-	-	-	-	-
- Long positions	11,517	-	-	-	-	-	-	-	-	-
- Short positions	-	11,517	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	41	-	-	-	9	32	-	-	-	-
- Long positions	-	-	-	-	9	32	-	-	-	-
- Short positions	41	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

**Currency: JPY**

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	31,526	1,200	3,651	26,693	25,609	742	256	85	105	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	1,593	-	-	-	-	-	-	-	-	-
A.4 Loans	29,933	1,200	3,651	26,693	25,609	742	256	85	105	-
- Banks	28,084	508	2,065	17,697	2,019	80	-	-	-	-
- Customers	1,849	692	1,586	8,996	23,590	662	256	85	105	-
Cash liabilities	7,773	-	-	-	24,973	-	-	-	-	-
B.1 Deposits and current accounts	7,773	-	-	-	24,973	-	-	-	-	-
- Banks	101	-	-	-	24,973	-	-	-	-	-
- Customers	7,672	-	-	-	-	-	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	25,336	99,692	32,804	42,440	59,979	2,398	6,040	2,196	-	-
C.1 Financial derivatives with exchange of capital	-	74,742	32,804	42,440	59,592	2,398	6,040	2,196	-	-
- Long positions	-	8,538	16,955	21,637	30,414	1,298	3,046	1,098	-	-
- Short positions	-	66,204	15,849	20,803	29,178	1,100	2,994	1,098	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	24,949	24,950	-	-	-	-	-	-	-	-
- Long positions	24,949	-	-	-	-	-	-	-	-	-
- Short positions	-	24,950	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	387	-	-	-	387	-	-	-	-	-
- Long positions	-	-	-	-	387	-	-	-	-	-
- Short positions	387	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-



Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	23,941	554	627	469	10,628	691	73	-	-	250
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	23,941	554	627	469	10,628	691	73	-	-	250
- Banks	23,583	554	36	-	1,111	-	-	-	-	-
- Customers	358	-	591	469	9,517	691	73	-	-	250
Cash liabilities	47,668	11,964	771	1,069	7,019	1,615	1,222	-	-	-
B.1 Deposits and current accounts	47,644	11,964	771	1,069	7,019	1,615	1,222	-	-	-
- Banks	1,376	10,154	-	321	1,400	-	-	-	-	-
- Customers	46,268	1,810	771	748	5,619	1,615	1,222	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	24	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	872	96,323	18,470	89,476	366,147	32,091	36,503	16,675	-	-
C.1 Financial derivatives with exchange of capital	-	95,547	18,470	89,476	366,051	32,091	36,503	16,675	-	-
- Long positions	-	56,003	9,659	44,812	183,231	16,246	18,840	8,338	-	-
- Short positions	-	39,544	8,811	44,664	182,820	15,845	17,663	8,337	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	872	776	-	-	96	-	-	-	-	-
- Long positions	872	-	-	-	-	-	-	-	-	-
- Short positions	-	776	-	-	96	-	-	-	-	-
C.4 Irrevocable commitments to make loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

1.4 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The notes to the bank's separate financial statements explain the system used to identify losses and to monitor operational risk.

This system is also used by the subsidiaries, albeit with a few adjustments to adapt it to the local operating context.

QUANTITATIVE INFORMATION

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements; as regards the subsidiaries, it has been seen that the largest loss events are due to errors in day-to-day activities and, as for the parent bank, they are generally recovered.

In this regard, we would observe that the loss events recorded by Factorit all relate to risks that arose from the second half of 2010; the Swiss subsidiary's exposure is, in any case, extremely limited due to the way internal control is organised, with the presence of specialists and action directly at operating unit level.

The following table summarises the banking group's losses from risk events that took place in the last three years.

Sources of losses from 01/01/2009 to 31/12/2011

	No. of events	% of events	Gross loss	% of total	Net loss	% of total	% recovered
Fraud	209	27.54%	1,667,787	10.76%	636,207	14.89%	61.85%
Settlements and legal disputes	77	10.14%	2,070,068	13.35%	1,990,000	46.58%	3.87%
Damage to fixed assets	72	9.49%	574,662	3.71%	405,167	9.48%	29.49%
Errors in carrying out transactions	354	46.64%	10,896,817	70.27%	950,671	22.25%	91.28%
Other	47	6.19%	295,897	1.91%	290,735	6.80%	1.74%
Total	759	100.00%	15,505,231	100.00%	4,272,779	100.00%	72.44%

(Amounts in euro)

Key:

Fraud = bank robberies, theft, false instructions, cloning debit and credit cards, forging cheques, disloyalty.

Settlements and legal disputes = settlements reached with customers, transactions contrary to the rules of proper conduct and prudent provisions for legal disputes.

Errors in carrying out transactions = errors in day-to-day operations, in the execution of processes, in relations with vendors or suppliers.

Damage to fixed assets = accidents, damage caused to third parties, structural failures and breakdowns.

Other = violations of the regulations on lending, safety in the workplace and system breakdowns.

Information on exposure to sovereign debt

Consob with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard we communicate that the overall exposure of the Group as at 31/12/2011 amounted to € 2,812 million and was structured as follows:

- a) Italian Government securities: € 2,192 million;
- b) Other issuers securities: € 16 million;
- c) Loans to public administrations: € 12 million;
- d) Loans to local administrations: € 46 million;
- e) Loans to local or state-owned enterprises: € 367 million;
- f) Loans to other public administrations and other entities: € 179 million.



PART F *Information on equity*

Section 1 *Consolidated capital*

QUALITATIVE INFORMATION

The need for banks to have adequate capital has been made even more imperative by the systemic crisis currently underway and by increasingly stringent regulations issued by supervisory bodies.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of the Group features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases - the latest dating back to 2007 - have always been taken up en masse, as reflected in the total number of shareholders that we have reached.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

QUANTITATIVE INFORMATION

The component parts and size of the Group's capital and equity are described in Part B, Section 15 of these notes to the financial statements.

B.1 Consolidated equity broken down by type of businesses

Equity items	Banking group	Insurance companies	Other businesses	Consolidated eliminations and adjustments	Total
1. Share capital	958,019	-	2,084	(2,084)	958,019
2. Share premium reserve	176,868	-	-	-	176,868
3. Reserves	767,434	-	731	(23,159)	745,006
4. Equity instruments	-	-	-	-	-
5. Treasury shares (-)	(26,079)	-	-	-	(26,079)
6. Valuation reserve:	(43,630)	-	192	-	(43,438)
- Financial assets available for sale	(43,565)	-	-	-	(43,565)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash-flow hedges	-	-	-	-	-
- Exchange differences	-	-	-	-	-
- Non-current assets held for sale and discontinued operations	-	-	-	-	-
- Actuarial profits (losses) on defined-benefit plans	(65)	-	-	-	(65)
- Share of valuation reserves of equity investments valued at net equity	-	-	-	-	-
- Special revaluation regulations	-	-	192	-	192
7. Net profit for the year	65,985	-	(2,299)	14,530	78,216
Equity	1,898,597	-	708	(10,713)	1,888,592

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

Assets/Values	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		Total 31/12/2011	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	-	(44,312)	-	-	-	-	-	-	-	(44,312)
2. Variable-yield securities	752	(1,019)	-	-	-	-	-	-	752	(1,019)
3. Mutual funds	1,014	-	-	-	-	-	-	-	1,014	-
4. Loans	-	-	-	-	-	-	-	-	-	-
Total	1,766	(45,331)	-	-	-	-	-	-	1,766	(45,331)
Total 31/12/2010	1,171	(557)	-	-	-	-	-	-	1,171	(557)



B.3 Valuation reserves for financial assets available for sale: change in year

	Fixed yield securities	Variable yield securities	Mutual funds	Loans
1. Opening balance	(15)	658	(29)	-
2. Positive changes	-	-	1,043	-
2.1 Increases in fair value	-	-	811	-
2.2 Release to the income statement of negative reserves	-	-	232	-
- from impairment	-	-	232	-
- from disposals	-	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	44,297	925	-	-
3.1 Reductions in fair value	44,297	799	-	-
3.2 Impairment write-downs	-	126	-	-
3.3 Transfer to income statement from positive reserves: from disposals	-	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	(44,312)	(267)	1,014	-

Section 2 Capital and capital adequacy ratios

2.2 Capital for supervisory purposes

QUALITATIVE INFORMATION

Capital for supervisory purposes is determined in accordance with the rules laid down by the Bank of Italy in its 14th update of Circular Letter 155 «Instructions for the reporting of capital and capital ratios».

This is the main point of reference for the Supervisory Body when assessing the stability of the bank and of the system. The principal prudent control mechanisms all make reference to capital for supervisory purposes: the requirements to cover market risk and the rules governing the concentration of risk. It consists of the sum of Tier 1 capital, which is included in the calculation without any limitation, and Tier 2 capital that is included up to the equivalent of the Tier 1 capital. The amounts foreseen in the regulations applicable at 31.12.2011 are then deducted from this aggregate.

1. Tier 1 capital

The positive elements of Tier 1 capital comprise share capital, the share premium reserve, other reserves and part of the net profit for 2011, on the assumption that the shareholders will approve the proposed allocations to reserves; the negative elements, consisting of treasury shares (line item 200 of liabilities), intangible assets (line item 130 of assets) and other elements to be deducted in application of the «precautionary filters» made up of negative balances among valuation reserves and negative ones relating to fixed-yield securities classified in the «financial assets available for sale» portfolio.

From Tier 1 capital calculated in this way get deducted 50% of any equity investments in excess of 10% in non-consolidated banks and financial companies, the combination of any equity investments equal to or higher than 10% in banks and financial companies and subordinated instruments that exceed 10% of «Tier 1 and Tier 2 capital, both gross of the elements to be deducted».

On 18 May 2010 the Bank of Italy issued new supervisory rules on the reserves linked to the valuation of debt securities issued by EU governments and allocated to «Assets available for sale». This provision makes it possible to completely neutralise the gains and losses booked to these reserves from 1/1/2010 onwards as an alternative to deducting all of the losses and partial inclusion of the gains as previously envisaged. The bank took advantage of this faculty.

2. Tier 2 capital

Tier 2 capital is made up of positive reserves on the measurement of shareholdings classified as «assets available for sale» and subordinated loans net of negative elements consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

Outstanding subordinated loans for € 657.803 million are made up by the following bonds:

- Loan of € 357.204 million from 26/2/2010 and maturity on 26/2/2017 with a forecast annual repayment of 20% from 26/2/2013. It has an interest rate of 4% which will gradually rise to 4.50%.
- Loan of € 300.599 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. It has an interest rate of 4.50% which will gradually rise to 6%.

This bond loan has the characteristics required by the regulations for inclusion in capital for supervisory purposes. The subordination clause consists of the bond owner's right to be reimbursed in the event of liquidation after all the other creditors have been satisfied.

The positive elements of Tier 2 capital are represented by after-tax gains on shareholdings classified as «assets available for sale». It is made up of the positive reserves deriving from after-tax gains on securities available for sale, cut by 50% for the application of the precautionary filters and reduced by the negative elements, consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

3. Tier 3 capital

There are no elements of equity to be included in Tier 3 capital.



QUANTITATIVE INFORMATION

CONSOLIDATED FINANCIAL STATEMENTS	31/12/2011	31/12/2010
A. Tier 1 before the application of precautionary filters	1,879,104	1,807,104
B. Precautionary filters of Tier 1 capital:	(5,840)	(80)
B.1 Positive IFRS precautionary filters (+)	-	-
B.2 Negative IFRS precautionary filters (-)	(5,840)	(80)
C. Tier 1 capital gross of the elements to be deducted (A + B)	1,873,264	1,807,024
D. Elements to be deducted from tier 1 capital	(41,497)	(42,974)
E. Total Tier 1 capital (C-D)	1,831,767	1,764,050
F. Tier 2 capital before the application of precautionary filters	645,184	350,332
G. Precautionary filters for tier 2 capital:	(374)	(314)
G.1 Positive IFRS precautionary filters (+)	-	-
G.2 Negative IFRS precautionary filters (-)	(374)	(314)
H. Tier 2 capital gross of the elements to be deducted (F + G)	644,810	350,018
I. Elements to be deducted from tier 2 capital	(41,497)	(42,974)
L. Total tier 2 capital (H-I)	603,313	307,044
M. Items to be deducted from tier 1 and tier 2 capital	-	-
N. Capital for supervisory purposes (E + L - M)	2,435,080	2,071,094
O. Tier 3 capital	-	-
P. Capital for supervisory purposes including tier 3 (N + O)	2,435,080	2,071,094

2.3 Capital adequacy

QUALITATIVE INFORMATION

The bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and protect against risk. The bank is subject to the capital adequacy requirements according to the rules adopted by the Bank of Italy. Based on these rules, at enterprise level the ratio between capital and total risk-weighted risk assets has to be at least 8%. On an individual basis, the minimum capital requirement is reduced by 25% as foreseen by the current rules of Basel II for banks forming part of banking groups. Compliance with these requirements is checked on a quarterly basis when preparing the periodic reports to be sent to the Supervisory Authority. The annual ICAAP report on the Group's capital adequacy sent to the Bank of Italy outlines the checks carried out on the degree of risk inherent in the various items. This requisite is expressed by the ratio between capital for supervisory purposes and total risk-weighted assets, which at the end of the year came to 10.33%, with an excess of 233 basis points compared with the minimum requirement of 8% mentioned above. In absolute terms, the excess capital compared with the minimum requirement - what is called «free capital» - amounts to € 550 million; this amount is considered adequate for the bank's current needs and future growth plans.

The following table provides information of a quantitative nature on risk assets and capital ratios, reflecting prudent management of the various types of risks with a limited absorption of capital. Capital for supervisory purposes is absorbed for around 71.5% by credit risk, around 1.5% by market risks, around 5% by operational risks, while the other 22.5% is free capital. The good growth in capital for supervisory purposes compared with the end of 2010 is essentially due to the net profit allocated to reserves and the increase in Tier 2 capital thanks to the issue of the subordinated bond loan with a par value of € 301 million.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
A. Assets at risk				
A.1 Credit and counterparty risk	29,461,090	28,303,676	21,757,925	20,645,223
1. Standardised approach	29,461,090	28,303,676	21,757,925	20,645,223
2. Approach based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. Capital adequacy requirements				
B.1 Credit and counterparty risk	-	-	1,740,634	1,651,618
B.2 Market risks	-	-	31,584	29,251
1 Standard methodology	-	-	31,584	29,251
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.3 Operational risk	-	-	112,714	105,526
1. Basic method	-	-	112,714	105,526
2. Standardised approach	-	-	-	-
3. Advanced method	-	-	-	-
B.4 Other precautionary requirements	-	-	-	-
B.5 Other calculation elements	-	-	-	-38,299
B.6 Total precautionary requirements	-	-	1,884,932	1,748,096
C. Risk assets and capital ratios				
C.1 Risk-weighted assets	-	-	23,561,650	21,851,200
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	-	-	7.77	8.07
C.3 Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)	-	-	10.33	9.48



PART H *Related party transactions*

1. Information on the remuneration of directors and managers

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and Surname	Office	Period in office	Expiry of office	Emoluments for the office in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
PIERO MELAZZINI	Chairman	1/1/2011-31/12/2011	31-12-2013	950	-	-	152
MILES EMILIO NEGRI	Deputy Chairman*	1/1/2011-31/12/2011	31-12-2013	127	-	-	-
FRANCESCO VENOSTA	Director	1/1/2011-31/12/2011	31-12-2012	76	-	-	31
CLAUDIO BENEDETTI	Director	1/1/2011-31/12/2011	31-12-2011	40	-	-	-
PAOLO BIGLIOLI	Director	1/1/2011-31/12/2011	31-12-2013	41	-	-	-
GIANLUIGI BONISOLO	Director	1/1/2011-31/12/2011	31-12-2013	57	-	-	-
FEDERICO FALCK	Director	1/1/2011-31/12/2011	31-12-2012	38	-	-	-
ATTILIO PIERO FERRARI	Director	1/1/2011-31/12/2011	31-12-2011	41	-	-	-
GIUSEPPE FONTANA	Director	1/1/2011-31/12/2011	31-12-2011	39	-	-	-
MARIO GALBUSERA	Director	1/1/2011-31/12/2011	31-12-2012	39	-	-	-
NICOLÒ MELZI DI CUSANO	Director	1/1/2011-31/12/2011	31-12-2012	40	-	-	-
ADRIANO PROPERSI	Director	1/1/2011-31/12/2011	31-12-2011	41	-	-	-
RENATO SOZZANI	Director	1/1/2011-31/12/2011	31-12-2011	78	-	-	3
LINO ENRICO STOPPANI	Director	1/1/2011-31/12/2011	31-12-2013	41	-	-	14
DOMENICO TRIACCA	Director	1/1/2011-31/12/2011	31-12-2012	60	-	-	-
EGIDIO ALESSANDRI	Chairman of the Board of Statutory Auditors	1/1/2011-31/12/2011	31-12-2011	107	-	-	15
PIO BERSANI	Auditor	1/1/2011-31/12/2011	31-12-2011	59	-	-	19
PIERGIUSEPPE FORNI	Auditor	1/1/2011-31/12/2011	31-12-2011	51	-	-	11
MARIO ALBERTO PEDRANZINI	General Manager	1/1/2011-31/12/2011	-	-	84	333	686
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2011-31/12/2011	-	-	33	186	910

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.354 million have been paid. The column «Emoluments for the office» includes € 0.100 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

The report on operations discloses the investments held by the directors, statutory auditors, the general manager and managers with strategic responsibilities and the related changes during the year.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager and managers with strategic responsibilities, note that there are no stock option plans..

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website. For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

For information on the shares held directly or indirectly by members of the Board of Directors and Board of Statutory Auditors, by the general manager and by managers with strategic responsibilities in accordance with art. 84 of the Issuers' Regulations 11971, reference should be made to the report on operations.



	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	32	10,015	2	162	52	1,041
Statutory auditors	561	332	2	3	70	458
Management	82	3,449	1	57	38	119
Family members	2,163	26,366	138	319	157	9,486
Subsidiaries	1,821,303	701,506	33,734	8,176	284,877	41,679
Associated companies	514,578	16,765	10,539	256	50,605	36,883
Other related parties	282,106	38,825	6,200	633	6,346	29,826

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA and Factorit spa, while loans to associated companies relate for € 378 million to a loan granted to Alba Leasing SpA and for € 119 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 204 million granted to the affiliate Release spa.

PART L *Segment information*

A. Primary format

The primary format has been determined using the methodology applied in relation to the parent bank.

Accordingly, reference is made to the section of the notes to the parent bank's financial statements entitled Part L - Segment information.

A.1 Distribution by business segment: income statement

Items	Businesses	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2011
Interest income	608,216	551,897	-	435,147	1,595,260	-762,354	832,906
Interest expense	-298,518	-324,353	-	-470,037	-1,092,908	762,354	-330,554
Net interest income	309,698	227,544	-	-34,890	502,352	-	502,352
Commission income	151,072	70,119	79,524	4,844	305,559	-2,564	302,995
Commission expense	-9,708	-5,446	-7,742	1,964	-20,932	-587	-21,519
Dividends and similar income	-	-	-	3,757	3,757	-	3,757
Net trading income	-	-	-	-68,200	-68,200	3,079	-65,121
Net hedging profits (losses)	-	-481	-	469	-12	-	-12
Gains/losses on disposals or repurchases	-	-	-	4,527	4,527	-	4,527
Net change in financial assets and liabilities carried at fair value	-	-	-	-6,641	-6,641	-	-6,641
Income from banking activities	451,062	291,736	71,782	-94,170	720,410	-72	720,338
Adjustments to the net value of financial assets	-150,679	-23,950	-	-7,154	-181,783	-	-181,783
Balance of financial management	300,383	267,786	71,782	-101,324	538,627	-72	538,555
Administrative expenses	-131,264	-121,435	-51,240	-78,809	-382,748	-32,594	-415,342
Provisions for risks and charges	5,231	-1,050	-	-386	3,795	-	3,795
Net adjustments to property, plant and equipment	-4,853	-5,266	-2,313	-4,421	-16,853	-	-16,853
Net adjustments to intangible assets	-3,863	-3,819	-1,551	-1,897	-11,130	-	-11,130
Other operating income/expense	3,036	6,136	588	2,591	12,351	32,666	45,017
Share of profit/loss of equity investments	-	-	-	2,931	2,931	-	2,931
Gains/losses on disposal of investments	-	-	-	-16	-16	-	-16
Gross profit	168,670	142,352	17,266	-181,331	146,957	-	146,957



Items	Businesses	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2010
Interest income	429,076	369,108	-	275,699	1,073,883	-440,712	633,171
Interest expense	-162,379	-226,547	-	-258,313	-647,239	440,712	-206,527
Net interest income	266,697	142,561	-	17,386	426,644	-	426,644
Commission income	125,103	63,562	79,514	5,143	273,322	-2,313	271,009
Commission expense	-6,965	-4,236	-7,147	1,539	-16,809	-537	-17,346
Dividends and similar income	-	-	-	3,397	3,397	-	3,397
Net trading income	-	-	-	-37,724	-37,724	2,769	-34,955
Net hedging profits (losses)	-	-813	-	596	-217	-	-217
Gains/losses on disposals or repurchases	-	-	-	-360	-360	-	-360
Net change in financial assets and liabilities carried at fair value	-	-	-	806	806	-	806
Income from banking activities	384,835	201,074	72,367	-9,217	649,059	-81	648,978
Adjustments to the net value of financial assets	-117,689	-18,264	-	-5,108	-141,061	-	-141,061
Balance of financial management	267,146	182,810	72,367	-14,325	507,998	-81	507,917
Administrative expenses	-115,852	-114,598	-49,040	-75,410	-354,900	-32,842	-387,742
Provisions for risks and charges	1,193	-51	-	1,288	2,430	-	2,430
Net adjustments to property, plant and equipment	-4,877	-5,195	-2,121	-3,834	-16,027	-	-16,027
Net adjustments to intangible assets	-3,363	-3,457	-1,380	-1,777	-9,977	-	-9,977
Other operating income/expense	1,380	2,138	604	4,823	8,945	32,923	41,868
Share of profit/loss of equity investments	-	-	-	59,486	59,486	-	59,486
Gains/losses on disposal of investments	-	-	-	-168	-168	-	-168
Gross profit	145,627	61,647	20,430	-29,917	197,787	-	197,787

A.2 Distribution by business segment: balance sheet

Items	Businesses	Individuals and other customers	Securities	Central functions	Total 31/12/2011
Financial assets	15,583,968	9,067,330	-	3,793,137	28,444,435
Other assets	-	-	-	593,295	593,295
Property, plant and equipment	53,081	54,303	22,716	94,534	224,634
Intangible assets	4,015	3,959	1,603	10,973	20,550
Financial liabilities	5,323,336	17,372,148	-	3,695,582	26,391,066
Other liabilities	45,457	2,530	-	799,956	847,943
Provisions	68,741	51,894	14,637	20,041	155,313
Guarantees given	3,177,355	554,147	-	80,376	3,811,878
Commitments	1,270,059	274,741	20,380	65,302	1,630,482

Items	Businesses	Individuals and other customers	Securities	Central functions	Total 31/12/2010
Financial assets	14,078,147	7,556,508	-	3,981,784	25,616,439
Other assets	-	-	-	425,713	425,713
Property, plant and equipment	52,589	54,045	21,570	91,090	219,294
Intangible assets	4,270	4,120	1,575	10,973	20,938
Financial liabilities	4,308,456	16,549,703	-	2,653,640	23,511,799
Other liabilities	92,539	4,782	-	605,712	703,033
Provisions	73,293	50,497	14,418	21,543	159,751
Guarantees given	2,905,443	451,204	-	58,642	3,415,289
Commitments	1,842,960	229,129	16,614	261,181	2,349,884

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: the contribution made by Factorit is also significant, with a result in this area that is 29% of that of the parent bank.

The sector contributes 114.8% of the overall result (51.4% excluding the negative result of the central functions).

Loans (financial assets) and direct deposits (financial liabilities) amount to € 15,584 million and € 5,323 million respectively.

With respect to income from banking activities, net adjustments for the impairment of financial assets represent 33.4% of the total, while administrative expenses absorb 29.1%.

Comparison with the prior year reflects a rise in profits by about 15.8%.

This trend was mainly due to a combination of the following factors, significantly influenced by the contribution of Factorit, which in 2010 only contributed partially to the consolidated figures, given that it was acquired in July:

- a satisfactory trend in net interest income (+16.1%);
- a satisfactory increase in commission flows (+20.8%);
- remarkable increase in administrative expenses (+13.3%);
- considerably higher adjustments of financial assets (+ 28.0%).

Individuals and other customers: the contribution made by the Swiss subsidiary is also significant, with a result in this area that is 13.6% of that of the parent bank.

The sector contributes 96.9% of the overall result (43.4% excluding the negative result of the central functions).

Loans (financial assets) and direct deposits (financial liabilities) amount to € 9,067 million and € 17,372 million respectively.

With respect to income from banking activities, net adjustments for the impairment of financial assets represent 8.2% of the total, while administrative expenses absorb 41.6%.

Comparison with the prior year reflects a rise in profits by about 130.9%.

This trend was mainly due to a combination of the following factors, significantly influenced by the contribution of the Swiss subsidiary:

- a marked rise in net interest income (+59.6%);
- a satisfactory increase in commission flows (+10.3%);
- contained growth in administrative expenses (+6.0%);
- considerably higher adjustments of financial assets (+ 31.1%).



Securities: the contribution of the Swiss subsidiary is significant. The sector contributes 11.7% of the overall result (5.3% excluding the negative result of the central functions).

With respect to income from banking activities, administrative expenses absorb 71.4% of the total.

Comparison with the prior year reflects an 15.5% rise in profits, mainly due to the following factors:

- stability in commission flows;
- contained growth in administrative expenses (+4.5%).

As regards the «central functions» – the only sub-segment where the non-banking subsidiaries have some effect, albeit a small one – it has to be said that the gross result, in absolute terms, comes in slightly below that of the parent bank on its own because of the sizeable investments made by the subsidiaries in connection with the reinforcement of its staff and upgrade of its organisational and IT structures.

B. Secondary format

The methodology applied is that adopted by the parent bank.

The following information refers to the location of branches.

There are differences between the parent bank and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market».

B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/12/2011
Interest income	1,351,019	202,124	62,690	1,615,833	-782,927	832,906
Interest expense	-947,519	-126,872	-40,584	-1,114,975	784,421	-330,554
Net interest income	403,500	75,252	22,106	500,858	1,494	502,352
Commission income	220,604	51,991	35,880	308,475	-5,480	302,995
Commission expense	-12,398	-6,500	-4,991	-23,889	2,370	-21,519
Dividends and similar income	6,393	-	8	6,401	-2,644	3,757
Net trading income	-74,957	-	9,798	-65,159	38	-65,121
Net hedging profits (losses)	-	-	-481	-481	469	-12
Gains/losses on disposals or repurchases	4,527	-	-	4,527	-	4,527
Net change in financial assets and liabilities carried at fair value	-6,641	-	-	-6,641	-	-6,641
Income from banking activities	541,028	120,743	62,320	724,091	-3,753	720,338
Adjustments to the net value of financial assets	-159,636	-20,661	-1,486	-181,783	-	-181,783
Balance of financial management	381,392	100,082	60,834	542,308	-3,753	538,555
Administrative expenses	-292,054	-37,799	-55,127	-384,980	-30,362	-415,342
Provisions for risks and charges	8,233	-4,052	-386	3,795	-	3,795
Net adjustments to property, plant and equipment	-12,432	-1,302	-3,119	-16,853	-	-16,853
Net adjustments to intangible assets	-8,760	-1,057	-1,313	-11,130	-	-11,130
Other operating income/expense	9,738	2,880	812	13,430	31,587	45,017
Share of profit/loss of equity investments	-14,243	-	-	-14,243	17,174	2,931
Gains/losses on disposal of investments	-16	-	-	-16	-	-16
Gross profit	71,858	58,752	1,701	132,311	14,646	146,957

Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/12/2010
Interest income	899,381	126,648	49,703	1,075,732	-442,561	633,171
Interest expense	-540,415	-79,410	-29,575	-649,400	442,873	-206,527
Net interest income	358,966	47,238	20,128	426,332	312	426,644
Commission income	198,890	41,349	35,207	275,446	-4,437	271,009
Commission expense	-9,991	-4,819	-4,306	-19,116	1,770	-17,346
Dividends and similar income	6,368	-	24	6,392	-2,995	3,397
Net trading income	-39,462	-	6,332	-33,130	-1,825	-34,955
Net hedging profits (losses)	-	-	-813	-813	596	-217
Gains/losses on disposals or repurchases	-360	-	-	-360	-	-360
Net change in financial assets and liabilities carried at fair value	806	-	-	806	-	806
Income from banking activities	515,217	83,768	56,572	655,557	-6,579	648,978
Adjustments to the net value of financial assets	-124,892	-12,727	-3,442	-141,061	-	-141,061
Balance of financial management	390,325	71,041	53,130	514,496	-6,579	507,917
Administrative expenses	-272,178	-34,246	-49,737	-356,161	-31,581	-387,742
Provisions for risks and charges	-658	1,800	1,288	2,430	-	2,430
Net adjustments to property, plant and equipment	-11,877	-1,336	-2,814	-16,027	-	-16,027
Net adjustments to intangible assets	-7,507	-929	-1,541	-9,977	-	-9,977
Other operating income/expense	4,733	909	796	6,438	35,430	41,868
Share of profit/loss of equity investments	58,057	-	-	58,057	1,429	59,486
Gains/losses on disposal of investments	-168	-	-	-168	-	-168
Gross profit	160,727	37,239	1,122	199,088	-1,301	197,787



B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	Total 31/12/2011
Financial assets	22,906,390	2,361,084	3,176,961	28,444,435
Other assets	531,302	-	61,993	593,295
Property, plant and equipment	186,440	14,423	23,771	224,634
Intangible assets	18,120	1,099	1,331	20,550
Financial liabilities	18,046,670	5,293,398	3,050,998	26,391,066
Other liabilities	811,542	11,809	24,592	847,943
Provisions	136,306	19,007	-	155,313
Guarantees given	2,949,061	724,648	138,169	3,811,878
Commitments	1,200,306	398,325	31,851	1,630,482

Items	Northern Italy	Central Italy	Switzerland	Total 31/12/2010
Financial assets	20,495,459	2,331,426	2,789,554	25,616,439
Other assets	364,807	-	60,906	425,713
Property, plant and equipment	180,699	14,527	24,068	219,294
Intangible assets	18,635	1,196	1,107	20,938
Financial liabilities	15,596,586	5,239,764	2,675,449	23,511,799
Other liabilities	655,354	29,490	18,189	703,033
Provisions	144,699	15,052	-	159,751
Guarantees given	2,552,132	727,378	135,779	3,415,289
Commitments	1,801,907	501,606	46,371	2,349,884

Certification pursuant to para. 5 of art. 154-bis of Decree 58/98 on the consolidated financial statements.

The undersigned Piero Melazzini as Chairman and Chief Executive Officer and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Decree 58 of 24 February 1998, confirm:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements for the period 1 January 2011 / 31 December 2011.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the “Internal Control - Integrated Framework (CoSO)”, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

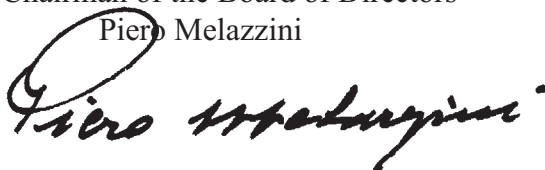
We also confirm that the consolidated financial statements at 31 December 2011:

- have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
- agree with the balances on the books of account and the accounting entries;
- are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the scope of consolidation.

The directors’ report on operations includes a reliable analysis of the progress and performance, the situation of the Bank and the consolidated companies together with a description of the main risks and uncertainties to which they are subjected.

Sondrio, 8 March 2012

The Chairman of the Board of Directors
Piero Melazzini



The Financial Reporting Officer
Maurizio Bertoletti



Relazione della società di revisione ai sensi degli artt. 14 e 16 del D.Lgs. 27 gennaio 2010, n. 39

Ai Soci della
Banca Popolare di Sondrio S.C.p.A.

- 1 Abbiamo svolto la revisione contabile del bilancio consolidato, costituito dallo stato patrimoniale, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario e dalla relativa nota integrativa, del Gruppo Banca Popolare di Sondrio chiuso al 31 dicembre 2011. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05, compete agli amministratori della Banca Popolare di Sondrio S.C.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.
- 2 Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio consolidato sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

Per il giudizio relativo al bilancio consolidato dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 24 marzo 2011.

- 3 A nostro giudizio, il bilancio consolidato del Gruppo Banca Popolare di Sondrio al 31 dicembre 2011 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico e i flussi di cassa del Gruppo Banca Popolare di Sondrio per l'esercizio chiuso a tale data.

- 4 La responsabilità della redazione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari, pubblicata nella sezione "informativa societaria" del sito internet della Banca Popolare di Sondrio S.C.p.A., in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli amministratori della Banca Popolare di Sondrio S.C.p.A.. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e delle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b), dell'art. 123-bis del D.Lgs. 58/98, presentate nella relazione sul governo societario e gli assetti proprietari, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione n. 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b), dell'art. 123-bis del D.Lgs. 58/98 presentate nella relazione sul governo societario e gli assetti proprietari sono coerenti con il bilancio consolidato del Gruppo Banca Popolare di Sondrio al 31 dicembre 2011.

Milano, 29 marzo 2012

KPMG S.p.A.



Paolo Valsecchi
Socio

**RESOLUTIONS OF THE ORDINARY
ANNUAL GENERAL MEETING
OF THE SHAREHOLDERS**

of 14 April 2012 (at second calling)

AGENDA

- 1) *Presentation of the financial statements as of 31 December 2011: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;*
- 2) *Mandate to the Board of Directors to buy and sell treasury shares in accordance with art. 21 of the Articles of Association;*
- 3) *Approval of the document entitled "Compensation Policies of the Banca Popolare di Sondrio Banking Group" and information on how these compensation policies were implemented in 2011, as required by the Bank of Italy;*
- 4) *Approval of the Remuneration Report, as per art. 123-bis of Decree 58/98 (Finance Consolidation Act);*
- 5) *Determination of directors' emoluments;*
- 6) *Appointment of five Directors for the three-year period 2012-2014;*
- 7) *Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2012-2014; determination of their annual emoluments.*

The Shareholders' Meeting, which had a quorum, began dealing with the matters on the agenda.

Point 1) on the agenda

Having heard the directors' report on operations for 2011 and the proposed allocation of the net profit for the year, having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors, having taken as read the balance sheet, income statement and explanatory notes, as well as the financial statements of the subsidiaries,

the Meeting approved:

- the directors' report on operations;
- the financial statements at 31 December 2011, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a net profit for the year of € 57,283,707. The Shareholders' Meeting also approved the allocation of net profit for the year of € 57,283,707 as proposed by the Board of Directors in accordance with current legislation and the Articles of Association and, in particular, resolved:

a) to allocate:

- 10% to the legal reserve € 5,728,370.70
- 30% to the statutory reserve € 17,185,112.10

b) to pay a dividend of € 0.09 to each of the 308,147,985 shares in circulation at 31/12/2011 with dividend rights as from 1/1/2011, transferring to the statutory reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of € 27,733,318.65

c) to allocate to the reserve for treasury shares	€	6,000,000.00
d) to allocate the residual net profit:		
– to the reserve for donations	€	400,000.00
– to the legal reserve, a further	€	236,905.55

Point 2) on the agenda

to set at € 93,000,000 – shown in the financial statements under “Reserves” – as the amount made available to the Board of Directors to make purchases of the Bank’s own shares in accordance with art. 21 of the Articles of Association, within the limit of this amount and whatever part of it is made available by subsequent sales of the shares purchased; all as part of an activity that is compliant with current regulations and designed in particular to facilitate circulation of the shares.

Purchases and sales of treasury shares – namely the ordinary shares of Banca Popolare di Sondrio of par value € 3 each – have to be carried out on organised markets according to operating methods that ensure parity of treatment between shareholders and which do not permit direct matching of purchase and sale offers.

Purchases and sales will be possible between the date of this Shareholders’ Meeting and the next Shareholders’ Meeting called to approve the 2012 financial statements. Purchases have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned “Reserve” of € 93,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 4% of the shares making up the share capital. Sales have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned “Reserve” of € 93,000,000.

Any cancellations of treasury shares have to take place in compliance with the law and the articles of association, using the reserve for treasury shares to cover any differences between their par value and purchase price.

The Board of Directors, and the Chairman and Deputy Chairmen, separately, on its behalf, is also granted all powers needed to implement this resolution, as well as to make any changes to it that might be needed or suggested by the Supervisory Authorities or those that run the market.

Point 3) on the agenda

The Shareholders’ Meeting approved the document containing the “Compensation policies of the Banca Popolare di Sondrio Banking Group”.

Point 4) on the agenda

The Shareholders' Meeting approved the first Section of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Finance Consolidation Act).

Point 5) on the agenda

The Meeting set the remuneration of the directors in accordance with the current "Compensation Policies of the Banca Popolare di Sondrio Banking Group".

Point 6) on the agenda

The Meeting appointed the following as members of the Board of Directors for the three-year period 2012-2014: Claudio Benedetti, Attilio Piero Ferrari, Giuseppe Fontana, Renato Sozzani and Adriano Propersi.

Point 7) on the agenda

The Meeting appointed the following as members of the Board of Statutory Auditors for the period 2012-2014: Piergiuseppe Forni (Chairman), Pio Bersani and Mario Vitali (Auditors), and Luigi Gianola and Daniele Morelli (Alternate Auditors), establishing their annual fee for the entire three-year period.

THE BANK'S GROWTH SINCE ITS FOUNDATION, KEY FINANCIAL DATA

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital & reserves) euro	Net profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210
2011	5,742,516,051	20,606,382,386	24,261,565,885	1,676,472,699	57,283,707	0.090

The figures for the years prior to 1993 have not been adjusted for consistency with those of subsequent years, which have been classified differently in accordance with Decree 87/92.

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Photographers:

ARCHIVIO BPS SUISSE
ARCHIVIO PIROVANO
FOTOLIA
FOTO SGUALDINO
CLAUDIO FRANCHETTI
MAURO LANFRANCHI
EMILIO MARCASSOLI
PAOLO ROSSI
SNOWMOTION GUIDO COLOMBETTI

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