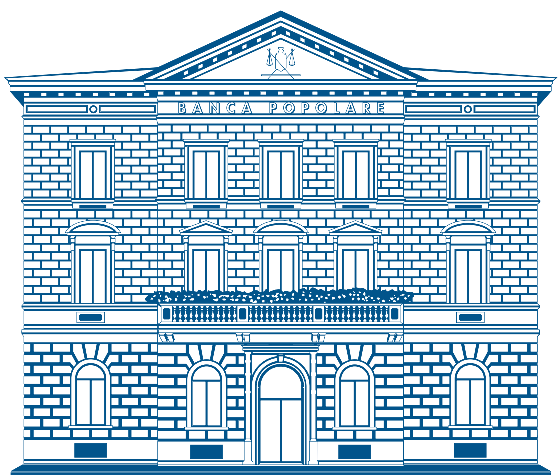
Banca Popolare di Sondrio



ANNUAL REPORT 2014

Banca Popolare di Sondrio

2014 FINANCIAL STATEMENTS

144RD YEAR


BANCA POPOLARE

Banca Popolare di Sondrio

Founded in 1871

ORDINARY SHAREHOLDERS' MEETING 18 APRIL 2015

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 Group.
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
At 31 December 2014 Share capital: € 1,360,157,331 – Reserves: € 763,709,480

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 9 July 2014:
  - Long-term: BBB
  - Short-term: F3
  - Viability rating: bbb
  - Outlook: Negative

- Rating given by Dagong Europe to Banca Popolare di Sondrio scpa on 26 Februay 2015:
  - Long-term: BBB
  - Short-term: A-3
  - Individual Financial Strength Assessment: bbb
  - Outlook: Stable

BOARD OF DIRECTORS

Honorary Chairman	PIERO MELAZZINI*
Chairman	FRANCESCO VENOSTA*
Deputy Chairman	LINO ENRICO STOPPANI*
Managing Director	MARIO ALBERTO PEDRANZINI**
Directors	PAOLO BIGLIOLI LORETTA CREDARO FEDERICO FALCK ATTILIO PIERO FERRARI GIUSEPPE FONTANA CRISTINA GALBUSERA* PIERO MELAZZINI* NICOLÒ MELZI DI CUSANO ADRIANO PROPERSI ANNALISA RAINOLDI RENATO SOZZANI* DOMENICO TRIACCA*

BOARD OF STATUTORY AUDITORS

Chairman	PIERGIUSEPPE FORNI
Auditors	DONATELLA DEPPERU MARIO VITALI
Alternate auditors	BRUNO GARBELLINI DANIELE MORELLI

ADVISORY COMMITTEE

Chairman	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 CESARE POLETTI

Financial Reporting Officer MAURIZIO BERTOLETTI

* Members of the Chairman's Committee

** Members of the Chairman's Committee and Secretary to the Board of Directors

BRANCH NETWORK OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

Banca Popolare di Sondrio

Branches:
- 51 in the province of SONDRIO
- 2 in the province of ALESSANDRIA
- 15 in the province of BERGAMO
- 1 in BOLOGNA
- 2 in the province of BOLZANO
- 32 in the province of BRESCIA
- 31 in the province of COMO
- 5 in the province of CREMONA
- 1 in CUNEO
- 5 in the province of GENOVA
- 20 in the province of LECCO
- 2 in the province of LODI
- 5 in the province of MANTOVA
- 37 in MILANO
- 10 in the province of MILANO
- 17 in the province of MONZA E BRIANZA
- 2 in the province of NOVARA
- 1 in PARMA
- 7 in the province of PAVIA
- 3 in the province of PIACENZA
- 38 in ROMA
- 4 in the province of ROMA
- 1 in SAVONA
- 2 in TORINO
- 4 in the province of TRENTO
- 18 in the province of VARESE
- 5 in the province of VERBANO CUSIO OSSOLA
- 1 in VERCELLI
- 4 in the province of VERONA
- 1 in AOSTA

Representative offices outside Italy:
- HONG KONG* • SHANGHAI*

* with other banking partners

Desks outside Italy:
- ATHENS • BEOGRAD • BRUXELLES
- BUCURESTI • BUDAPEST
- BUENOS AIRES • CASABLANCA
- CHICAGO • CHISINAU
- CIUDAD DE MEXICO • DUBAI
- JOHANNESBURG • LISBOA
- LONDON • LYON • MARSEILLE
- MINSK • MOSCOW • PERPIGNAN
- PERTH • SAO PAULO • SHANGHAI
- SOFIA • SYDNEY • TASHKENT
- TORONTO • TUNIS
- ULAANBAATAR • WARSZAWA

(c/o different partners)

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

Branches in:
- LUGANO Via G. Luvini
- LUGANO Via Maggio
- LUGANO Cassarate
- PARADISO
- BASEL
- BELLINZONA
- BERN
- BIASCA
- CASTASEGNA
- CELERINA
- CHIASSO
- CHUR
- LOCARNO
- MENDRISIO
- NEUCHÂTEL
- PONTRESINA
- POSCHIAVO
- SAMEDAN
- ST. MORITZ
- ZÜRICH

Principality of Monaco:
- MONACO

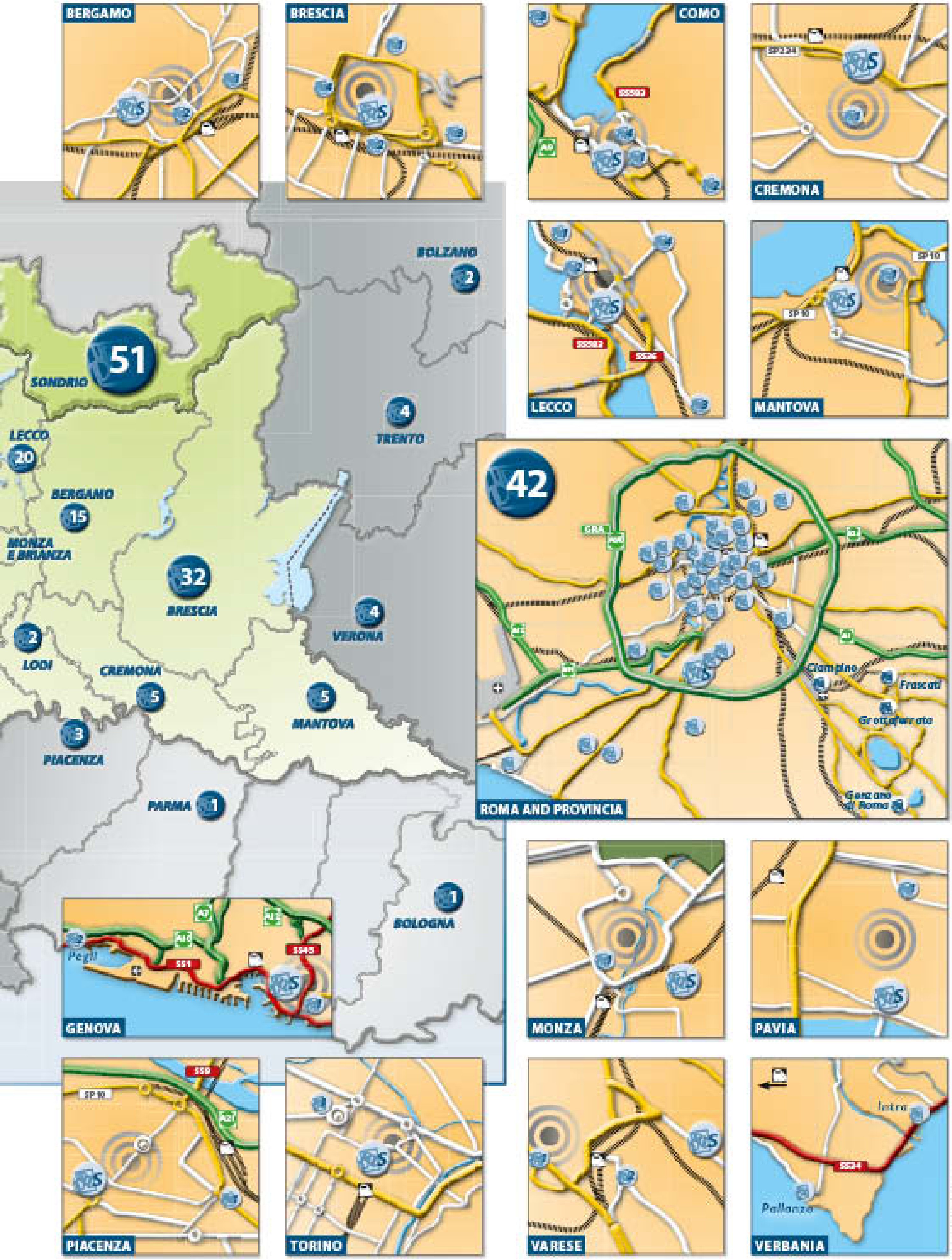
Factorit

GRUPPO Banca Popolare di Sondrio

Factoring of Corporate Recivables

Branches in:
- MILANO • TORINO • PADOVA
- BOLOGNA • ROMA • NAPOLI

in addition to 270 foreign correspondents in the main international markets.
It operates at the branches of Banca Popolare di Sondrio and at those of the associated banks.



BERGAMO
BRESCIA
COMO
SS583
A9
CREMONA
SP234
LECCO
SS583
SS36
MANTOVA
SP10
SP10
BOLZANO 2
51
SONDRIO
TRENTO 4
LECCO 20
BERGAMO 15
MONZA E BRIANZA
32
BRESCIA
VERONA 4
2
LODI
CREMONA 5
5
MANTOVA
3
PIACENZA
PARMA 1
1
BOLOGNA
42
GRA
A1
A12
A1
Ciampino
Frascati
Grottaferrata
Genzano di Roma
ROMA AND PROVINCIA
A7
A10
A12
SS1
SS45
Pegli
GENOVA
MONZA
PAVIA
SS9
SP10
A21
PIACENZA
TORINO
VARESE
Intra
SS34
Pallanza
VERBANIA

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO

Società cooperativa per azioni - Founded 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, TREASURIES AND PUBLIC ENTITIES,
SUPPLY OFFICE, TECHNICAL OFFICE, SAFETY AND SECURITY:
corso Vittorio Veneto 7, Sondrio
PERSONNEL DEPARTMENT: corso Vittorio Veneto 36, Sondrio

BRANCHES - Country code +39

PROVINCE OF SONDRIO

ALBOSAGGIA via al Porto 11 tel. 0342 54771
APRICA corso Roma 140 tel. 0342 74401
ARDENNO via Libertà tel. 0342 66501
BERBENNO DI VALTELLINA - fraz. San Pietro
via Nazionale Ovest 110 tel. 0342 49151
BORMIO
Head Office, via Roma 131
- ang. via don Evaristo Peccedi tel. 0342 91451
Branch no. 1, via Roma 64 tel. 0342 90051
CAMPODOLCINO via Corti 67 tel. 0343 59001
CEPINA VALDISOTTO via Roma 13/E tel. 0342 95231
CHIAVENNA
via Francesco e Giovanni Dolzino 67 tel. 0343 26211
CHIESA IN VALMALENCO via Roma 138 tel. 0342 45001
CHIURO via Stelvio 8 tel. 0342 48541
COLORINA via Roma 84 tel. 0342 49141
COSIO VALTELLINO - fraz. Regoledo
via Roma 7 tel. 0342 60951
DELEBIO piazza San Carpoforo 7/9 tel. 0342 69761
DUBINO - Nuova Olonio - via Spluga 83 tel. 0342 69301
GORDONA via Scogli 9 tel. 0343 4361
GROSIO via Roma 67 tel. 0342 84131
GROSOTTO via Statale 73 tel. 0342 84141
ISOLACCIA VALDIDENTRO
via Nazionale 31 tel. 0342 92201
LANZADA via Palù 388 tel. 0342 45021
LIVIGNO
Head Office, via Sant'Antoni 135 tel. 0342 97761
Branch no. 1, via Saroch 728/730 tel. 0342 97771
MADESIMO via Giosuè Carducci 3 tel. 0343 5551
MADONNA DI TIRANO piazza Basilica 55 tel. 0342 71251
MAZZO DI VALTELLINA
via Santo Stefano 20 tel. 0342 86301
MONTAGNA IN VALTELLINA
via Stelvio 336 tel. 0342 54741
MORBEGNO
Head Office, piazza Caduti per la Libertà 7 tel. 0342 60561
Branch no. 1, via V Alpini 172 tel. 0342 60481
NOVATE MEZZOLA via Roma 13 tel. 0343 6381
PASSO DELLO STELVIO tel. 0342 904534
PIANTEDO via Colico 43 tel. 0342 68291
PONTE IN VALTELLINA piazza della Vittoria 1 tel. 0342 48531
SAMOLACO - fraz. Era, via Trivulzia 28 tel. 0343 22211
SAN CASSIANO VALCHIAVENNA
via Spluga 108 tel. 0343 2091
SAN NICOLÒ VALFURVA via San Nicolò 82 tel. 0342 94701
SEMOGO VALDIDENTRO
via Cima Piazzi 28 tel. 0342 92211
SONDALO via Dr. Ausonio Zubiani 2 tel. 0342 80911
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16 tel. 0342 528111
Branch no. 1, via Bernina 1 tel. 0342 54701
Branch no. 2, via Tomaso Nani 32 tel. 0342 54721
Branch no. 3,
Ingresso Ospedale Civile - via Stelvio 25 tel. 0342 54711
Branch no. 4,
piazzale Giovanni Bertacchi 57 tel. 0342 54751
Branch no. 5, Galleria Campello 2 tel. 0342 54731
Branch no. 6, via Giacinto Sertorelli 2 tel. 0342 54761
TALAMONA
via Don Giuseppe Cusini 83/A tel. 0342 67431
TEGLIO piazza Santa Eufemia 2 tel. 0342 78401
TIRANO piazza Cavour 20 tel. 0342 71201
TRAONA via Valeriana 88/A tel. 0342 65511
TRESENDA DI TEGLIO via Nazionale 57 tel. 0342 73601
VILLA DI CHIAVENNA via Roma 38 tel. 0343 26221
VILLA DI TIRANO traversa Foppa 25 tel. 0342 79801

AUTONOMOUS REGION OF VALLE D'AOSTA

AOSTA corso Battaglione Aosta 79 tel. 0165 21841

PROVINCE OF ALESSANDRIA

ALESSANDRIA corso Crimea 21 tel. 0131 20211
NOVI LIGURE corso Romualdo Marenco 59 tel. 0143 31071

PROVINCE OF BERGAMO

ALBANO SANT'ALESSANDRO
via Vittorio Emanuele II 6 tel. 035 421831
BERGAMO
Head Office, via Broseta 64/B tel. 035 205851
Branch no. 1, via Vittore Ghislandi 4 tel. 035 359891
Branch no. 2, via Guglielmo D'Alzano 3/E tel. 035 359821
BONATE SOTTO via Vittorio Veneto
- ang. via Antonio Locatelli tel. 035 465041
CARVICO via Giuseppe Verdi 1 tel. 035 439041
CISANO BERGAMASCO
via Giuseppe Mazzini 25 tel. 035 436521
GAZZANIGA via IV Novembre 3 tel. 035 717731
GRUMELLO DEL MONTE via Roma 133 tel. 035 835961
OSIO SOTTO via Monte Grappa 12 tel. 035 418151
ROMANO DI LOMBARDIA via Balilla 20 tel. 0363 91721
SARNICO via Giuseppe Garibaldi 1/C tel. 035 426741
SERIATE piazza Caduti per la Libertà 7 tel. 035 292891
TRESCORE BALNEARIO piazza Cavour 6 tel. 035 427471
TREVIGLIO via Cesare Battisti 8/B tel. 0363 59401

PROVINCE OF BOLOGNA

BOLOGNA via Riva di Reno 58/B tel. 051 528941

PROVINCE OF BOLZANO

BOLZANO viale Amedeo Duca d'Aosta 88
Amedeo Duca D'Aosta Allee 88 tel. 0471 44381
MERANO corso della Libertà 16
Freiheitsstrasse 16 tel. 0473 27451

PROVINCE OF BRESCIA

BERZO DEMO via Nazionale 14 tel. 0364 62511
BIENNO via Giuseppe Fantoni 36 tel. 0364 30191
BRENO piazza Generale Pietro Ronchi 4 tel. 0364 32211
BRESCIA
Head Office, via Benedetto Croce 22 tel. 030 281551
Branch no. 1, via Crocifissa di Rosa 59 tel. 030 384821
Branch no. 2, via Solferino 61 tel. 030 281581
Branch no. 3, viale Piave 61/A tel. 030 369791
Branch no. 4, via Fratelli Ugoni 2 tel. 030 281541
CHIARI
via Consorzio Agrario 1 - ang. viale Teosa 23/B tel. 030 701451
COCCAGLIO via Adelchi Negri 12 tel. 030 771751
COLLEBEATO via San Francesco d'Assisi 12 tel. 030 251891
CORTE FRANCA piazza di Franciacorta 7/C tel. 030 984801
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12 tel. 0364 52411
Branch no. 2, piazza Patrioti 2 tel. 0364 52401
DESENZANO DEL GARDA
via Guglielmo Marconi 1/A tel. 030 915091
EDOLO piazza Martiri della Libertà 16 tel. 0364 77311
ERBUSCO via Provinciale 29 tel. 030 776231
GARDONE VAL TROMPIA
via Giacomo Matteotti 300 tel. 030 833791
ISEO via Roma 12/E tel. 030 986911
LONATO DEL GARDA
corso Giuseppe Garibaldi 59 tel. 030 991791
LUMEZZANE - fraz. Sant'Apollonio
via Massimo D'Azeglio 108 tel. 030 825261
MANERBIO via Dante Alighieri 8 tel. 030 937301
MONTICHIARI via Mantova
- ang. via 3 Innocenti 74 tel. 030 967111
ORZINUOVI piazza Giuseppe Garibaldi 19 tel. 030 940091
OSPITALETTO via Brescia 107/109 tel. 030 684291
PALAZZOLO SULL'OGLIO via Brescia 23 tel. 030 740511
PISOGNE via Trento 1 tel. 0364 88201
PONTE DI LEGNO piazzale Europa 8 tel. 0364 90881
REZZATO via Broli 49 tel. 030 249691
SALE MARASINO via Roma 33/35 tel. 030 986771
SALÒ viale Alcide De Gasperi 13 tel. 0365 44191
TOSCOLANO MADERNO
piazza San Marco 51 tel. 0365 54301

PROVINCE OF COMO

APPIANO GENTILE piazza della Libertà 9 tel. 031 352251
AROSIO piazza Montello 1 tel. 031 760921
BELLAGIO via Valassina 58 tel. 031 956361
BREGNANO via Giuseppe Mazzini 22/A tel. 031 776991
BULGAROGRASSO via Pietro Ferloni 2 tel. 031 352261
CAMPIONE D'ITALIA piazza Roma 1/G tel. 0041 916401020
CANTÙ via Milano 47 tel. 031 718091
CANZO via Alessandro Verza 39 tel. 031 673561
CARIMATE - fraz. Montesolaro
piazza Lorenzo Spallino tel. 031 783291
CARLAZZO via Regina 125 tel. 0344 71491
COMO
Head Office, viale Innocenzo XI 71 tel. 031 330561
Branch no. 1, via Giorgio Giulini 12 tel. 031 330541
Branch no. 2,
via Statale per Lecco 70 - fraz. Lora tel. 031 557491
Branch no. 3, via Asiago 25 - fraz. Tavernola tel. 031 344341
Branch no. 4,
c/o ACSM - via Vittorio Emanuele II 93 tel. 031 330501
DOMASO via Statale Regina 77 tel. 0344 96681
DONGO piazza Virgilio Matteri 14 tel. 0344 97391
ERBA via Alessandro Volta 3 tel. 031 333191
FINO MORNASCO via Giuseppe Garibaldi
- ang. piazza Odescalchi 5 tel. 031 882091
GARZENO via Roma 32 tel. 0344 88751
GERA LARIO via Statale Regina 18 tel. 0344 91041
GRAVEDONA ED UNITI
piazza Giuseppe Garibaldi 11 tel. 0344 91691
GUANZATE via Giuseppe Garibaldi 1 tel. 031 352741
LURAGO D'ERBA via Roma 58 tel. 031 359981
MENAGGIO
via Annetta e Celestino Lusardi 62 tel. 0344 38091
MERONE via San Girolamo Emiliani 5/C tel. 031 618091
MONTORFANO via Brianza 6/B tel. 031 202091
SALA COMACINA via Statale 14/A tel. 0344 55881
SAN FEDELE INTELVI via Provinciale 79 tel. 031 842081
SAN SIRO
loc. Santa Maria - via Statale Regina tel. 0344 51741
VILLA GUARDIA
via Varesina - ang. via Monte Rosa tel. 031 485091

PROVINCE OF CREMONA

CREMA via Giuseppe Mazzini 109 tel. 0373 64511
CREMONA
Head Office, via Dante Alighieri 149/A tel. 0372 98501
Branch no. 1, piazza Antonio Stradivari 9 tel. 0372 73371
PANDINO via Umberto I 1/3 tel. 0373 28491
RIVOLTA D'ADDA via Cesare Battisti 8 tel. 0363 77401

PROVINCE OF CUNEO

CUNEO piazza Tancredi Duccio Galimberti 13 tel. 0171 31951

PROVINCE OF GENOVA

CHIAVARI
piazza Nostra Signora dell'Orto 42/B
- ang. via Doria tel. 0185 33051
GENOVA
Head Office, via XXV Aprile 7 tel. 010 550141
Branch no. 1, piazza Tommaseo 7 rosso tel. 010 319961
Branch no. 2, via Sabotino 32/34 rossi tel. 010 667801
SANTA MARGHERITA LIGURE
piazza Giuseppe Mazzini 40 tel. 0185 29291

PROVINCE OF LECCO

ABBADIA LARIANA via Nazionale 140/A tel. 0341 70501
BOSISIO PARINI via San Gaetano 4 tel. 031 358081
CALOLZIOCORTE corso Europa 71/A tel. 0341 63671
CASATENOVO via Roma 23 tel. 039 923031
COLICO via Nazionale - ang. via Sacco tel. 0341 93251
DERVIO via Don Ambrogio Invernizzi 2 tel. 0341 85181
LECCO
Head Office,
corso Martiri della Liberazione 65 tel. 0341 23901
Branch no. 1, viale Filippo Turati 59 tel. 0341 22721
Branch no. 2, piazza XX Settembre 11 tel. 0341 22781
Branch no. 3,
corso Emanuele Filiberto 104 tel. 0341 22491
Branch no. 4, viale Montegrappa 18 tel. 0341 25951
LOMAGNA via Milano 24 tel. 039 922571
MANDELLO DEL LARIO piazza Sacro Cuore 8 tel. 0341 70551
MERATE via Don Cesare Cazzaniga 5 tel. 039 951411
NIBIONNO - fraz. Cibrone, via Montello 1 tel. 031 692391
OGGIONO via Lazzaretto 50 tel. 0341 26581
PESCATE via Roma 98/E tel. 0341 22831
PRIMALUNA via Provinciale 66 tel. 0341 981151
VALMADRERA via San Rocco 31/33 tel. 0341 20591
VARENNA via Corrado Venini 73 tel. 0341 81431

PROVINCE OF LODI

CODOGNO via Giuseppe Verdi 18/C tel. 0377 31701
LODI via Francesco Gabba 5 tel. 0371 59341

PROVINCE OF MANTOVA

CASTIGLIONE DELLE STIVIERE
piazza Ugo Dallò 25 tel. 0376 86181
MANTOVA
Head Office, corso Vittorio Emanuele II 154 tel. 0376 22531
Branch no. 1, piazza Broletto 7 tel. 0376 22521
SUZZARA piazza Giuseppe Garibaldi 4 tel. 0376 53871
VIADANA piazza Giacomo Matteotti 4/A tel. 0375 83271

PROVINCE OF MILANO

BUCCINASCO via Aldo Moro 9 tel. 02 4885191
CERNUSCO SUL NAVIGLIO
viale Assunta 47/49 tel. 02 9599731
CINISELLO BALSAMO
via Giuseppe Garibaldi 86 tel. 02 6602601
LEGNANO via Alcide De Gasperi 10 tel. 0331 47331
MELEGNANO via Clateo Castellini 19 tel. 02 9803691
MILANO
Head Office, via Santa Maria Fulcorina 1 tel. 02 85541
Branch no. 1, *Porpora,*
via Nicola Antonio Porpora 104 tel. 02 7064901
Branch no. 2, *Barona,* viale Faenza 22 tel. 02 8188851
Branch no. 3, *a2a,* corso di Porta Vittoria 4 tel. 02 7626001
Branch no. 4, *Regione Lombardia,*
piazza Città di Lombardia 1 tel. 02 6787601
Branch no. 5, *Bovisa,*
via degli Imbriani 54 tel. 02 3932841
Branch no. 6, *Corvetto,*
via Marco d'Agrate 11 tel. 02 5731381
Branch no. 7, *Caneva,*
via Monte Cenisio 50 tel. 02 3103961
Branch no. 8, *Quarto Oggiaro,*
via Michele Lessona
- ang. via Federico De Roberto tel. 02 3903631
Branch no. 9, *c/o A.L.E.R.,*
viale Romagna 24 tel. 02 7487511
Branch no. 10, *Solari,*
via Andrea Solari 15 tel. 02 8312771
Branch no. 11, *Università Bocconi,*
via Ferdinando Bocconi 8 tel. 02 5849871
Branch no. 12, *Baggio,*
via delle Forze Armate 260 tel. 02 4533951
Branch no. 13, *Repubblica,*
viale Monte Santo 8 tel. 02 6272301
Branch no. 14, *Palazzo di Giustizia,*
via Cesare Battisti 1 tel. 02 7626101
Branch no. 15, *Murat,*
via Gioacchino Murat 76 tel. 02 6901391
Branch no. 16, *Ortomercato,*
via Cesare Lombroso 54 tel. 02 5410981
Branch no. 17, *Pirelli/Bicocca,*
viale Sarca 226 - stabile n. 143 tel. 02 6474631
Branch no. 18, *Fiera,*
viale Ezio Belisario 1 tel. 02 4380231
Branch no. 19, *Giambellino,*
via Giambellino 39 tel. 02 4240991
Branch no. 20, *Sempione,*
via Antonio Canova 39 tel. 02 3103971

Branch no. 21, *Politecnico*, via Edoardo Bonardi 4 tel. 02 2660071
Branch no. 22, *Santa Sofia*, via Santa Sofia 12 tel. 02 5849881
Branch no. 23, *Certosa*, viale Certosa 62 tel. 02 3971081
Branch no. 24, *Piave*, viale Piave 1 tel. 02 7788681
Branch no. 25, *Zara*, viale Zara 13 tel. 02 6946501
Branch no. 26, *Lodi*, corso Lodi - ang. via S. Gerolamo Emiliani 1 tel. 02 5410931
Branch no. 27, *Don Gnocchi*, via Alfonso Capecelatro 66 tel. 02 4030421
Branch no. 28, *Corsica*, via privata Sanremo - ang. viale Corsica 81 tel. 02 7109601
Branch no. 29, *Bicocca*, piazza della Trivulziana 6 - edificio 6 tel. 02 6474651
Branch no. 30, *De Angeli*, piazza Ernesto De Angeli 9 tel. 02 4351831
Branch no. 31, *Isola*, via Carlo Farini 47 tel. 02 6901361
Branch no. 32, *Venezia*, viale Luigi Majno 42 - viale Piave 43 tel. 02 2772961
Branch no. 33, *Porta Romana*, corso di Porta Romana 120 tel. 02 5849941
Branch no. 34, *San Babila*, via Cino del Duca 12 tel. 02 7787851
Branch no. 35, *Loreto*, piazzale Loreto 1 - ang. viale Brianza tel. 02 6797961
Branch no. 36, *Monti*, via Vincenzo Monti 41 tel. 02 4363581
PERO via Mario Greppi 13 tel. 02 3391591
SEGRATE via Rodolfo Morandi 25 tel. 02 2187351
SESTO SAN GIOVANNI
Branch no. 1, piazza Martiri di via Fani 93 tel. 02 2497301
Branch no. 2, piazza della Resistenza 52 tel. 02 2497271
TREZZO SULL'ADDA via Antonio Gramsci 10 tel. 02 9200971

PROVINCE OF MONZA E BRIANZA

ALBIATE via Trento 35 tel. 0362 93581
BERNAREGGIO via Michelangelo Buonarroti 6 tel. 039 680821
BOVISIO MASCIAGO via Guglielmo Marconi 7/A tel. 0362 59741
CARATE BRIANZA via Francesco Cusani 10 tel. 0362 80791
DESIO via Portichetto - ang. via Pio XI tel. 0362 30571
GIUSSANO via Cavour 19 tel. 0362 35571
LISSONE via Trieste 33 tel. 039 466481
MEDA via Yuri Gagarin - ang. corso della Resistenza tel. 0362 77151
MONZA
Head Office, via Galileo Galilei 1 tel. 039 837961
Branch no. 1, via Alessandro Manzoni 33/A tel. 039 235151
NOVA MILANESE via Antonio Locatelli tel. 0362 36311
SEREGNO
Head Office, via Cavour 84 tel. 0362 32181
Branch no. 1, via Cesare Formenti 5 tel. 0362 32181
SEVESO via San Martino 20 tel. 0362 65821
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VERBANIA - Pallanza, largo Vittorio Tonolli 34 tel. 0323 55591

PROVINCE OF VERCELLI

VERCELLI piazza Baldo Mazzucchelli 12 tel. 0161 26851

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BANCA POPOLARE DI SONDRIO (SUISSE) SA

SWITZERLAND

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

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Updated to 9 March 2015

TOWARDS THE STELVIO THROUGH THE EYES OF JOHANN JAKOB MEYER

Getting over the Alps was for centuries considered the perilous test that foreign travellers had to face if they wanted to reach Italy; as a reward, the Alpine passes would have opened up a whole new world for them – a form of regeneration. In the narrative map of the trip to Italy, this is the time of initiation par excellence to which writers and artists have devoted memorable pages and paintings.

Turner painted many versions of the St. Gotthard Pass, the alpine crossing taken by Hannibal, and, at much the same time as Turner, the American George Ticknor searched for traces of famous journeys, from that of the Carthaginian to the much more recent one by Napoleon. These mythical passes, wrapped in the mists of legend, accompany like a restless and exciting shadow the romantic traveller who is preparing to enter a magical land. No traveller has been able to make his arrival in Italy a ritual quite like Henry James did. The American writer crossed the Alps the first time through the Simplon Pass on foot, in 1869, and had such a strong feeling that he had opened the door of the future – the future of his own maturity and art – and he had to go back and enter Italy again through the Splügen Pass.

Not surprisingly, the great alpine passes have been celebrated by albums of engravings modelled on the one published by Gabriel Lory junior on the Simplon Pass in 1811.

It is his example that in 1831 inspired Johann Jakob Meyer's album of engravings dedicated to the new road between Milan and the Tyrol through the Valtellina and Stelvio Pass that had just been completed in 1825. Five years after the release of the album, in 1836 the Austrian Lieutenant Philipp von Körber, based in Milan, briefly described the route in his *Bilder aus der Lombardei*, highlighting the strategic and military characteristics of this important road. A few years later, in 1841, John Barrow, an inveterate traveller who walked the streets of half Europe, devoted a chapter of his *Tour in Austrian Lombardy, the Northern Tyrol and Bavaria* to the same route described by Körber, but for a completely different reason. Barrow was the typically pragmatic British traveller and nothing escaped his glance. His trained eye grasped the morphology of Valtellina, «a long, wide valley wedged between two mountain ranges, parallel to the Alps from which they derive and ending near the Stelvio Pass». He was also interested in Fort Fuentes and its history; in the cultivation of vines that thrive on hillsides exposed to the sun; in the systems used to contain the roadway and rock faces; in the costumes of the inhabitants who invariably wore a red waistcoat with a brown jacket slung over their shoulder; in Bormio's thermal baths and even in landscapes glimpsed, like sudden flashes, between one tunnel and another on the way through the Stelvio Pass: «To the South-west there was a different and more pleasant view: the winding course of the River Adda that sparkled in the sun, the steep banks carpeted with grass and the highest peaks capped with snow».

John Barrow's pages could be considered a commentary on Meyer's engravings, if the latter had not had the quality that most distinguishes them: the almost enamel flavour of the scene that freezes the landscape, making everything still, almost enchanted, even when some typical people and carriages appear. Many years later, the American writer Edith Wharton would have appreciated their tone when she wrote: «After taking a carriage for Madonna di Tirano, we found ourselves in a realm of fantasy. The Valtellina, through which we were travelling, is a garden where the fruit has the size and lushness of the fake versions depicted by Dutch painters». An amazing tribute to the new Stelvio road which, though built for strategic purposes, with Meyer's engravings already presented the charms of another Arcadia.

Attilio Brilli

Writer, essayist

JOHANN JAKOB MEYER

(Meilen, 1787 – Zurich, 1858)

Johann Jakob Meyer is a leading Swiss landscape painter of the early nineteenth century and one of the most famous exponents of the artistic and documentary genre known as the Mahlerische Reise*, the picturesque journey, that in the eighteenth and nineteenth centuries in Europe accompanies the development of the* Grand Tour.

Born in Meilen, on Lake Zurich, in 1787, he started as an apprentice in the Heinrich Füssli's studio in Zurich and was then a pupil and collaborator of Gabriel Lory senior in Neuchâtel, where he worked as a print designer for the publisher Ostervald, soon making a name for himself for his views of Swiss landscapes of exquisite and refined romantic sensitivity.

In 1815 he settled in Zurich, where two years later he married Anna Nievergelt, who gave him his only son, Jacques, in 1826. Here he set up his own engravings laboratory, which produced his most famous collections of prints.

In the summer of 1823, after the opening of the new Splügen and San Bernardino paved roads, he travelled for two months in the Grisons, making drawings for 32 black and white aquatints for his album entitled Die Bergstrasse durch den Canton Graubündten nach den Langen – und Comer-See *(The mountain road from the Canton of Grisons to Lake Maggiore and Lake Como), published by Meyer in Zurich in 1826 with historical notes by Johann Gottfried Ebel, a German physician-scientist who was the author of the first and most famous nineteenth-century guidebook to Switzerland.*

In 1831 Meyer then published a second album of 36 etchings dedicated to the new Stelvio road, the Mahlerische Reise auf der neuen Kunst-Strasse aus dem Etschthal in Tyrol über das Stilfser-Joch durch das Veltlin längs nach dem Comersee nach Mayland *(Picturesque journey on the new road from the Adige valley in Tyrol through the Stelvio Pass and Valtellina, along Lake Como, to Milan), the result of a journey undertaken two years earlier, in 1829.*

In both albums, for the engraving, he made use of plates prepared by his nephew Rudolf Bodmer (1805-1841), a friend Franz Hegi (1774-1850) and, in a few cases, other engravers. A number of views of the journey along the Splügen Pass, on the other hand, were engraved directly by him.

Meyer was also, and perhaps above all, a renowned painter of watercolours, some of them purchased by Frederick William III of Prussia in 1839, others commissioned by the family of the Tsar of Russia, Nicholas, who he met in St. Petersburg during a long trip to Russia between 1842 and 1845.

After his wife's death in 1849, he moved for a time to Vienna.

He died in Zurich in 1858.

The romantic invention of the Stelvio

In 1825 Carlo Donegani, an engineer, completed the construction of the Stelvio road from Tyrol to Bormio as a direct connection between Vienna and Milan, through the Valtellina and along Lake Como. The project, a masterpiece of 19th century engineering (49 km, 82 bends, 10 major bridges, 6 tunnels bored through rock or built in masonry, dozens of wooden avalanche protection galleries), had been strongly supported (and financed) by Austrian Emperor Francis I, essentially for military reasons after the Congress of Vienna of 1815 definitively annexed the Valtellina to the Kingdom of Lombardy-Venetia. But the Austrian army never used it.

It was too easy to sabotage, a potential trap for an army that risked getting bottled up in the steep and narrow pass. On the other hand, it helped to develop tourism in the Bormio area, soon becoming a new route between Europe and Italy, a road that was in itself an attraction. J.J. Meyer, the watercolour painter from Zurich, realised this immediately. Since 1815 he had dedicated his time to the landscape in southern Switzerland, then he moved further into the Alps and on to the lakes between Ticino and Lombardy.

From the famous Anglo-Swiss painter Heinrich Füssli (aka Henry Fuseli), whose pupil he had been in his youth, Meyer learned the romantic taste of the sublime, whereas from Gabriel Lory senior, who he worked with in Neuchâtel for the print publisher Ostervald, he developed a passion for the alpine landscape and the picturesque journey, as expressed in the romantic *Sehnsucht*, the boundless desire for sensation. But Meyer also belonged to a generation that was a child of the Enlightenment, which learned to combine reason and sentiment, passion for nature and admiration for science and artifice; he therefore saw these convenient roads opened up through the Alps as the precondition for the aesthetic enjoyment of this natural, high-altitude landscape.

After all, it was Immanuel Kant, the 18th century's maximum theorist on the aesthetics of the sublime, who in 1790 wrote in his *Critique of Judgement* that "any spectator who beholds massive mountains climbing skyward, deep gorges with raging streams in them, wastelands lying in deep shadow and inviting melancholy meditation, is seized by amazement bordering on terror, by horror and a sacred thrill; but since he knows he is safe, this is not actual fear".

This was the philosophy with which Meyer looked at the Alps, the same that seized the cultured European public, made up of aristocrats and the upper middle class, always on the look-out for new emotions. After the end of the Napoleonic Wars, in a Europe at peace following the Restoration, they started travelling again, renewing the splendour of the 18th century Grand Tour in the footsteps of Goethe's *Italian Journey*.

In 1826, after the opening of the new paved roads through the Splügen and San Bernardino passes, Meyer published an album of 32 aquatints on the Splügen, accompanied by historical notes by Johann Gottfried Ebel. The success of that album convinced him in 1829 to try a repeat with the Stelvio, then the highest and most spectacular road in the whole of the Alps. In fact, it rose from a height of 850 metres at Spondigna, in Alto Adige, to nearly 2,800 metres at the Stelvio Pass, opening up fantastic scenery at every turn, always new and different, of mountain peaks and glaciers that seemed to touch the sky, before descending on the Italian side through the impervious and scary Braulio Valley, to arrive through the main centres of the Valtellina at the gentle shores of the lake and its beautiful bays, which Meyer follows all the way to Lecco and to Como.

Thus were born the 36 views of the *Mahlerische Reise auf der neuen Kunst-Strasse aus dem Etschthal in Tyrol über das Stilfser-Joch durch das Veltlin längs dem Comersee nach Mayland* (Picturesque Journey on the new road from the Adige valley in Tyrol through the Stelvio Pass and Valtellina, along Lake Como to Milan), which launched the romantic discovery of the Stelvio.

No longer accompanied by his learned friend Gottfried Ebel, whose notes had greatly enriched the album on the Splügen road, in this case Meyer relies solely on the power of his images. He organised his *Picturesque Journey* as a great visual score that, in contact with alpine nature, was able to vibrate all the strings of the romantic soul, from the arcadian to the elegiac, thanks to this road with its hairpin bends, its tunnels made of stone or bored through the living rock, its system of avalanche galleries and numerous places to stop and take shelter, which made it possible to contemplate in comfort, on foot or by carriage, places that were once inaccessible to human beings, to almost touch the sky, to enter into the bowels of the mountain, to travel the entire length of an alpine valley, to tour its historical ruins and enjoy the touching beauty of the lake and its many coves, transforming the journey into an exhilarating maelstrom of emotions.

But the most striking part of the album is undoubtedly the trip through the Stelvio Pass, to which no less than 15 views are dedicated, concentrating the poetic theme of the romantic sublime in the era of the Grand Tour.

Nobody like his nephew Rudolf Bodmer (1805-1841) knew technically how to render the effects of the sublime alpine landscape when converting Meyer's watercolours into aquatints.

Meyer had used him for some of his Splügen prints, but in this case he asks him to convert his entire *corpus* of views of the Stelvio, as well as a few of Lake Como; for the others, he uses the proven skills of Franz Hegi.

Of the 36 views of his *Picturesque Journey*, Meyer elaborated three versions, one a black and white aquatint, another in sepia and blue or only partially blue-tinted, the third in full colour, obtained by watercolouring the original aquatint by hand. Even though this last version (then very expensive) proves without a doubt the most vivacious and enjoyable for brilliant watercolour effects of the views, in my opinion, the one in black and white is the most refined as the aquatint already creates a watercolour effect, and because this effect in black and white, accentuating the shadows and contrasts, enhances the vertigo of fear of the horrid, the looming danger that emanates from the wilderness, all essential components of the romantic sublime. The blue-tinted version, on the other hand, is more effective in rendering the more pleasant and soft atmosphere of lake scenery, rather than mountains, though here it sometimes helps to enhance the sense of distance and infinity of the view. The examples given here show these comparative effects.

Franco Monteforte

SUMMARY OF THE BANK'S GROWTH
(2004/2014)

(in millions of euro)	2004	2009	2014
Funding from customers:			
direct	9,330	17,519	27,025
indirect	13,709	20,644	26,835
Equity (excluding profit for the year)	1,027	1,493	2,124
Customer loans:			
cash loans	8,101	16,711	20,536
overdraft facilities	1,783	2,899	4,636
Financial assets	2,247	3,354	9,075
Total income	381	760	968
Profit from continuing operations	129	309	162
Profit for the year	77	191	98
Number of branches	203	278	327
Personnel (number)	2,074	2,454	2,596

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 € 1,360,157,331, made up of 453,385,777 ordinary shares with a par value of € 3 each - Reserves € 763,709,480

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary annual general meeting (AGM) at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 17 April 2015 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, 18 April 2015 to discuss the following

AGENDA

1) Presentation of the financial statements as of 31 December 2014: 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»
4) Approval of the Remuneration Report, as per art. 123-bis of Decree 58/98 (Consolidated Finance Act);
5) Determination of directors' emoluments;
6) Appointment of five Directors for the three-year period 2015-2017;
7) Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2015-2017; determination of their annual emoluments.

Share capital

The share capital, fully subscribed and paid up, amounts to € 1,360,157,331 and is made up of 453,385,777 ordinary shares with a par value of € 3 each. There are 183,964 shareholders with voting rights.

Attendance at the Meeting

Pursuant to arts. 13.2 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, art. 83-sexies, paragraph 4, of Decree 58/98, Consolidated Finance Act, applies. 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 issued 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 and on its website www.popso.it/assemblea2015. The proxy will have to be handed over when entering the meeting.

Shareholders who are minors can be represented by whoever is their legal representative.

Addition of items to the agenda for the Meeting

Shareholders representing at least one-fortieth of the total number of shareholders entitled to vote may request, within ten days of publication of this notice, for items to be added to the agenda, according to the terms and conditions laid down in art. 126-bis of Decree 58/98, Consolidated Finance Act. The request, to be submitted to the head office at Piazza Garibaldi 16, Sondrio, should contain an indication of the new topics being proposed or of the motions proposed on matters already on the agenda. Requests shall be submitted in writing and the signature of each shareholder submitting it must be authenticated as required by law.

Shareholders wanting to add items to the agenda should prepare a report summarising the reasons for the new topics that they would like to propose for discussion, or the reasons for additional motions that they would like to propose on matters already on the agenda. This report has to be sent in no later than the deadline for submission of the request.

It is not permitted to add items to the agenda for those topics on which the Shareholders' Meeting has to vote, in accordance with the law, on the proposal of the Board of Directors or on the basis of a project or a report prepared by the Board, other than those mentioned in art. 125-ter, paragraph 1, of Decree 58/98, Consolidated Finance Act.

Documentation

The explanatory reports of the Board of Directors containing the proposed resolutions and documents that will be submitted to the Shareholders' Meeting will be made available at head office, on the «SDIR & STORAGE» authorised storage mechanism «www.emarketstorage.com» and on the

Company's website at www.popso.it/assemblea2015 by the current legal deadline. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

Appointment of five directors for the three-year period 2015-2017

With reference to paragraph 6) on the agenda for the Ordinary Shareholders' Meeting - Appointment of five directors for the three-year period 2015-2017 - the following is the text of art. 35 of the articles of association.

""""

Art. 35
Presentation of the lists of candidates

The members of the Board of Directors are elected from lists containing as many candidates as the number of directors; in the lists the candidates are listed with a progressive number.

The lists must be filed at the Company's registered offices within the terms and methods established by current regulations.

The lists must be compiled so as to guarantee the gender balance in the Board of Directors resulting from the voting, as per the principles set out by the law and the articles of association, having regard, in the progressive numbering of the candidates, to the election mechanism as set out in article 36.

Each member may only present or contribute to the presentation of one list of candidates and each candidate may only appear on one list.

The lists may be presented by a minimum of 500 members, with the requirements set out in article 13, paragraph 2 above.

Additionally, lists can be presented by one or more members with the requirements set out in article 13, paragraph 2 above who separately or together hold shares representing not less than 0.50% of the share capital. The members must indicate the number of shares held in total and certify that shareholding.

The signature of each presenting member has to be authenticated according to the law or by employees of the bank nominated for that purpose by the Board of Directors.

By the deadline set for the submission of lists, the curriculum of each candidate must be submitted, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of the director as set out by the law and by the articles of association. 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.

""""

Note that current legislation, to which art. 35 of the Articles refers, states that the lists of candidates for the office of director have to be deposited at head office by the 25th day prior to the date of the Meeting.

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

It should also be remembered that art. 32, paragraphs 3 and 4, of the articles of association states that:

«The composition of the Board of Directors must ensure gender balance in accordance with current regulations.

For the first three partial renewals of the Board - pursuant to art. 34, paragraph 2 - more than one year from the date of entry into force of Law 120 of 12 July 2011, the gender balance is achieved by ensuring that at least one-fifth of the directors elected for a three-year term go to the gender that is less represented.»

Pursuant to art. 33, paragraph 1, of the articles of association, the directors have to meet the requirements laid down by law and by the supervisory rules for banks. Art. 33, paragraph 2, also states that at least two members of the Board of Directors must meet the independence requirements laid down in art. 147-ter, paragraph 4, of Decree 58/98, Consolidated Finance Act. In this regard, note that of the ten directors whose term of office is not about to expire, three meet this requirement.

Lastly, art. 33, paragraph 3, provides that with a specific regulation, the Board of Directors sets the limit on the number of positions that directors can hold at the same time in other companies. In this regard, it has been decided that the directors may not hold board or management positions in more than five listed companies at the one time.

For the presentation of lists, the shareholders are required to take into account the document «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio» published on the Company's website at www.popso.it/assemblea2015

In this document, adopted in implementation of the guidelines issued by the Bank of Italy, the Board of Directors has identified the ideal composition of the board in terms of quality and quantity and the profile that candidates need to have for the office of director. This document has been made known to the Bank's shareholders, so that the choice of candidates to be submitted for the renewal of the Board of Directors can take into account the professional skills required to perform the tasks entrusted to the Board.

Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2015-2017

With reference to the first part of paragraph 7) on the agenda for the Ordinary Shareholders' Meeting - Appointment of serving and alternate Statutory Auditors and of the Chairman of the Board of Statutory Auditors for the three-year period from 2015 to 2017 - the following is the text of art. 49 of the articles of association.

""""

Article 49
Presentation of the lists of candidates

The election of the members of the Board of Statutory Auditors is made on the basis of the lists presented by the shareholders where candidates are listed with progressive numberings. Each list is split into two sections, one for the candidates for the position of serving Statutory Auditor and one for the 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 filed at the Company's registered offices within the terms laid down in current regulations.

The lists must ensure gender balance in accordance with current regulations and these articles of association. For this purpose one of the candidates for serving statutory auditor must belong to the less represented gender.

Each member may only present or contribute to the presentation of one list of candidates and each candidate may only appear on one list.

The lists may be presented by a minimum of 500 members, with the requirements set out in article 13, paragraph 2 above.

Additionally, lists can be presented by one or more members with the requirements set out in article 13, paragraph 2 above who separately or together hold shares representing not less than 0.50% of the share capital. The shareholders must indicate the total number of shares held and must certify that shareholding.

The signature of each presenting member has to be authenticated according to the law or by employees of the bank delegated to that function by the Board of Directors.

By the deadline set for the submission of lists, the curriculum of each candidate must be submitted, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of Statutory Auditor as set out by the law and by the articles of association.

Any lists which are deposited without complying with procedure and deadlines set out above will be considered as if they were not presented.

""""

Note that current legislation, to which art. 49 of the Articles refers, states that the lists of candidates for the office of statutory auditor have to be deposited at head office by the 25th day prior to the date of the Meeting.

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

The requirements for statutory auditors are governed by art. 48, para. 4, of the Articles of Association, which state:

«In addition to the reasons for ineligibility and forfeiture envisaged by the law, there also the provisions of article 17 above. In any case the Statutory

Auditors cannot take up offices in corporate bodies other than those of control in other companies of the Group as well as in companies where the bank holds a strategic investment, even if held indirectly. Further, the office of Statutory Auditor cannot be held by persons who exceed the limit of cumulative holding of offices of administration and control as fixed by the law and by the relative implementation regulations or by those who are members of administrative or control bodies of other banks with the exception of the associations which represent trade institutes and the subsidiaries. The Statutory Auditors must also meet the standards of integrity, professionalism and independence set by current regulations».

Sondrio, 17 March 2015

FOR THE BOARD OF DIRECTORS
Chairman
(Francesco Venosta)

The notice of calling was published, as required by law, on the Company's website at www.popso.it/assemblea2015 and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 18 March 2015.

Note. The figures in this report are in euro; all changes expressed as percentages refer to comparable data from the end of 2013, 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 the same amounts expressed in different units.

DIRECTORS' REPORT ON OPERATIONS

SUMMARY OF RESULTS

Shareholders,

There was only one question during the year just ended: when will the crisis end? No-one has the answer yet.

At least not for countries in the Euro area; hopes there for an upturn in the economic cycle were gradually dashed on publication of the related macroeconomic performance data. While other economic areas, with the United States in the forefront, have managed to adopt effective measures to re-start the cycle, Europe has remained prisoner to a vision of economic rigour that, with hindsight, has penalised the strongest economies as well.

The European Central Bank has been unable to do much. Despite rates ever closer to zero and the ready availability of liquidity, the recession-deflation monster has appeared to take things from bad to worse.

Italy has been forced into a difficult balancing act by the burden of public sector debt, which has weighed heavily on performance. Nevertheless, measures have been taken to escape from a stagnation that has gradually transformed into recession. The next few months will tell if current and future measures can help to relieve such problems as unemployment, the impoverishment of an increasing cross-section of the population, ongoing de-industrialisation and excessive taxation.

Inevitably, the domestic banking system has been impacted by the general macroeconomic conditions. A contraction in lending and the growth of non-performing loans are indicators of a difficult year. In this context, the general improvement of capitalisation levels has enabled most of the banks concerned to pass the Comprehensive Assessment carried out by the ECB and the EBA.

With regard to Banca Popolare di Sondrio, the data published by the competent authorities on 26 October 2014 confirmed the capital adequacy of our Group, which benefited from the capital increase carried out during the year. Accordingly, the bank became subject to the ECB's Single Supervisory Mechanism on 4 November, together with 13 other Italian banks.

These dates will go down in the history of the bank. Turning now to the results for the year, the marked growth in direct deposits, up 12.32% to 27,025 million, confirms the confidence in and the appreciation shown for the bank's services. The only slight decline in lending to 20,536 million, -1.48%, confirms the constant support provided to the economies of the territories served, which included the granting of substantial new loans during the year.

Economic performance benefited from the growth in net interest income. The results of financial activities were very good too. The substantial provisions against loans reflect the prudent policy adopted. Although they

RESULTS IN BRIEF

(in millions of euro)	31/12/2014	31/12/2013	Change %
Balance sheet			
Loans and receivables with customers	20,536	20,844	-1.48
Loans and receivables with banks	1,592	1,482	7.41
Financial assets	9,075	6,803	33.41
Equity investments	412	412	–
Total assets	32,573	30,463	6.93
Direct funding from customers	27,025	24,059	12.32
Indirect funding from customers	26,835	25,609	4.79
Direct funding from insurance premiums	897	719	24.86
Customer assets under administration	54,757	50,387	8.67
Other direct and indirect funding	4,022	4,988	-19.37
Equity (excluding profit for the year)	2,124	1,725	23.13
Income statement			
Net interest income	521	488	6.64
Total income	968	895	8.24
Profit from continuing operations	162	98	65.18
Profit for the year	98	49	99.77
Key ratios %			
Net interest income/Total assets	1.60	1.60	
Net financial income/Total assets	1.52	1.39	
Net interest income/Total income	53.75	54.56	
Administrative expenses/Total income	39.43	40.86	
Profit/Total assets	0.30	0.16	
Profit/Average equity (excluding profit for the year)	5.07	2.86	
Non-performing loans/Customer loans	2.96	2.16	
Capital ratios %			
CET 1 capital ratio	9.81%	10.54% *	
Total Capital Ratio	11.50%	14.54% *	
Free capital	748	1,029	
Other information			
Number of employees	2,596	2,582	
Number of branches	327	318	

* The 2013 comparison figures are not consistent because of changes in regulations.

BPS (SUISSE)

Effective operational guidelines, professionalism and commercial competitiveness enable our Swiss subsidiary to operate as a true retail bank in support of the areas served. Development of the customer portfolio is supported by technological and organisational investment, as well as targeted work on the commercial network. This comprises twenty branches in the Confederation, the branch in the Principality of Monaco and the Direct Banking virtual branch. The Neuchâtel branch in the heart of "Watch Valley", where about one third of the Swiss watch industry is concentrated, was opened during the year and marks our subsidiary's entry into the Romandie (French speaking) part of Switzerland. As a result, the bank is present in all three principal linguistic regions of the Confederation. Popso (SUISSE) Investment Fund Sicav also contributes to the activities of the bank, not least in terms of professionalism.

The appendix of the annual report is dedicated to Felix Somary

BPS (SUISSE)

General Management:
CH - 6900 Lugano
Via Giacomo Luvini 2a
Tel. +41 58 8553000
Fax +41 58 8553015

Main Office:
CH - 6900 Lugano
Via Maggio 1
Tel. +41 58 8553100
Fax +41 58 8553115

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

Factorit

Branches in: • **Milan** • **Turin** • **Padua**
• **Bologna** • **Rome** • **Naples**
in addition to 270 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
GRUPPO Banca Popolare di Sondrio

I - 20122 Milan
Via Cino del Duca 12
Tel. +39 02 58150.1
Fax +39 02 58150.205

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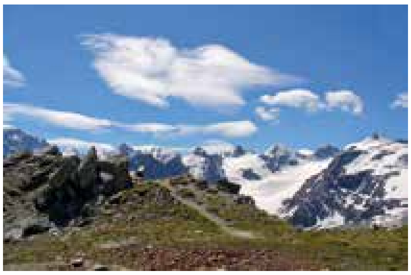
info@factorit.it

Functional and complementary to the activities of the Group, this subsidiary enhances the range of facilities offered to businesses by providing attentive factoring services, some of which are able to mitigate supply risks. The concrete attention dedicated to the real economy, as confirmed by the volume of factoring business, starts from the rigorous selection of portfolios and potential customers, as evidenced by the steady reduction in past due loans. Lively operations enable the company to remain at the forefront of this business segment in the Italian market, tackling with professionalism and balance the complex economic and financial dynamics that continue to affect the industrial system. We support Factorit with a growing volume of business, remaining the leading bank among shareholders and associates when it comes to the introduction of factored receivables.

Pirovano Stelvio

upper Valtellina

The efforts of the company are supported by the quality of the services offered and the promotional activities undertaken by the bank, which benefit the entire Stelvio area and, indeed, the province as a whole.
The spin-off benefits for the Group in terms of relationships and image continue to be significant, also thanks to the various cultural and sporting events.
We therefore intend to continue our support for Pirovano, including the company's ongoing efforts to diversify the attractions for tourists by drawing attention to the special nature of the Stelvio environment.
We trust that all other operators in the area will also contribute to strengthening the area's ability to attract visitors.



SCI ESTIVO - PASSO DELLO STELVIO
PIROVANO
L'UNIVERSITÀ DELLO SCI
SNOWBOARD UNIVERSITY
L'UNIVERSITÀ DELLA MONTAGNA

I - 23100 Sondrio SO
Via Delle Prese 8
Tel. +39 0342 210040 - 515450
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Albergo Quarto Pirovano
Stelvio Pass
Tel. +39 0342 904421
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www.pirovano.it
info@pirovano.it

lower profitability considerably, they increase the coverage of impaired loans and improve the quality of the net assets reported in the balance sheet. Profitability has increased substantially despite the objectively difficult general environment; profit for the year totalled 97,552 million, compared with 48,832 million in the prior year (+99.77). This reflects healthy and efficient economic management, which creates wealth for shareholders and supports the self-financing capability of the bank.

In a market often conditioned by speculative actions, the BPS share price has declined 9.85% against the reference price. Against this, the number of members has risen to a new maximum of 185,309.

Let's now take a look at the figures, which are the fruit of the intense efforts of our staff, which consists of 2,596 people.

Total assets have increased to 32,573 million, +6.93%.

Net interest income rose to 520,560 million, +6.64%; net fee and commission income amounted to 242,237 million, +7.27%. Total income totalled 968,494 million, +8.24%.

Cost control efforts have intensified, while - as mentioned - loan adjustments reflect application of the usual prudent policy.

The subsidiaries Banca Popolare di Sondrio (SUISSE) SA and Factorit spa have contributed to the business development of the Banking Group and to its profitability.

Based on the results for the year, the Board is of the opinion that a dividend of 0.06 euro per share marks a fair point of equilibrium between the needs of the shareholders and those of the Bank in terms of self-financing.

TERRITORIAL EXPANSION

The branch network marks the scope of our action in the chosen territories.

This brief statement summarises the history of the bank and indicates the nature of our business. A history of growth linked with gradual expansion into new and broader markets. The nature of an institution that has enhanced its identity by transforming from a local bank to a bank present in multiple territories.

Direct customer contact is essential for us, both now and into the future. The branch is responsible for the customisation of each account, the place where bank and customer build their fiduciary relationship, and the location where human relations are formed that add value to our work.

For these reasons, the bank continues to believe and invest in the strengthening of the branch network; at the same time, we support action designed to improve the commercial and specialist skills of our employees at branch level. These persons are responsible for managing the delicate transformation from traditional operations to the more advanced forms of advisory support provided to customers, in the clear knowledge that standard, bulk transactions are increasingly processed in an automated manner.

Similarly, we are also dedicating energy and investment to other distribution channels, especially those in electronic form, given that this diversification ensures greater flexibility in meeting the needs of a wide range of customers. The multi-channel approach takes account of the social, professional and personal profile of each customer, in order to facilitate access on a customised basis to our products and services.

Based on this approach, we opened 9 new branches during the year. The locations selected confirm our demonstrated ability to become well established in areas that differ widely in social and economic terms, offering effective responses to the diverse needs of customers of every type. Five branches were positioned in large cities, while four are located in small towns with somewhat different characteristics.

In *Milan*, branch nos. *35* and *36* have opened. The first is situated in *piazzale Loreto*, one of Milan's principal traffic and underground nodes. There are numerous professional offices (lawyers, architects, doctors, engineers and accountants) in the square and the immediate vicinity, as well as many commercial businesses situated along corso Buenos Aires in particular. The square is also overlooked by the Upim and Coin department stores, which attract a significant volume of customers.

Branch *36* has been opened in *via Vincenzo Monti*, which is a long, tree-lined avenue that, starting at the junction of via Carducci and corso Magenta, runs parallel to the Sempione Park until piazza VI Febbraio. This elegant avenue is primarily residential, overlooked by many prestigious properties. A good number of commercial businesses are mainly located towards the centre of the city.

Trezzo sull'Adda is situated in the eastern part of the province of Milan, but is economically part of a vast manufacturing basin largely located in the adjoining province of Bergamo. The town, with almost 12,000 residents, has a lively economy due to its commercial network and importance in manufacturing terms. The history of Trezzo is inextricably bound to its castle and river, as a means of communication, as well as to its reputation for hard work and inventiveness. Trezzo was the start of the Martesana Canal, promoted by Francesco Sforza to link the Milan Wharf with the River Adda.

In the province of Brescia, we have opened in Chiari, a town with about 19,000 inhabitants situated 25 kilometres west of the main city, in a dynamic and industrious area for which it has become the point of reference. The local economy, previously based on agriculture, has gradually seen strong commercial and industrial development. Indeed, some of the factories are particularly large.

As in Milan, we have also opened two new *branches* in *Rome*, nos. *36* and *37*, making the capital once again the city with the largest number of branches. This first is located in *via G.B. Martini*, at the headquarters of Consob for which we now provide treasury management services. Consob, formed by Law 216 of 7 June 1974, is the independent administrative authority responsible for the protection of investors and ensuring the efficiency, transparency and development of the Italian stock market.

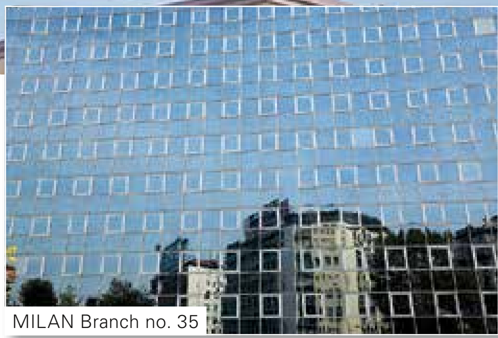
Territorial expansion


ROME Branch no. 36


DOMODOSSOLA (VB)


TREZZO SULL’ADDA (MI)


SANTA MARGHERITA LIGURE (GE)


MILAN Branch no. 35

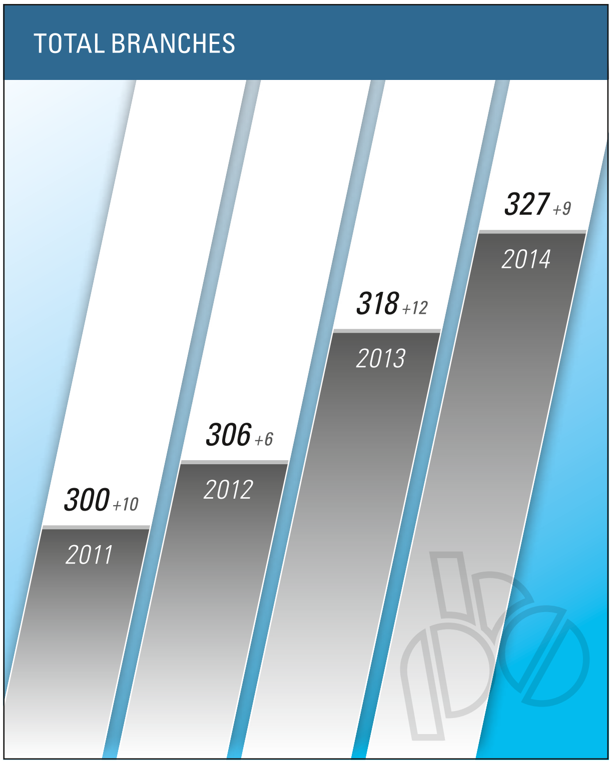

CHIARI (BS)


MILAN Branch no. 36

The branch network
marks the scope of our action
in the chosen territories.
This brief statement summarises
the history of the bank and indicates
the nature of our business.
A history of growth linked
with gradual expansion into
new and broader markets.
The nature of an institution
that has enhanced its identity
by transforming from a local bank to
a bank present in multiple territories.
Direct customer contact is essential
for us, both now and into the future.
The branch is responsible
for the customisation of each
account, the place where bank
and customer build their fiduciary
relationship, and the location where
human relations are formed
that add value to our work.
For these reasons, the bank
continues to believe and invest
in the strengthening of the branch
network; at the same time, we
support action designed to improve
the commercial and specialist skills
of our employees at branch level.


ROME Branch no. 37


BOLOGNA



From 29 December, branch *no. 37* is available to the elegant Salario district of Rome, which is home to a large number of villas, parks and neighbourhood gardens. We are positioned in *via Tagliamento*, which is a traffic and pedestrian thoroughfare served by many bars, restaurants and commercial businesses. The near-by «Quartiere Coppedè» was named after the florentine architect that built it in the early 1900s. The Salario district, home to many upper class residents, is also considered to be very prestigious and on a par with the adjoining Parioli district.

Our branch in *Domodossola* extends our presence to the northern part of Verbano Cusio Ossola, a province where we already had 4 branches. Domodossola, a town of about 18,500 inhabitants for which we look after the municipal treasury, is an important gateway to Switzerland via the Sempione Pass. Following completion of the railway tunnel in 1906, Domodossola has been a key junction in the international railway system: all inbound and outbound trains stop there and, consequently, the logistics hub is very large. Proximity to Switzerland has given rise to the phenomenon of frontier commuters, involving about 6,000 persons who mostly work in Ticino, but also in the Vallese area.

During the summer, we opened in *Santa Margherita Ligure (Genoa)*, which has almost 10,000 inhabitants on the Riviera di Levante. Blessed by nature, the town thrives mostly on tourism, with a complete range of hotels that attract large numbers of visitors from home and abroad. The warm climate, beautiful views and proximity to other desirable destinations, such as Portofino and the Cinque Terre, represent the main attractions of this elegant town, which is also known as the «Pearl of the Gulf of Tigullio». The port – capable of serving super yachts – makes an important contribution to the lively spirit of Santa Margherita Ligure, where large cruise ships have been docking with increasing frequency in recent years.

At year end, we opened a branch in a central area of *Bologna*, via Riva di Reno. This is the bank's fifth branch in Emilia Romagna. With a long history and many merits, Bologna is proud to be the seat of the oldest University in the western world. In fact, the branch opening is directly linked to the University, where we provide cash management services for Cineca, an Inter-university Consortium based in Bologna that brings together 69 Italian Universities, 2 National Research Agencies and the Ministry of Education, Universities and Research.

Bologna has almost 400,000 residents and is the point of reference for an extremely dynamic area; it is sufficient to note that the province is home to the largest number of firms per inhabitant in Italy. Multiple industries boast leaders of excellence: from food processing to engineering, from electronics to the manufacture of cars and motorcycles (Lamborghini and Ducati), from pharmaceuticals to fashion and leather goods, without forgetting the headquarters of several leading national distributors. Tourism also makes an important contribution, with numerous visitors attracted to the treasures found in the historical centre of the city, as well as to the many events held throughout the year. Indeed, BolognaFiere is Italy's number two trade fair location in terms of turnover.

Our overall market presence also includes 510 ATMs, of which 16 were added during the year.

DEPOSITS

Gather savings in full knowledge that the returns offered are shrinking. In substance, this is the challenge faced by the Italian banking system over the past year, as a consequence of the delicate economic and financial situation that has arisen.

The steady reduction in interest rates, led by the monetary authorities, has modified the terms of the traditional exchange between bankers and savers. The interest rate, necessarily extremely low at this time, is no longer an attraction. The key driver of business is now confidence in the financial institution, which has become decisive in the allocation of financial resources.

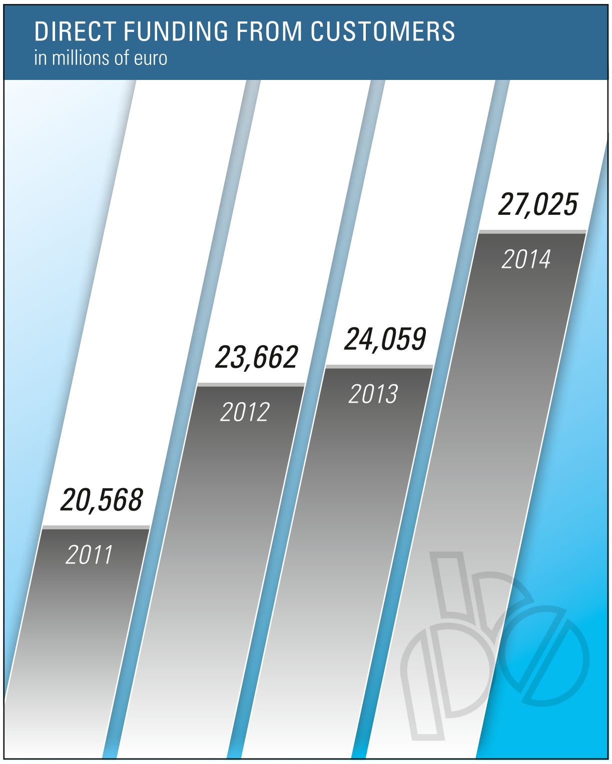
The confidence of customers in our bank is founded, of course, on the conviction of savers that, in this way, they protect their savings. This guarantee is offered by Banca Popolare di Sondrio primarily via the healthy and profitable management of the bank, as demonstrated by the positive results achieved in the current year. The propriety and transparency that have always marked our commercial and account management practices are also important.

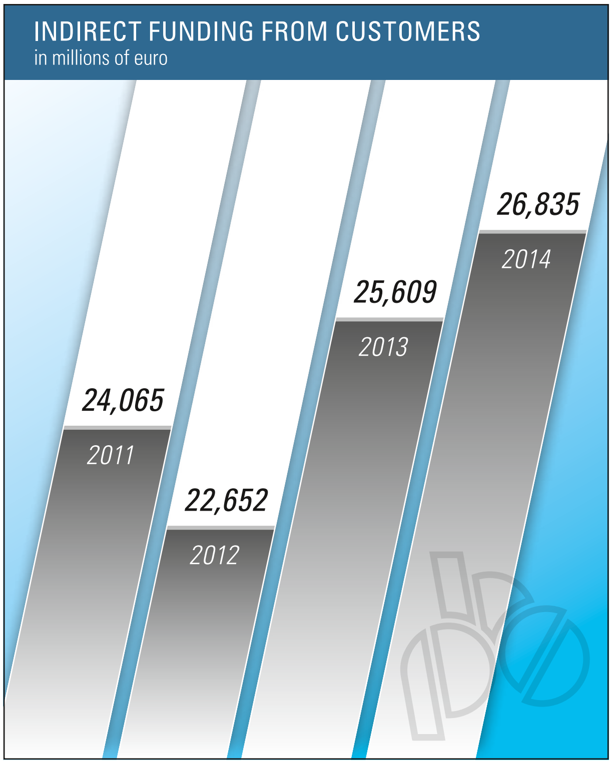
There are other aspects too, including one that deserves particular attention: our depositors know that their savings will be used by the bank primarily for the benefit of local territories; accordingly, they know that they are helping to finance the economies of which they are a part. This cannot be underestimated, in an increasingly globalised world in which cash tends to flow away from the areas that generated it, guided by a compass that points to immediate returns.

In this way, as a cooperative bank that serves its local territories, we have earned growing credibility that is readily and meaningfully confirmed by the data presented below.

Direct funding from customers has increased to 27,025 million, +12.32%; this is most satisfactory, especially considering the performance of the banking system as a whole.

Indirect funding from customers measured at market value now total 26,835 million, +4.79%, following a transfer of securities from other





DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	31/12/2014	%	31/12/2013	%	Change %
Savings deposits	428,929	1.59	415,800	1.73	3.16
Certificates of deposit	8,991	0.03	9,038	0.04	-0.52
Bonds	3,212,469	11.89	2,766,991	11.50	16.10
Repo transactions	383,722	1.42	210,968	0.88	81.89
Bank drafts and similar	69,464	0.26	74,609	0.31	-6.90
Current accounts	20,102,110	74.38	16,170,845	67.21	24.31
Time deposit accounts	2,116,369	7.83	3,852,033	16.01	-45.06
Current accounts in foreign currency	702,570	2.60	559,134	2.32	25.65
Total	**27,024,624**	**100.00**	**24,059,418**	**100.00**	**12.32**

TOTAL DEPOSITS

(in thousands of euro)	31/12/2014	%	31/12/2013	%	Change %
Total direct funding from customers	27,024,624	45.99	24,059,418	43.45	12.32
Total indirect funding from customers	26,834,952	45.65	25,608,578	46.25	4.79
Total direct funding from insurance premiums	897,468	1.53	718,808	1.30	24.86
Total	**54,757,044**	**93.17**	**50,386,804**	**91.00**	**8.67**
Due to banks	2,305,354	3.91	3,692,634	6.66	-37.57
Indirect deposits from banks	1,716,455	2.92	1,295,125	2.34	32.53
Grand total	**58,778,853**	**100.00**	**55,374,563**	**100.00**	**6.15**

intermediaries and favourable market conditions. Direct funding from insurance premiums increased to 897 million, +24.86%.

Total customer deposits therefore amount to 54,757 million, +8.67%.

Deposits received from banks have fallen by 37.57% to 2,305 million. As in the prior year, this balance includes refinancing operations with the European Central Bank totalling 1,098 million, as explained in the chapter on «Treasury and trading operations». Securities under administration for banks have increased from 1,295 a 1,716 million, +32.53%.

Total deposits from customers and banks therefore amount to 58,779 million, +6.15%.

The table of «Direct funding from customers» shows the various elements using different criteria and in greater detail than table 2.1 in Section 2 Part B of the notes to the financial statements.

Considering the individual components, euro and currency accounts have increased to 20,805 million, +24.36%, in part due to a reduction in deposit accounts to 2,116 million, -45.06%, given the cost-containment policy adopted in relation to funding. Euro and currency accounts represent 76.98% of total direct deposits. Bonds have increased from 2,767 to 3,212 million (+16.10%), partly due to the issue of 500 million of covered bonds and 350 million of subordinated debt. Repo agreements have recovered, rising to 384 million, +81.89%, and savings deposits also increased by 3.16% to 429 million. Certificates of deposit did not change at 9 million, -0.52%, and remain entirely marginal. Bank drafts also fell to 69 million, -6.90%.

As regards asset management, please see the chapter on treasury and trading activities.

LENDING

The prolonged adverse macroeconomic situation, that has slipped from stagnation towards recession, has obviously conditioned the work of the banking system. The downward slide in lending is a clear example, as firms understandably defer their investments in operating assets, on the demand side, while a further marked rise in non-performing and watchlist loans has conditioned the supply side.

In this first area, essentially linked to the crisis in demand, there was clearly nothing practical that we could do. Accordingly, we concentrated on the second area, being the quality of lending, with the dual objective of providing additional financial support to deserving firms and households, while also protecting our interests in relation to loan positions that are currently under pressure.

We did not fail to support the economy in the areas served during 2014, in full awareness that this is our mission and therefore the reason for our work. The general downward trend in both lending and funding rates has allowed us to offer attractive economic conditions, while of course also remunerating risk in a proper manner.

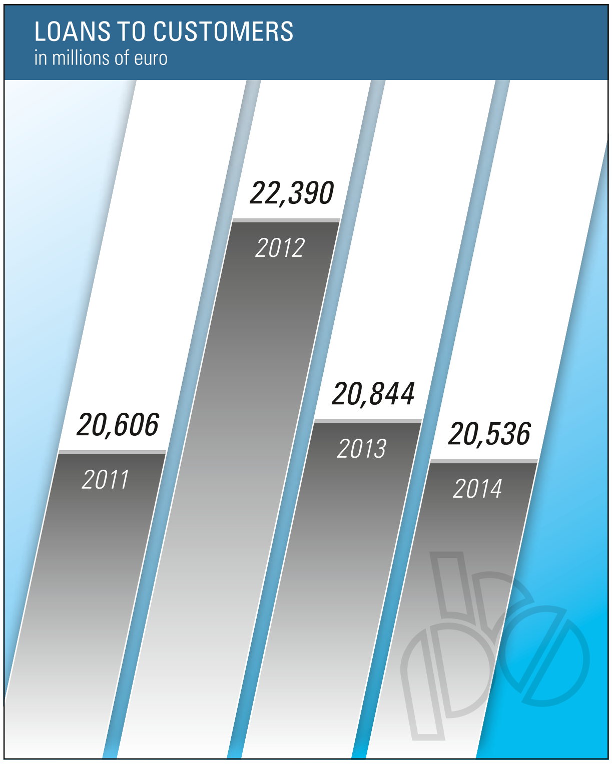
LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	31/12/2014	%	31/12/2013	%	Change %
Current accounts	5,949,385	28.98	6,531,629	31.34	-8.91
Foreign currency loans	1,057,925	5.15	1,145,180	5.49	-7.62
Advances	378,757	1.84	412,235	1.98	-8.12
Advances subject to collection	237,070	1.15	254,092	1.22	-6.70
Discounted portfolio	9,066	0.04	11,626	0.06	-22.02
Artisan loans	25,647	0.12	17,173	0.08	49.34
Agricultural loans	31,614	0.15	32,363	0.16	-2.31
Personal loans	179,206	0.87	166,907	0.80	7.37
Other unsecured loans	4,777,009	23.27	5,115,620	24.54	-6.62
Mortgage loans	6,527,924	31.80	6,656,909	31.93	-1.94
Net non-performing loans	608,499	2.96	450,431	2.16	35.09
Repo transactions	587,505	2.86	49,412	0.24	1088.99
Fixed-yield securities	166,219	0.81	–	–	–
Total	**20,535,826**	**100.00**	**20,843,577**	**100.00**	**-1.48**

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2014	31/12/2013	(+/-)	% change
Impaired loans	Gross exposure	3,501,452	2,861,689	639,763	22.36
	Adjustments	1,488,039	1,098,777	389,262	35.43
	Net exposure	**2,013,413**	**1,762,912**	**250,501**	**14.21**
– Non-performing loans	Gross exposure	1,516,785	1,108,980	407,805	36.77
	Adjustments	908,286	658,548	249,738	37.92
	Net exposure	**608,499**	**450,432**	**158,067**	**35.09**
– Watchlist loans	Gross exposure	1,459,948	1,225,496	234,452	19.13
	Adjustments	511,306	381,159	130,147	34.15
	Net exposure	**948,642**	**844,337**	**104,305**	**12.35**
– Restructured loans	Gross exposure	96,458	41,350	55,108	133.27
	Adjustments	15,230	6,575	8,655	131.63
	Net exposure	**81,228**	**34,775**	**46,453**	**133.58**
– Past due loans	Gross exposure	428,261	485,863	-57,602	-11.86
	Adjustments	53,217	52,495	722	1.38
	Net exposure	**375,044**	**433,368**	**-58,324**	**-13.46**
Performing loans	Gross exposure	18,644,087	19,201,626	-557,539	-2.90
	Adjustments	121,674	120,961	713	0.59
	Net exposure	**18,522,413**	**19,080,665**	**-558,252**	**-2.93**
Total loans and receivables with customers	Gross exposure	22,145,539	22,063,315	82,224	0.37
	Adjustments	1,609,713	1,219,738	389,975	31.97
	Net exposure	**20,535,826**	**20,843,577**	**-307,751**	**-1.48**

Borrower selection has always been a challenging and delicate task. At this critical time, we have therefore had to support the horizontal analysis of quantitative information with a vertical analysis in qualitative terms. To do this, we have sought to made best use of the professionalism accumulated within the bank and the extensive information obtained by the branch network, drawing on the direct relations established with borrowers and detailed knowledge of local economic conditions. This last characteristic is a feature of being a territorial bank, with a grassroots presence in the areas served; something that we must focus only increasingly, in order to turn it into a real competitive advantage.



The scale of the work performed is reflected in the scale of lending that, despite the general dynamics mentioned, still totalled 20,536 million, down by just 1.48% over the year. The ratio of loans to deposits is 75.99% compared with 86.63% last year.

Total doubtful loans, comprising non-performing, watchlist, restructured and past due loans, have risen to 2,013 million, +14.21%. This represents 9.80% of loans and receivables with customers, compared with 8.46% last year, essentially due to the persistent general economic difficulties. Notably, the growth rate has slackened considerably, from 43.36% in 2013.

The adjustments recorded for impaired loans total 1,488 million, +35.43%, representing 42.50% of the gross amount compared with 38.40% last year. This level of coverage is exceptional, in order to safeguard the quality of our loan assets. The table gives an overview of doubtful loans.

Net non-performing loans, after writedowns, amount to 608 million, +35.09%, corresponding to 2.96% of total customer loans, compared with 2.16% at 31 December 2013. Net non-performing loans were still significantly lower than the system. In part, this reflects the substantial adjustments made in application of the extremely prudent criteria recommended in the past by the Supervisory Authorities, especially with regard to those positions that are secured against property. The adjustments to cover estimated losses on non-performing loans have risen to 908 million, +37.92%, representing 59.88% of the gross amount compared with 59.38% last year. Considering the amounts written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 71.70%.

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, amount to 949 million euro, +12.35%, representing 4.62% of total loans to customers compared with 4.05% in the prior year.

Restructured loans amount to 81 million, +133.58%. The increase essentially reflects increased recourse by customers to the procedures envisaged by arts. 67 and 182 of the Bankruptcy Law.

Impaired past due loans, as defined by the Supervisory Authorities, amount to 375 million, -13.46%, representing 1.83% of total loans to customers compared with 2.08% in the prior year.

Provisions made for performing loans amount to 122 million, which is 0.65% of such loans

Adjustments totalled 1,610 million, +31.97%.

The various technical forms have contributed to a varying extent to the dynamics of loans and receivables with customers: more or less significant reductions were accompanied by limited exceptions. 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.

Mortgage loans amount to 6,528 million, -1.94%, and represent the largest percentage (31.80%) of the total loans and receivables with customers. This balance includes loans sold but not derecognised of 1,165 million in relation to a securitisation arranged by the Bank and 751 million relating to a covered bond issue. These loans have not been derecognised because the requirements of IAS 39 are not met. Current accounts declined from 6,532 to 5,949 million, -8.91%, as other unsecured loans, equal to 4,777 million, -6.62%. Foreign currency loans also decreased to 1,058 million, -7.62%; Advances of 379 million, -8.12%; advances subject to collection, 237 million, -6.70%. Repo transactions, representing the temporary employment of liquidity, increased from 49 to 588 million, as personal loans, 179 million, +7.37%. No debt securities were held as at the comparative balance sheet date, while at the end of 2014 the balance amounted to 166 million as a result of customer loan securitisation transactions executed by the investees Banca della Nuova Terra spa and Alba Leasing spa.

The small and medium-sized businesses belonging to loan guarantee consortiums have continued to enjoy privileged access to loans. Consortium guarantees have made it possible to offer assisted terms to many firms and attenuate the difficulties caused by the general macroeconomic situation.

As required by Consob Communication no. DEM/RM11070007 of 5 August 2011, we note that loans to customers include loans to central and local government for 57 million, local or state-owned enterprises for 419 million and various other entities for 74 million.

INFORMATION ON THE RESULTS OF THE COMPREHENSIVE ASSESSMENT

Reference is made to a specific section of the directors' report on operations accompanying the consolidated financial statements for the information requested by Consob in a letter dated 30 January 2015 – prot. 0007634/15, pursuant to art. 114, para. 5, of Decree 58/98 – regarding the outcome of the *Comprehensive Assessment* carried out by the European

Central Bank and the European Banking Authority and, in particular, regarding the results of the Asset Quality Review included in the disclosure template published on 26 October 2014.

TREASURY AND TRADING OPERATIONS

Stock markets

The climate of confidence that characterised the principal international stock markets during 2014 confirms the renewed propensity of investors to accept risk. This was attributable both to the abundant liquidity deriving from the expansionary monetary policies adopted and to the consolidation of US economic growth. These factors prevailed over various potentially destabilising elements, such as geopolitical tensions, the rapid reduction in the oil price and signs of a slowdown in the Chinese economy.

With the US markets at historical highs, reflecting the recovery of business profits and the jobs market, Europe responded with significant progress in the first part of the year before falling back in later months. Performance was affected by the persistent economic difficulties and the risk of deflation, as well as by the important process of strengthening the capital of major operators within the banking system, ahead of the *Comprehensive Assessment* carried out by the European Banking Authorities before the start of direct ECB supervision of leading banks from 4 November 2014.

Against this background, the 2014 performance of certain market indices is summarised below: Dow Jones Eurostoxx 50 Index, +1.20%; MSCI World Index, +2.93%; Standard & Poor's 500, +11.39%, exceeding the threshold of 2,000 points; Nikkei Index, +7.12%; FTSE Italia All Share index, -0.33%, after advancing by almost 20% in the middle of the year.

The bond markets were especially lively, particularly in Europe, with yields on government securities at historical lows in the strongest countries, as well as in certain peripheral countries such as Italy. The high level of liquidity was in fact employed not only in quality fixed income investments, but also in those considered most remunerative by investors seeking better value. The environment was sustained by the ECB's accommodative policy, which included reduction of the reference rate to an historical low of 0.05%, implementation of the plan to purchase ABS (Asset Backed Securities) and covered bonds, and two T-LTRO (Targeted - Longer Term Refinancing Operations) designed to support bank lending to the real economy.

In Italy, the yield on BTPs declined steadily to 1.88% at year end for ten-year maturities, with a reduction of 222 basis points from 4.10% at the end of 2013. The spread on ten-year BTP-BUND, which measures Italy's country risk, fell to 134 basis points on 30 December 2014, which was 83 less than the 217 recorded on 30 December 2013. This dynamic was not adversely affected by the downgrade of Italy's sovereign rating to BBB- (from BBB), with outlook stable, by Standard & Poor's. The 3% rise in the MTS CCT index was also significant.

Against this background, the competent central organisations and the branch network of the bank worked with professionalism, balance and prudence to help savers make informed investment choices, taking into account above all their propensity to accept risk and their investment objectives. The steady expansion of our advisory service is founded on this ethos, backed by the resources provided by the bank in terms of training and organisational and technological support.

The confidence of our customers and the propriety of the relationships concerned is evidenced both by the growth in volumes - including those in the asset management sector, discussed later - and by the very limited number of complaints received, which were addressed on a timely basis.

The following comments relate to: the interbank market and bank liquidity, the portfolios of securities held for investment purposes and the components of these portfolios.

The clearly expansionary conduct of the ECB has, among other effects, essentially zeroed the market rates for interbank deposits, with the overnight rates now in negative territory. With regard to the unconventional measures, the ECB implemented two special issues of medium-term liquidity to banks (T-LTRO), reserved for making loans to households and businesses.

Examination of the bank's treasury activities highlights the prevalence of lending transactions, up substantially compared with 2013, with volumes concentrated on very short-term maturities in both the Interbank Deposits Market (e-MID) and the Collateralised Interbank Market (MIC), in which transactions are backed by guarantees. Business was lively in repo transactions for generally less than one week with institutional counterparts (*Money Market Facility*), arranged via the Clearing House.

The net interbank position at the end of 2014 reflected borrowing of 714 million, which was down by 1,497 million from 2,211 million at 31 December 2013. The change was essentially due to the excellent liquidity position, assisted by the performance of customer deposits, which enabled the bank to repay early ECB LTRO loans of 1,800 million that were originally due in 2015, as well as to further increase the size of the securities portfolio, which is discussed later.

Nevertheless, we did decide to participate in the new ECB financing initiative, being the T-LTRO programme designed to support households and businesses with a view to stimulating the real economy. The bank was assigned funds totalling 1,098 million, of which 350 million was received in September and the remainder in December 2014.

Ignoring the above T-LTRO loans, the net interbank position at the end of 2014 would have reflected lending rather than borrowing.

The liquidity position is monitored daily with a three-month time horizon. The situation remained optimal throughout the entire year, as evidenced by the relevant Basel 3 indicators: the short-term Liquidity Coverage Ratio and structural Net Stable Funding Ratio, which were well above the established minimums. The stock of high-quality financial assets acceptable to the ECB was substantial in the period.

The Bank's portfolios of financial assets at the end of 2014 total 9,075 million, +33.41%. The following schedule analyses these assets and indicates the change between years:

FINANCIAL ASSETS

(in thousands of euro)	31/12/2014	31/12/2013	Change %
Financial assets held for trading (HFT)	2,341,476	3,167,661	-26.08%
of which, derivatives	102,642	68,755	49.29%
Financial assets at fair value through profit or loss (CFV - Carried at Fair Value)	88,358	79,226	11.53%
Available-for-sale financial assets (AFS - Available For Sale)	6,496,844	3,373,245	92.60%
Held-to-maturity investments (HTM - Held to Maturity)	148,620	182,621	-18.62%
Total	**9,075,298**	**6,802,753**	**33.41%**

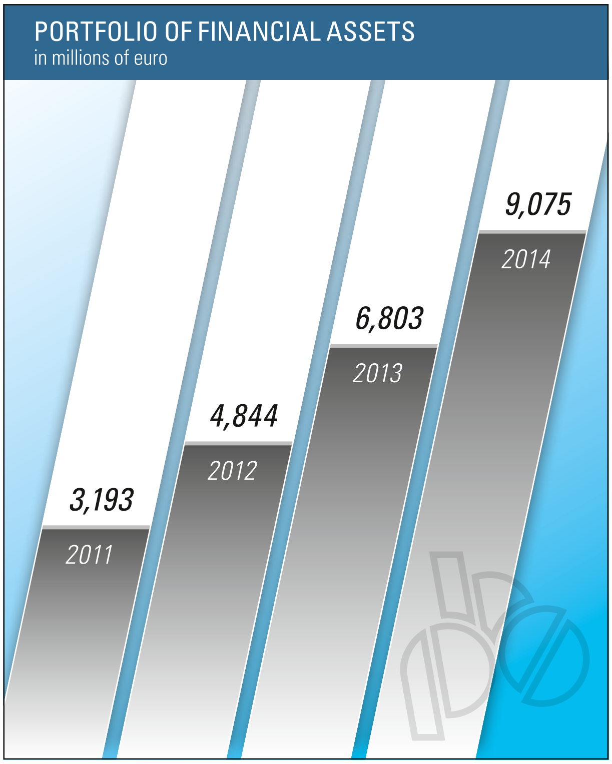
As in the past, the portfolio mostly comprises domestic government securities, which have increased substantially despite the marked decline in yields. This choice was preferred with respect to the interbank market, where the remuneration is virtually zero, if not negative. The risk is contained by the improved market interest in securities issued by peripheral countries, as well as by the limited duration (less than two years) of the securities held.

As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2014 these portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 8,006 million. The portfolios did not include any securities issued by other peripheral countries within the Eurozone.

Financial assets held for trading

Financial assets held for trading (HFT), as shown in the following table, amount to 2,341 million and have decreased by 26.08%.

(in thousands of euro)	31/12/2014	31/12/2013	Change %
Floating-rate Italian government securities	1,039,213	1,791,494	-41.99%
Fixed-rate Italian government securities	891,878	1,036,683	-13.97%
Bank bonds	157,358	153,291	2.65%
Bonds of other issuers	22,013	19,083	15.35%
Securitisations	37,406	33,804	10.66%
Variable-yield securities and mutual funds	90,966	64,551	40.92%
Net book value of derivative contracts	102,642	68,755	49.29%
Total	**2,341,476**	**3,167,661**	**-26.08%**



The composition of the HFT portfolio remains dominated by CCTs. Even after a drop of 41.99% following the sale of securities about to mature, they still represent 44.38% of the portfolio.

The positive performance of the financial markets enabled significant returns to be made, both in terms of price appreciation and trading profits. Considerable unrealised gains were recorded in relation to fixed-yield securities, albeit less than in 2013; the total of 24.396 million compares with 43.267 million in the prior year, including 14.649 million from CCTs (down from 38.583 million).

The overall net profit from HFT portfolio transactions was 57.068 million, compared with 81.400 million in 2013. «Net trading income», which refers to total fixed-yield securities, includes net trading profits of 35.031 million, unrealised gains of 24.396 million and unrealised losses of 0.158 million. Then we have to add profits of € 7.302 million and net losses of € 9.503 million on variable-yield securities and mutual funds. In 2013, on the entire portfolio, we booked: net profits of € 39.913 million; unrealised gains of 44.894 million; unrealised losses of 3.407 million.

As mentioned, the HFT portfolio continues to largely comprise CCTs, 1,039 million representing 44.38% of the total. Corporate bonds amount to 179 million, up by 7 million, of which 157 million relate to bank issues. Securities that are part of securitisations are all senior and have been increased to 37 million. Fixed-rate Government securities has declined to 892 million, -13.97%, following the sale of BTPs and BOTs. Variable-yield securities and mutual funds, which are still marginal, have increased to 91 million, +40.92%. Derivatives have risen by 49.29% to € 103 million and is made up of: derivatives on debt securities and interest rates, 73 million; derivatives on variable-yield securities, stock indices, currency, gold and precious metals, 30 million.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV) amount to 88 million, +11.53%, and almost entirely relate to various types of funds and sicavs.

Available-for-sale financial assets

Available-for-sale financial assets (AFS) total 6,497 million, +92.60%. The increase reflects purchases of government securities, which total 6,036 million at year end, including 5,584 million in the form of Italian government securities. These are held to employ liquidity and to replace securities of the same type eliminated from the HFT portfolio. This approach confirms the objective to contain, at least in part, the impact on the income statement of the volatility seen in the financial markets in recent years. With a view to currency diversification, the bank has subscribed for units in UCITS denominated in US dollars, as well as for substantial amounts of US treasury bonds. The portfolio also includes fixed-yield securities of banks and other issuers amounting to 7 million, variable-yield securities of 55 million and units in UCITS of 399 million. The available-for-sale financial assets were subjected to careful appraisal in order to identify any impairment that might require the recognition of writedowns in the income statement. The measurement reserves reported in equity include the net change in unrealised gains of 41.792 million, after tax effect, which increased the year-end balance from 32.313 to 74.105 million.

Impairment tests were performed on those equity investments with negative valuation reserves resulting, in some cases, in the recognition of writedowns based on the criteria used to identify permanent losses explained in Part A «Accounting policies» of the Notes.

The changes included: purchases of debt securities of 5,764 million, relating to government securities and bonds; increase on mutual funds of 410 million; increase in equities of 1 million; increase in fair value of 103 million, while other changes of 191 million comprise coupons, discounts and positive effects of accounting at amortised cost. Decreases included the disposal of fixed-yield securities of 2,610 million and UCITS of 103 million. Redemptions totalled 515 million; impairment adjustments totalled 19 million, of which 12.184 million related to the investment in Release spa and 2.850 million to that in Prelios spa. The balance related to other listed and unlisted securities and units in UCITS; decrease in fair value of 2 million. Other decreases of 96 million related to the collection of coupons, 47 million; reclassifications from equity from disposals, 33 million; amortised costs, 2 million; corporate conversions, 6 million; elimination of shares following special transactions and the expiry of profit-sharing agreements, 4 million, as well as the redemption of quotas and reclassifications from equity in relation to UCITS, 4 million.

The following comments are provided about 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.

Arca SGR spa (12.906%). This asset management company handles mutual funds, pension funds and institutional investment portfolios.

Professionalism and commercial competitiveness underpin the satisfactory increase in the volume of assets managed by the company, which has benefited in full from the renewed interest of investors in various types of asset management products. The market continues to demand mutual funds with guaranteed capital and coupon payments; accordingly, Arca SGR has issued «Arca Cedola 2019 Obbligazione Attiva» on several occasions; in addition, the range was diversified by offering «Arca 2019 Reddito Multivalore» and «Arca Bond Flessibile».

The company achieved significant awards in 2014: Milano Finanza Insurance & Previdenza Awards 2014-Triple A award; Alto Rendimento 2013 award (Il Sole 24 ORE); European Funds Trophy 2014.

The financial statements show positive results.

Istituto Centrale delle Banche Popolari Italiane spa (1.997%). This company heads up a group that specialises in banking and diversified financial services, especially in the field of collections and payments.

As the national leader in the above areas, ICBPI operates competitively at the highest level, well able to tackle the challenges posed by market conditions, technological innovation and regulatory changes. We work with ICBPI and Group companies in many sectors, drawing on their professional skills.

Positive results were reported for the year.

CartaSi spa (1.249%). This company, which issues and manages CartaSi credit cards, belongs to the Istituto Centrale delle Banche Popolari Italiane Banking Group.

As one of the national leaders in electronic money, this company has the technology, organisational structure and, above all, professionalism needed to maintain high levels of competitiveness. As a long-established placer of CartaSi credit cards, we have steadily expanded the collaboration to include various innovative products that have been distributed with success.

The financial statements show positive results.

Etica SGR spa (9.867%). As an asset management company within the Banca Popolare Etica Group, Etica SGR promotes mutual funds with an ethical content, called «Sistema Valori Responsabili» (Responsible Values System), which are also distributed by our network.

As the only Italian asset manager to focus solely on socially responsible mutual funds, the volume of assets managed by this company in its 15th year of activities exceeded 1,000 million. The consistently rigorous selection of investments - based on the environmental, social and governance practices of issuers - marks Etica SGR as a reliable and competitive company capable of achieving significant growth. The bank makes a concrete contribution in terms of the volume of business processed.

Positive results were reported for the year.

Group srl (12.50%). This service company assists the groups of the cooperative banks that own it by coordinating the placement of their financial instruments. These issues are significant in view of their size and the importance of the issuers concerned.

Placements with the above characteristics were again adversely affected over the past year by the uncertainties afflicting the financial markets, which have conditioned investor attitudes. This impacted the company's business activities and profitability.

Held-to-maturity investments

The portfolio of held-to-maturity investments (HTM) amounts to 149 million, a decrease of 18.62% that was largely a consequence of redemptions.

Investments comprise prime bonds and government securities, about half of which relate to the pension fund.

With regard to the contents of this portfolio, readers are reminded that the anomalous performance of the equity and bond markets in 2008 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 2014, the above securities amount to 73 million, following redemptions, with a fair value of 71 million, compared with 108 million in the prior year, -31.89%. The theoretical loss, before tax effect, amounts to 2 million.

Asset management

Consistent with 2013, the asset management industry grew considerably during the year - the domestic market reached the historical record of more than 1,500 billion - given substantial net inflows and the positive performance of the financial markets. Particular attention was dedicated to the flexible and bond segments, while there were net outflows from the monetary segments in view of the very low interest rates. Against this background, the bank has continued to take a balanced approach in dealings with customers.

At 31 December 2014 the various forms of assets under management amount to 3,731 million, +11.63%. In detail, the mutual funds managed by Arca SGR total 1,795 million, +13.27%; the other types of UCITS place, including the Popso (SUISSE) Investment Fund Sicav, amounts to 484 million, +20.94%; asset managed by central departments within the bank total 1,453 million, +6.97%.

EQUITY INVESTMENTS

Consistent with the established operational approach, the equity investments held by the bank essentially comprise the suppliers of products and services that contribute functionally to the maintenance and enhancement, where possible, of the competitiveness of the commercial range. This approach ensures stability over time, in the context of relations based on the preferential allocation of business, based on valid grounds and the positive assessment of performance, and on the provision of financial

Engraved frontispiece

The highest tunnel of the Stelvio Pass towards the Ortler

Etching and aquatint, mm. 86 x 116 (oval image)

Road and avalanche galleries

«During the summer on the routes where the avalanche galleries exist, there are two roads, one that is 2.60 metres wide and covered, which is used to change the horses and to shelter passengers in the event of bad weather, which is quite frequent at such high altitudes; the other road is open and from 3.20 to 5.00 metres wide. In winter, the pass along the latter is cut off by falling snow and avalanches, so travellers go through the covered one on sledges, as it is safe at all times and sheltered from the wind».

(Giovanni Donegani, *Guide to the Stelvio*, 1842)

The German title of the frontispiece (*Picturesque journey to the new road from the Adige valley in Tyrol through the Stelvio Pass and Valtellina, along Lake Como, to Milan*) contains the essential information concerning the road along which Meyer's "Picturesque Journey" runs. However, the French edition (*Voyage pittoresque sur la Nouvelle Route depuis Glurns en Tyrol par le Col de Stilfs, par la Valteline, le long du lac de Come jusqu'à Milan*) specifies the exact starting point and gives us more information on the route he actually took. In fact, Meyer enters Tyrol from Switzerland through the Val Müstair (Val Monastero) and his itinerary starts at Glurns (Glorenza), which is not mentioned in the German title because German-speaking travellers coming from Innsbruck or Meran would have taken the new road at Mals (Malles) or Spondigna, which were the two termini. The oval incision of the frontispiece represents the highest gallery of the Stelvio Pass looking towards the Ortler (Ortles), here with its imposing glacier on the right, a spectacular but looming presence during the first part of the journey all the way up to the pass.

The choice of image is not accidental. Besides giving us a taste of the alpine sublime that the road opens up, visually it contains all of the information needed to reassure the traveller: the avalanche gallery with the wooden bothy below it to indicate the presence, along the way, of points of shelter and protection from landslides and avalanches; the wagon outside on the roadway to show how wide it is, even at the extremities of the pass. It is a summer image of the Stelvio, like the 36 plates in the album, because the Grand Tour was summertime tourism. In fact, the journey is picturesque only in summer.

Churburg Castle and the village of Schluderns in the upper Adige valley looking towards the Ortler
Etching and aquatint, mm. 145 x 192

The engraving depicts the broad plain of the high Adige valley near the village of Schluderns (Sluderno), which can be seen on the left dominated by the great mediaeval castle of Churburg (Castel Coira). It was built in the thirteenth century by the Bishop of Chur, the first feudal lord of that area, then later belonged to the Matsch family and inherited by the Counts of Trapp, to whom it still belongs. Coming from Glurns, Meyer begins his “picturesque journey” in the small village of Schluderns, where the Stelvio road arrives from Malles. The view offers us a magnificent view of the Ortler massif, the absolute protagonist of the first part of the journey. On the right, in the distance, we see the snow-covered peak glistening in the sun, matched by the snow on the crucifix in the foreground. Here Meyer encloses the road and the village between the crucifix (which still exists) and the castle, while the serpentine path of the road swings past the village below the castle onto the plain in long stretches lined with trees to the entrance on the other side of the valley that rises to the Ortler.

support. Attention is also given to the need for cohesion between cooperative banks, in the primary interests of the customer.

The equity investments classified in this line item of the balance sheet are discussed below, including the bank's subsidiaries and associates. The principal minority interests held for operational purposes, classified in the AFS (available-for-sale financial assets) portfolio, were discussed in the previous section of this report.

At 31 December 2014 equity investments amounted to 412 million, -0.04%. The slight change relates to Pirovano Stelvio spa.

Subsidiaries:

Banca Popolare di Sondrio (SUISSE) SA (100%). This Swiss bank, based in Lugano, was founded in 1995.

Effective operational guidelines, professionalism and commercial competitiveness enable our Swiss subsidiary to operate as a true retail bank in support of the areas served. Development of the customer portfolio is supported by technological and organisational investment, as well as targeted work on the commercial network. This comprises twenty branches in the Confederation, the branch in the Principality of Monaco and the Direct Banking virtual branch. The Neuchâtel branch in the heart of «Watch Valley», where about one third of the Swiss watch industry is concentrated, was opened during the year and marks our subsidiary's entry into the Romandie (French speaking) part of Switzerland. As a result, the bank is present in all three principal linguistic regions of the Confederation.

Strong performance is confirmed by the profit for the year for the year of CHF 8,165,000, +378%. Although this result was affected by the dynamics of net interest income, with Swiss franc rates at historical lows, it mostly reflects improved cost control and the high volume of business. Direct funding from customers amounts to CHF 3,141 million, +5%, and loans and receivables with customers total CHF 3,506 million, +6%. Once again, the latter aggregate mostly comprises mortgage lending to householders.

Popso (SUISSE) Investment Fund Sicav also contributes to the activities of the subsidiary, not least in terms of professionalism.

As in prior years, the entire profit has been allocated to retained earnings, which now total CHF 290 million, in order to support the expansion of the business.

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

Functional and complementary to the activities of the Group, this subsidiary enhances the range of facilities offered to businesses by providing attentive factoring services, some of which are able to mitigate supply risks. The concrete attention dedicated to the real economy, as confirmed by the volume of factoring business, starts from the rigorous selection of portfolios and potential customers, as evidenced by the steady reduction in past due loans. Lively operations enable the company to remain at the forefront of this business segment in the Italian market, tackling with professionalism and balance the complex economic and financial dynamics that continue to affect the industrial system.

We support Factorit with a growing volume of business, remaining the leading bank among shareholders and associates when it comes to the introduction of factored receivables. With a view to increasing the financial support available to businesses, the branches of the bank have adopted specific procedures for referring firms that are potentially interested in the factoring services offered by the company.

The effectiveness of the operating guidelines and the intensity of operations are reflected in the profit for the year, which amounted to 25.515 million in 2014, +31.85%.

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

The results for the 2014 season essentially confirm visitor levels in terms of the number of days stayed, which is comforting considering the further contraction indicated by the national tourism statistics. This performance was achieved despite the adverse weather conditions experienced last summer. The efforts of the company are supported by the quality of the services offered and the promotional activities undertaken by the bank, which benefit the entire Stelvio area and, indeed, the province as a whole.

Although the financial accounts continue to report losses - the days when summer skiing attracted many enthusiasts are long gone - the Group continues to benefit significantly from the company's activities in relational and image terms, not least as a consequence of the cultural and sporting initiatives described elsewhere in this report.

We therefore intend to continue our support for Pirovano, including the company's ongoing efforts to diversify the attractions for tourists by drawing attention to the special nature of the Stelvio environment. We trust that all other operators in the area will also contribute to strengthening the area's ability to attract visitors.

Sinergia Seconda srl (100%). Property company.

This subsidiary primarily operates in support of the property-related requirements of members of the Banking group, making targeted acquisitions of units for rental to them on market terms. As agreed with the tenants, the company is able to manage and maintain the properties concerned.

Routine activities have continued normally. A loss was reported for the year due to the writedown recorded in relation to Immobiliare San Paolo spa, a subsidiary.

Popso Covered Bond srl (60% new). This company was formed in relation to the issue of covered bonds.

As part of the programme of issuing covered bonds implemented by the bank in accordance with current regulations, this company acts as a vehicle company and, among other activities, arranges for the segregated management of the assets sold by the bank.

The income statement essentially reports a break even situation.

Rajna Immobiliare srl (50%). This property company is owned jointly with Credito Valtellinese.

The company owns part of a good quality condominium in central Sondrio, with attractive commercial space on the ground floor. This space is leased together with office furniture and equipment to Equitalia Nord spa, the tax collection company controlled by Gruppo Equitalia spa.

The company's results are positive.

Associates:

Unione Fiduciaria spa (24%). 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.

As a result of more than 50 years of independent operations, this trust company is Italy's leading operator in terms of assets under management, embodying professionalism, confidentiality and customer service. Operational development is supported by the company's ability to diversify, with particular reference to the IT and consultancy services offered to banking and financial intermediaries. In addition to the recognised skills available internally, these activities benefit from collaboration with experienced external professionals. Services are further enhanced by activities in the property and art sectors, as well as by the organisation of conferences on specialist topics.

During 2014, Unione Fiduciaria was awarded the Le Fonti International Prize as the best Italian company in the sector.

The company's results are positive.

Alba Leasing spa(19.021% formerly 20.95%). Company operating in the financial leasing sector.

The company worked intensively over the past year, exceeding 1,000 million in new business and confirming its fifth place in the relevant national ranking. The ownership structure has benefited by the additional of another cooperative bank, with a resulting reduction in the interest held by the bank.

Action implemented in prior years to rationalise the organisation enable a broad break-even position to be achieved in 2014, despite the price competition that was especially apparent during the second half of the year.

Banca della Nuova Terra spa (19.609%). This bank specialises in the provision of services to farmers and businesses active in food processing, environmental protection and renewable energy sources.

Having ceased the granting of new loans, the bank has begun to allocate outstanding loan risks to the shareholders, which are principally cooperative banks. The purpose is to achieve an orderly exit from the banking market, since the original objective of sharing support for the primary sector via a specialist organisation is no longer strategic.

The company reported a loss.

Arca Vita spa (14.837%). This company, active in the life insurance sector, is controlled by Unipol Gruppo Finanziario spa.

The quality of the product range and lively promotion by the distributing banks have benefited the net inflows of the company, with satisfactory growth over the past year. Performance was also supported by the steady recovery within the banking system of asset management as a whole, a sector that includes endowment life assurance.

The bank again made a significant contribution to the business, including that of Arca Assicurazioni, the loss insurance subsidiary.

This company's results are positive.

Polis Fondi Immobiliari di Banche Popolari S.G.R.p.A. (19.60%). This company promotes and manages property investment trusts.

Despite the ongoing contraction of the property market, the company continues to work with balance and professionalism, supported by effective guidelines for its operations. These guidelines involve the pursuit of diversification with respect to the original purpose of managing the Polis fund.

The company's results are positive.

Servizi Internazionali e Strutture Integrate 2000 srl (33.333%). This service company, which operates internationally, is jointly owned together with Banca Popolare dell'Emilia Romagna and Veneto Banca.

The operations of this company focus on the provision of advisory and support services relating to the Chinese market via its representative offices in Hong Kong and Shanghai, for the benefit of shareholder and associated banks, as well as their customers. The specialist activities carried out by the Milan office are also highly valued, focusing on the analysis of banking system risk, at both individual bank and country level, with particular reference to the emerging countries.

The company's results are positive.

Related-party transactions

Transactions with related parties are governed by the «Regulation for transactions with related parties» issued by Consob resolution no. 17221 dated 12 March 2010 and subsequent amendments. The information required by this regulation is provided below. These transactions are also governed by the Bank of Italy regulation on «Risk activities and conflicts of interest in relation to associated parties» dated 12 December 2011.

Among various requirements, both regulations envisage the approval and publication of internal regulations available (in Italian) on the website www.popso.it, in the corporate information section entitled «informativa societaria».

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 8.22% of total loans to customers and banks and financial assets and 2.62% 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 2014, the Bank's corporate bodies decided the following transactions of greatest significance:

– Alba Leasing spa, associated company; renewal of lines of credit for a total of € 485,876,500 until revoked; resolution of 31/01/2014;
– Factorit spa, subsidiary; renewal of lines of credit for a total of € 2,366,039,000 until revoked; resolution of 28/02/2014;
– Release spa, associated company; grant of revolving facility for guarantees in favour of residents of € 1,248,000 until revoked, revolving facility for guarantees in favour of residents of € 1,560,000 until revoked, revolving facility for guarantees in favour of residents of € 1,248,000 until revoked, revolving facility for guarantees in favour of residents of € 1,872,000 until revoked, renewal of lines of credit for a total of € 201,240,000 until revoked; resolutions of 15/04/2014;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of guarantee deposit in securities of € 7,000,000 maturity 01/07/2015, guarantee deposit of securities of € 910,000 maturity 02/02/2015; resolutions of 05/06/2014;
– Alba Leasing spa, associated company; grant of guarantees in favour of residents of € 11,500,000 until revoked, revolving facility for guarantee deposits in securities of € 9,650,000 until revoked, renewal of lines of credit for a total of € 430,355,702 until revoked; resolutions of 17/06/2014;
– Factorit spa, subsidiary; revolving facility for guarantees in favour of residents of € 14,000,000 until revoked; resolution of 27/06/2014;
– Factorit spa, subsidiary; grant of overdraft facility of € 450,000,000 until revoked, overdraft facility of € 25,000,000 until revoked, overdraft facility of € 25,000,000 until revoked, revolving facility for advances of € 210,000,000 until revoked, renewal of lines of credit for a total of € 1,670,039,000 until revoked; resolutions of 23/09/2014;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of guarantee deposit in securities of € 3,220,000 until revoked; resolution of 02/12/2014;
– Alba Leasing spa, associated company; grant of overdraft facility of € 20,000,000 until revoked; resolution of 02/12/2014;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of revolving facility for guarantee deposits in securities of € 450,000,000 until revoked, renewal of lines of credit for a total of € 617,348,399 until revoked, € 4,000,000 maturity 01/11/2016, € 7,000,000 maturity 01/07/2015, € 910,000 maturity 02/02/2015; resolutions of 19/12/2014.

No transactions with related parties in the period under review, whether of greater or lesser significance, have had a significant impact on the financial position or results of the Bank. 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 2014 balance sheet or results with regard to the related-party transactions carried out during 2013; in any case none were atypical, unusual or not on market terms.

In relation to the Consob communication DEM/6064293 of 28 July 2006, we 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 the effect of these relations.

During 2014 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness 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 methods for determining the transfer price or the timing of the transaction.

In accordance with Article 84-*quater* of Consob Regulations 11971 of 14 May 1999, as amended, we have prepared a separate compensation report on the remuneration paid to, and 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 credit facilities granted to and guarantees given on behalf of Directors, Statutory Auditors and the General Management, as required by article 136 of Legislative Decree 385 of 1 September 1993.

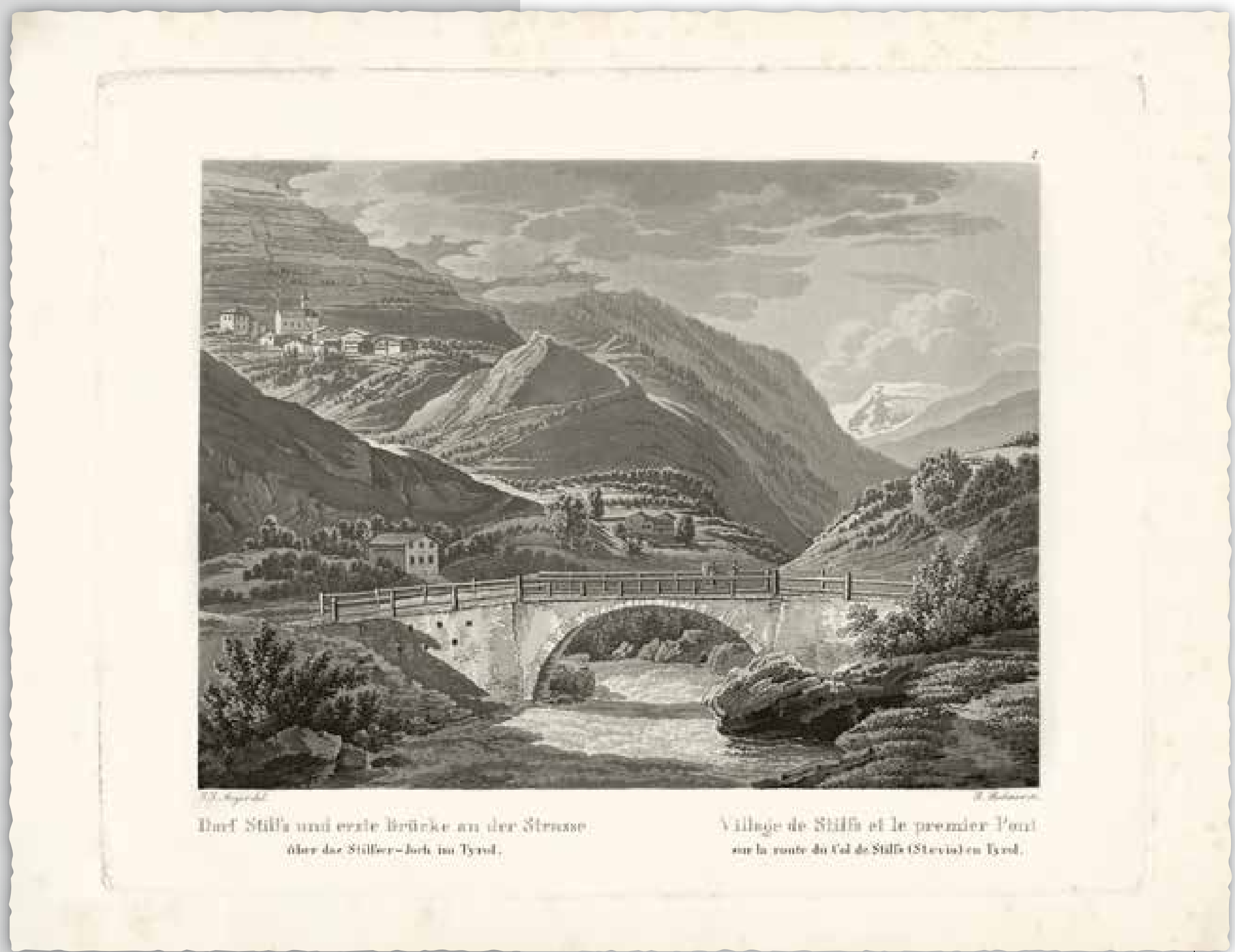
REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE

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

INTERNATIONAL UNIT

As a result of these recent crisis years, many firms have fully understood: internationalisation is no longer an opportunity, but a very real necessity. Only by opening up to foreign markets have numerous entrepreneurs been able to progress their investment and growth plans, that would not otherwise have made sense due to the marked drop in Italian domestic demand.

Experience confirms: businesses that, at the first signs of the impending global crisis, opened up to foreign markets and, in particular, adopted the most advanced forms of internationalisation by signing agreements with local partners and that even established foreign factories, also achieved the best performance in terms of productivity, value creation and employment. In



Village of Stilfs and the first bridge on the road through the Stelvio Pass in Tyrol
Etching and aquatint, mm. 143 x 192

The large arched bridge in the centre foreground dominates the entire composition and is the hub from which the view spreads out, to good pictorial effect and with cinematographic breadth, almost a bow to the small village of Stilfs (Stelvio) which gives its name to the pass, framed by the road that climbs up, leaving it on its right.
With its accentuated horizontal length, the bridge not only connects the two opposite shores, but clearly splits the image into two, further emphasising, on the one side, the magnificent alpine landscape that gives depth to the view and, on the other, the stream that breaks into the foreground with its sparkling waters among the rocks and vegetation on both sides.

Second and third bridge below Trafoi
Etching and aquatint, mm. 144 x 190

Wedged between the two sides of the wooded Trafoi valley, the road shows its full width in the foreground, then zig zags along the valley floor, following the stream. Like the valley, the traveller's heart tightens with the thickening of the shade in the foreground, which emphasises the grim severity of the narrowing valley, but at the same time, frames and enhances the luminous scenery in the background, the depth of which is measured by the great larch that stands as a pinnacle in the middle of the landscape, giving a vertical dimension to a view that would otherwise have been pretty banal with just the flat road at the bottom. This aesthetic function of the huge larch seems to recall the words of Kant in his *Critique of Judgement*, writing about the alpine landscape in the section entitled "On the evaluation of the size of natural things, required by the idea of sublime". «A tree, which we assess according to the height of man – writes Kant – is fit for a mountain».
Meyer shows here that he is an attentive pupil of Kant's landscape aesthetics.

Bridges and hairpin bends

«From Gomagoi, 1,319 metres above sea level, a long straight road begins; and here a stream emerges from the Schulden valley and fed by higher waters and run-offs from glaciers, carries them all the way to the River Adige. The road sometimes runs down the right side of the valley, sometimes down the left, depending on which was better to avoid landslides, which happen very easily here, given that the rock is a sort of crumbly schist or shale, not to mention the frequent avalanches: with the result that there is a multitude of bridges and hairpin bends».

(Splendiano Morselli, *The Valtellina, the Stelvio*, in Cesare Cantù, *Large illustration of the Kingdom of Lombardy-Venetia*, 1859)

effect, this comparison with alternative production and organisational models caused them to become more efficient and enhanced their propensity to innovate, both in terms of products and processes.

Aware of the importance of the facts summarised above, the bank has actively positioned itself as a partner not only able to facilitate access to credit, but above all to provide firms with specialist services and high value-added advice, including help in tackling the delicate legal and fiscal problems associated with initiatives of this kind.

This all encompassing approach has seen our one-stop shop for internationalisation working in the front line, helping counterparts interested in commercial activities (import and export of goods and services), production and distribution (acquisitions and joint ventures) and intellectual activities (development of new products and patents). In this work, we have drawn on numerous, tried and tested partners who enable us to ensure 360° coverage of the various topics. Additionally, our ability to work almost anywhere in the world is assured by our correspondents, who are active in 158 countries.

We have continued to work effectively with Assocamerestero, which provides valuable strategic guidance on planning and organisational matters for Italian Chambers of Commerce around the world in their promotion of 'Made in Italy'. Our presence on the Advisory Board of the Association provides a privileged vantage point for understanding and seeking to benefit from the general dynamics in progress.

We have also continued to work hard for all parties - firms, agencies and public administrations - interested in benefiting from European loans. To do this, we have drawn on expert assistance from CBE-GEIE, a European economic interest group based in Brussels, of which the bank is a leading member.

Continuing our established working relations with Promos, the arm of the Milan Chamber of Commerce specialised in international activities, we have been able to guarantee specialist services to customer firms striving to build their businesses abroad: customised orientation services designed to identify the most favourable markets; strategic advice for the preparation of business plans; search for commercial and industrial counterparts in the target countries; help with attending trade fairs and events.

Working with the representative offices of our affiliate, Sintesi 2000 srl, in Hong Kong and Shanghai, as well as with the 33 desks spread around the world, our customers have been able to appreciate our close connections with all five continents: the international projection of our role as a territorial bank.

Aware that knowledge is an indispensable starting point on the challenging journey towards internationalisation, we have worked with sector professionals to provide those responsible for international business development with the tools needed to operate successfully in global markets.

Firms also have access to our International Check-up function, named «Coefficiente Go to World», in order to make a preliminary assessment of their potential for success abroad. This tool, accessible by tablet or PC, is designed to accompany the business in its foreign initiatives, offering a summary assessment of its readiness to face the challenges posed by the markets, and even useful suggestions.

As a territorial bank, we welcome and pay close attention to the investment proposals received from abroad, presented by operators interested in establishing new relations with Italian firms. Due to our membership of programmes managed by leading Italian institutional counterparts and, also, to our collaboration with Bank of China, we have been able to inform our customers about various foreign investment initiatives. In this way, we seek to facilitate the matching of supply and demand, in the hope that the resulting projects may even result in capital injections for the benefit of the national economy as a whole.

Quality and customer satisfaction go hand in hand. During the year, Det Norske Veritas carried out maintenance audits on the three areas of operations that are certified: payments; trade finance and forward products.

Global Compact

We have renewed our participation in the «Global Compact» project, which is a UN initiative designed to promote universally recognised principles in the areas of human rights, employment, the environment and the fight against corruption. As required, we submitted our Communication on Progress 2013 to the New York office during the year, explaining the actions taken by the bank that contribute to the creation of a «more inclusive and sustainable global economy».

SERVICES, PROJECTS AND STRUCTURE

Sales and Marketing

The commercial activities of the bank traditionally comprise the offer of efficient and competitive retail products and services for households, small and medium-size firms (and, selectively, larger companies too), and public and private institutions. These activities broaden the contribution made to the economic development of the areas served, which is primarily pursued by our lending business. The steady growth in volumes and market share confirms the validity of this approach.

In confirming the central role played by customers, who are supported with professionalism by our staff, we have worked to refine our IT and organisational procedures in order to enhance the quality of the services provided. Additionally, we have sought to broaden the available range of investment opportunities with balance and transparency, positioning them in relation to market trends: not least the sharply lower yields on financial instruments.

Turning to asset management, we have extended the range of products by introducing the innovative «GPF Azionaria Asia ex-Japan», which seeks to benefit from rises in the various Asian stock markets, excluding Japan, linked to strong growth in the countries concerned.

Arca SGR
Arca Vita

With regard to mutual funds, customers have confirmed their interest in products with guaranteed capital that pay a coupon, which are offered by our affiliated companies. Examples include «Arca Cedola 2019 Obbligazione

Attiva» V, VI, VII and VIII from Arca SGR; «InvestiTime Cedola-Collocamento del 16 January 2014» from Arca Vita. Arca SGR has extended this range with «Arca 2019 Reddito Multivalore» I, II and III, which are flexible mutual funds that distribute income, and with «Arca Bond Flessibile», which accumulates the income earned.

Arca Assicurazioni

Arca Assicurazioni, specialised in the loss sector, has presented the «Imprimis commercio» policy for small and medium-sized commercial businesses, such as retailers, restaurants and providers of personal services.

Users of the POS service for the acceptance of card payments are now able to draw on an innovative credit line «Advances against POS flows», linked to the volume of such payments.

SCRIGNO

The functions of SCRIGNO*Internet Banking* have been expanded to include the on-line purchase of goods and services from operators linked to the innovative MyBank European circuit, which is able to charge current accounts in real time. This collection channel can also be activated for operators with virtual POS systems.

Milano Finanza Global Awards 2014

The excellent reputation and market competitiveness of the bank were confirmed at the Milano Finanza Global Awards 2014, held in Milan on 3 March 2014, when our Chairman, Piero Melazzini, was presented with the special «Bank Lifetime Achievement Award» in the Guido Carli-Lombard category.

Central offices

The following discussion covers the central functions and services of the bank, whose activities contribute to the refinement and competitiveness of our products.

SOSI

The operational, development and updating activities of the IT systems, technology and organisation department, SOSI, require specific professional skills and substantial investment in order to respond, in particular, to the increasing demand for new systems from various areas within the bank. In the commercial area, efforts include development of the multi-channel environment as a vehicle for delivering products and services to specific types of customer. With regard to compliance, on the other hand, the work required to implement regulatory changes is often burdensome.

On this last matter, SOSI has been fully stretched to implement the new supervisory requirements governing the system of internal controls, especially in relation to the IT system and disaster recovery. In this regard, the eighth annual test of the Disaster Recovery Plan, carried out in December 2014, was completed successfully.

Public Entities and Treasury Offices

Among the bank's business units, the *Public Entities and Treasury Offices* are responsible for providing treasury management, cash management and credit collection services to public and private institutions. The steady development of this specific customer portfolio, which includes national level entities, clearly demonstrates the professionalism of the unit, whose activities also facilitate the penetration of the bank into new and recently-established areas.

The special attention dedicated by the bank to this business is part of the efforts made to provide efficient and competitive services to local communities, which are often the end customers.

Virtual Unit

The *Virtual Unit* provides high level and efficient services at national level, especially to the broad spectrum of professional categories. Competitive services - backed by appropriate technology and support - contribute to the growth of business and strengthen the bank's image in geographical areas not covered by the branch network.

Corporate finance

The *corporate finance unit* has actively helped customer businesses to restructure their liabilities and overcome financial difficulties. The unit also assists leading firms with the issue of mini-bonds, as an alternative source of funding.

In addition to providing advice on the assessment and management of the bank's affiliates, this unit is also active in a number of specialist areas. These include working with the asset management companies that operate closed-end funds and with Italian film production companies.

Planning and Control Department

The Risks Office within the *Planning and Control Department* has dedicated considerable effort to the Comprehensive Assessment. This was carried out by the European Central Bank and the EBA in order to evaluate the quality of the Group's assets and its capital adequacy, even in the event of particularly adverse macroeconomic and market scenarios. The concerted efforts made highlight the ability of the office to respond efficiently and effectively to the requests made by the inspection team, as well as to provide appropriate support.

Having overcome the first difficult hurdle, the start of the Single Supervisory Mechanism in November heralded another equally complex and difficult challenge, to be tackled together with the bank's other control functions. In particular, pressing and unprecedented requests for data and information have been received, in order to enable the Auditors to examine - during on-site visits and otherwise - the quality of the controls and procedures in place to mitigate the exposure to risks, in part by comparison with a system deemed to be optimal.

Efforts are now being directed to reviewing in depth the elements of the existing control system in order to align them with the requirements of the regulations, which are not always easy to interpret or apply. Although the above matters have dominated, the department has continued to assist the bank's decision-makers with the other aspect of operations, being the review of profitability.

The Management Control office carries out this function by preparing, with guidance from the Managing Director and General Management, the three-year internal development plan, checking the actual results achieved and identifying appropriate actions for improvement. The office also prepares timely, detailed and reliable information, analysed by branch, product and customer, so that the different aspects of business performance can be monitored accurately.

Technical, Health and Safety Department

As usual, the *Technical, Health and Safety unit* worked intensively during 2014: 27 projects were completed and 10 were started. Activities essentially relate to the fitting out and modernisation of central offices and banking branches. The professional search for optimal solutions ensures that compliance with the regulations on health and safety in the workplace is reconciled with efficiency, aesthetics and cost control.

The total floor area of property owned by the Bank covers 142,896 sq.m., of which 4,247 sq.m. held under finance leases, with a total volume of 440,628 cu.m. The land owned by the Bank has a surface area of 78,773 sq.m.

The carrying amount of the owned and leased property, net of accumulated depreciation, is 112.160 million and 28.859 million respectively. Additions to owned property for purchases and restructuring in 2014 amounted to 7,974 million, while decreases for depreciation came to 3.709 million; there were no new finance leases, while depreciation and end-of-lease purchases amounted to 1.020 million. The market value of the Bank's property reflects significant unrealised capital gains. We own 47 buildings and 61 units in condominiums. Banking operations are carried on in 78 properties owned by the Bank and in 407 leased premises, including 3 held under finance leases.

Security

Working together with other functions, the *security unit* monitors the systems adopted for the protection of operations, personnel and assets, with a particular focus on the related physical and IT safeguards. Efforts are also made to prevent bank raids and limit their economic effects by the installation of suitable effective devices, as well as to prevent the many possible forms of IT fraud.

Supply office

The *Supply Office* ensures the effective supply of goods and services to all parts of the organisation, seeking constantly to obtain the best quality-price combination. The office is also responsible for the administrative management of buildings owned or leased by the bank.

Activities are subject to constant organisational changes, due to the improvement of IT and other procedures and to the implementation of specific regulations, such as the EU anti-money laundering directive.

Legal and Claims Department

The *Legal and Claims Department* is responsible for the enforced collection of loans and the management of court-supervised arrangements, which have increased considerably as a consequence of the economic crisis. Once again, in this context, we note that the related procedures and their timing are unsustainable. Furthermore, there has been a marked rise in the number of such arrangements, sometimes in the absence of full transparency, particularly when it comes to agreeing to business continuity or debt restructuring requests.

The department provides valued professional advice to the central organisation of the bank and to the branches, while also collaborating actively with the inspections carried out for various reasons by the competent authorities.

Compliance Unit

The importance of the role played the *Compliance Unit* as a second-level component of the system of internal controls has increased. Specifically, in addition to the monitoring of legal and reputational risks with a view, above all, to safeguarding consumer relations, additional tasks have also been assigned to it by the new sector regulations. Monitoring work includes the coverage of investment services, where operational propriety is closely linked to compliance with the profile and propensity to accept risk of the customer. Quality is confirmed by the limited number and nature of the complaints received during the past year. Broadly the same as in prior years, these matters were addressed promptly.

At a deeper level, the Compliance Unit works to consolidate and spread the culture of the bank, based on the central importance of our customers and on the transparency and propriety of our relations with them. This is achieved by constant interaction with the bank's commercial and finance departments, as well as with the other control functions with the bank and the companies belonging to the banking group.

An important role is also played in the management of conflicts of interest.

Anti-money laundering

The *Anti-money laundering* function is responsible for preventing and impeding money-laundering transactions and the financing of terrorism. Support in this regard is provided to branch and central office colleagues via the release of authoritative opinions that seek to resolve an increasing number of situations that are difficult to interpret.

These efforts benefit all employees, both in terms of greater knowledge and their greater awareness of risk.

The entire organisation benefits from actions designed to ensure constant compliance with and timely application of the related internal regulations, as well as to enhance the incisiveness of the approaches, tools and procedures applied. All this in the awareness that careful prevention and monitoring is essential, in order to mitigate the risk of the bank entering into or maintaining relations that might even just graze the excellent reputation enjoyed by the bank.

Internal Audit Department

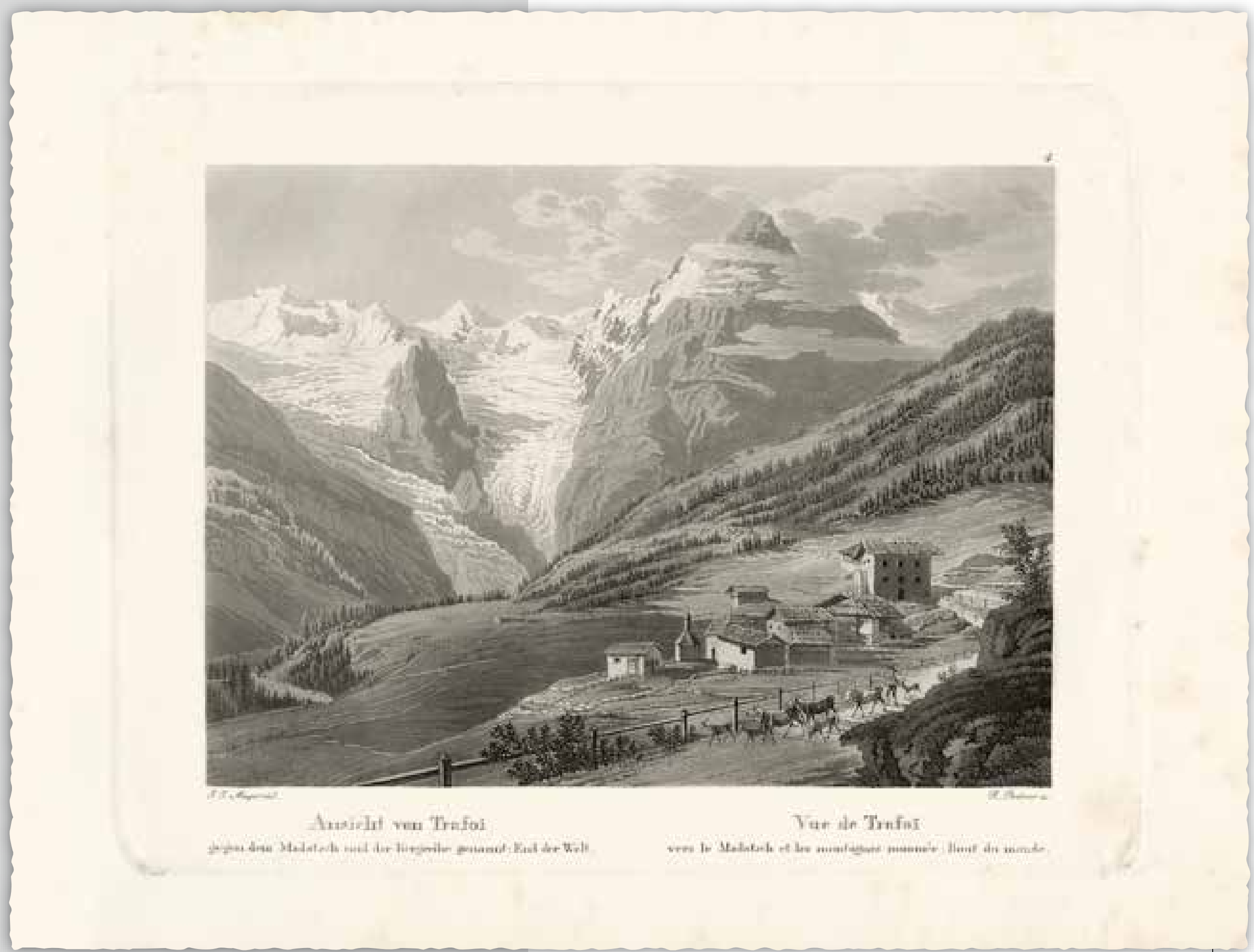
The review of central departments is completed by reference to the *Internal Audit Department* which, as a third-level function, is at the pinnacle of the system of internal controls with responsibility inter alia for checking on the second-level controls (over risk, compliance and money laundering).

Intensive activity throughout the year included procedural audits to identify and assess risks, determination of the related mitigation measures and the presentation of recommendations for organisational improvements. In this regard, significant work was carried out in the area of EDP auditing, which has been greatly affected by the new supervisory regulations governing the system of internal controls.

The department performs audits at both the central offices of the bank and at peripheral locations, mainly by direct visits but also by performing distance checks. A total of 545 audits were carried out during 2014, including 31 alongside the Board of Statutory Auditors. The department also collaborated closely with the Audit and Risks Committee and the Supervisory Body required by Decree 231/2001.

RISK MANAGEMENT

As it evolves, the risk management model seeks increasingly to achieve a comprehensive and integrated view of the risks faced. A view that takes



View of Trafoi looking towards the Madatsch and the mountains called the End of the World
Etching and aquatint, mm. 142 x 191

Huge and sacred mountains

«The largest objects in Nature are, I think, the most pleasant to look at, and after the ample vault of the sky and the limitless regions populated by the stars, there is nothing that I contemplate with more pleasure than the vast sea and mountains.
There is something august and majestic in their appearance, something that inspires the mind with great thoughts and passions. In such circumstances, ones thoughts rise naturally to God and his greatness, and everything that has even just a hint or appearance of the Infinite, as has everything that exceeds understanding, fills and overwhelms the mind with its excess, projecting it into a sort of pleasant surprise and admiration».

(Thomas Burnet, *Sacred Theory of the Earth*, 1690)

On the natural terrace of Trafoi, the view opens up suddenly onto the hanging glaciers of the Nashorn and Trafoi, divided by the emerging Nashornspitze, on the left of the imposing rocky outcrop of the Madastch, towering up to the clouds and pushing down deep with its long crest of peaks.
The whole view is a juxtaposition between the rural and bucolic serenity of the foreground, with the meadows that stretch in undulating slopes around the small group of houses lapped by the road on which a herd of goats and cows is passing, and the spectacular grandeur of glaciers and peaks that crown them, from the massive dorsal of the Madatsch to the more distant snow-capped Thurwieser, to the Trafoier, the Schneeglocke and the Tuckett, peaks that Meyer improperly calls the “End of the World”, attributing to them all the charming name of the glacier, “Ende der Welt”, which descends from the Ortler to the Valsolda on the opposite side.
However, the two levels of the view do not appear to be in strident contrast, but blend together in the viewer’s glance which, by taking in the entire picture, stretches into the reassuring distance where peaks and glaciers lose all of their threatening connotations to become a picturesque vision that exceeds the imagination and hints at the idea of infinity.

The Ortler and the mountains on the edge of the Valtellina from the road above Trafoi

Etching and aquatint in blue and sepia, mm. 143 x 189

The road, with its hairpin bends climbing up the side of the mountain above Trafoi, widens and approaches the panorama of peaks and glaciers, opening up to the left onto the majestic Ortler. We are in the presence of those peaks and the impressive alpine nature that up to now we had only seen from afar, but which now unfolds in all its majestic grandeur. The small figure of the shepherd in the foreground and the tiny carriage, with the massive Ortler in the background, give us an idea of this grandeur.

But next to the great and unspoilt spectacle of nature of which here we feel all the power, there is another nature that we dominate with the power of intelligence and reason. It is the nature along which the road runs that permits us to beat its steepness and asperity, allowing us to enjoy, safe from any danger, that scenario of peaks and glaciers that would otherwise be quite scary, transformed into landscape, fully accessible to the pleasures of sentiment and imagination, nostalgia for the absolute, abandonment in infinity. The bluish atmosphere with which the peaks and glaciers separate themselves from the foreground, evaporating into the distance and melting into the clear blue sky, here contributes magnificently to focus this feeling of infinity.

Small and weak, man is raised with these ideas to the grandeur of nature, and rising he dominates it. Hence that particular pleasure and the poignant, poetic suggestion that the spectacle of alpine nature arouses and that, ever since Romanticism, we call sublime.

Closer to God than to men

«It is not that nature viewed from above offers itself better to the observer... But sentiment is excited more than intelligence: deep emotions also affect men willing to face the gigantic, the desert, the infinite; a very special pleasure can be felt by anyone who from a high place embraces the hundred peaks of a mountain chain, the alternation of porphyritic rocks, pristine snow and brown pine forests; and lastly, that silence, that stillness, that seems unattainable by centuries and seasons of human endeavour, a strange detachment from the present and habitual life, that appears to us like a distant memory, (...) a vision of reminiscences.

Material impressions seem to help these pleasures, the body is lighter, (...) full of good feelings about ones own existence, about our ability to dominate primitive nature, of which we seem to understand the language. The further we are from other human beings, the closer we are to God».

(Splendiano Morselli, *The Valtellina, the Stelvio*, in Cesare Cantù, *Large illustration of the Kingdom of Lombardy-Venetia*, 1859)

account of changing economic conditions and the propensity of the bank to accept risk.

In this regard, the bank implemented the relevant regulatory and supervisory instructions during the year by creating a Risk Appetite Framework (RAF) to guide the process of making major operational decisions.

Within this framework, «risk appetite» refers to an assessment of the current and prospective contribution made by each risk factor to the overall risk profile, which must be contained within the absolute limits established in the regulations or imposed by the Supervisory Bodies.

Risk is monitored against a system of objective and quantifiable parameters, selected primarily to ensure the maintenance of adequate minimum levels of capitalisation, leverage and liquidity.

Control over the prudent acceptance of risk involves determining the maximum tolerable risk exposure in relation to the bank's strategic and development guidelines. Monitoring is achieved by defining limits, indicators, operational processes and mitigation measures to be implemented in order to attenuate the impact of an increase in risk levels.

Overall capital adequacy with respect to risk is checked as part of the Internal Capital Assessment Process (ICAAP), so that any necessary steps can be taken to re-establish the appropriate level of capitalisation.

The operational planning process takes full account of the RAF and the ICAAP. The revised operating environment established following the *Comprehensive Assessment* («in-depth assessment» of the quality of assets) promoted by the ECB last year, in collaboration with the European Banking Authority, together with the start of the Single Supervisory Mechanism at EU level, has given impetus to the development of the bank's planning models with two objectives: on the one hand, greater integration with the risk analysis; on the other, greater reference to market forecasts, via the ability to simulate multiple scenarios, often linked with the onset of adverse economic conditions.

The credit risk generated by customer exposures is monitored primarily based by use of the internal rating models developed and managed by specialist resources. In order to estimate the probability of default (PD) by counterparts, the bank currently uses models that cover the following segments: Private customers, Small Businesses, Micro-Enterprises, SMEs, Large Enterprises and Public Enterprises.

The portfolios covered by internal rating systems represent 80.3% of loans and receivables with customers (94.3% of the number of counterparts).

Operationally, the analyses produced by the rating models are supported by estimates for a further two key risk parameters: The rate of the Loss Given Default (LGD) and the estimated Exposure at Default (EAD). By contrast with the PD, these parameters are influenced by the nature of any guarantees obtained and the technical forms taken by the loans granted. Nevertheless, they are also derived from models that are developed and maintained internally.

Compatible with the heavy workload associated with the *Comprehensive Assessment*, efforts continued during the year to obtain recognition from the Supervisory Body for the Internal Rating Based (IRB) approach devised to measure the capital requirement for the credit risk associated with the «Corporate» and «Retail» segments.

In this regard, a new IT architecture has been developed to support the calculation, calibration and use of risk parameters in operational processes. With regard to the methodologies adopted, the majority of the PD models for the «Corporate» segments were revised, the «Retail» models were subjected to initial recalibration, and new models were developed in order to quantify the LGD parameters and the Danger Rate (probability of becoming non-performing).

The central nature of the rating system in the granting and management of loans has been strengthened by the release of new procedures for determining powers of authorisation based on the rating of the customer.

The overall quality of the loan portfolio and the phenomena that influence its deterioration are investigated by a monitoring system established for this purpose. Taking account of the latest developments, a process has also been established for identifying and managing separately the most significant lending transactions. These are isolated with reference to established scale and risk parameters, in order to evaluate prior to commitment their consistency with the bank's propensity to accept risk.

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 were 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)	31/12/2014	Average	Minimum	Maximum	Limit
Capital absorption	94,549	89,255	69,444	119,619	115,000*
Maximum capital absorption	292,629	273,904	267,417	293,883	300,000
Individual counterparty risk	16,500	16,116	16,080	16,500	18,000
Concentration risk	106,860	98,753	95,460	106,860	120,000
Country risk	23,768	22,797	22,662	23,768	30,000

* Not so much a limit as a threshold of attention.

The Board of Directors raised the above limits at the meeting held on 10 November 2014; previously, those in force during 2013 (listed in the annual report for the prior year) were maintained.

All the above maximums were reached during the period after the change. In particular, there was one minor breach of the limits set for capital absorption, in addition to that indicated in the table. Another 5 breaches, with a peak exposure of 115.231 million, were recorded prior to the change when the threshold was 110 million. Furthermore, again due to the need to invest the abundant liquidity available following the issue of a covered bond and participation in the first T-LTRO auction, the limit on capital absorption – but not those on the other three indicators – was exceeded: on 17 consecutive days prior to the change, but only to a limited extent and never more than 5.194 million.

With regard to the market risks facing the trading portfolio (rate and price risk, plus the translation risk regarding the financial statements as a whole), the operating limits expressed in terms of daily VaR (Value at Risk) were revised 8 times after the initial fixing, including 6 times in the last month and a half. The limit on overall VaR has been steadily increased, from 6 to 15 million, to mirror the change in the limit for exchange-rate risk, from 0.9 to 8.7 million, while that for interest-rate risk has declined, from 2.3 to 1.3 million, and that for price risk fluctuated while increasing from 2.8 to 5 million.

Except for three marginal breaches of the VaR limit for price risk, there was no particular pressure on the above limits until 10 October. After that date, there were 8 breaches of the limit for price risk and 17 of that for exchange-rate rate, but only 2 breaches of the limit for overall risk.

The purchase of dollar securities issued by the US Treasury and the related line of credit affected both the exchange-rate risk and the counterparty risk described earlier, while the interest-rate risk was less affected due to the limited duration.

Capital absorption - obtained by transforming the daily VaR into a forward VaR, taking account of the number of working days prior to the end of the year, and adding the absolute value of net losses and any net unrealised capital losses accumulated since the start of the year - started from a maximum of 42.508 million when first recorded on 6 January and always remained well below management's limit on the Maximum Acceptable Loss, which was held at 120 million.

With specific regard to the derivatives monitored, their exposure to market risks was reflected in an average VaR over the year of about 0.355 million, with a maximum of 0.783 million.

In terms of the monitoring of liquidity risk, the broad range of tools has been refined in relation to the profiles of both operational (short-term) liquidity and structural (medium/long-term) liquidity.

During 2014, the cash flows generated from treasury and similar transactions were recorded every day, as in the past, together with the potential flows of operational liquidity obtainable from the disposal of financial assets held, or their use for refinancing transactions, and the liquidity held with the Central Bank. This information was used to quantify daily total net liquidity over a three-month time horizon, by preparing an operational maturity ladder of cash inflows, cash outflows and reserves of available liquidity.

The short-term liquidity requirement of the entire banking group is determined daily for use by the operating units responsible for treasury management. At the same time, similar schedules are prepared at company level to determine the operational liquidity position of the principal components of the group.

Medium/long-term liquidity is principally monitored with reference to the structural maturity ladder. The schedules prepared are similar to those for operational liquidity, this time taking account of the maturities of all funding and lending transactions and securities held, without time limit commencing from the reference date.

The control is further enhanced by the monthly calculation of early warning indicators, which flag issues with the structural liquidity position and the composition of funding.

The LCR (*Liquidity Coverage Ratio*) and the NSFR (*Net Stable Funding Ratio*), introduced by Basel 3, are determined every six months in compliance with current regulatory requirements. In addition to quantifying the ratio percentages, the related detailed schedules must also be sent to the Supervisory Authorities.

Furthermore, in compliance with new EU regulations applicable from 2014, two short-term coefficients with names similar to those above are determined by collecting data from the relevant procedures: the short-term LCR (*Liquidity Coverage Requirement*) and the medium/long-term SFR (*Stable Funding Requirement*). In practice, the similarities are only partial and the coefficients are therefore complementary, without being replacements. The first coefficient is calculated monthly, while the second is determined quarterly. The results, together with the detailed calculations, are provided to the Bank of Italy as part of the supervisory reporting process.

Analysing the information accumulated over the year, the picture that emerges from the monitoring of operational liquidity, structural liquidity and the Basel 3 indicators is most satisfactory for the Group, with a liquidity position in line with both internal objectives and current regulatory requirements.

The management of operational risks principally requires the risk control function to coordinate and guide the methodologies adopted by the organisational units concerned. In this regard, routine activities were performed as usual during the year to obtain and analyse significant information about the phenomena that characterise operational risks. The purpose is to identify the sources of risk on an ongoing basis, both in the form of losses actually incurred and in terms of a qualitative assessment of the risks potentially faced by the bank.

In quantitative terms, operational risk is monitored by gathering and recording data about the size and frequency of the economic losses incurred as a result of significant events, as well as by observing the related dynamics over time. The objective is to create a robust time series of losses incurred and any recoveries made, by recognising all possible events that generated quantified or quantifiable losses, in order to draw precise conclusions about the risk mitigation measures to be adopted for the business processes concerned.

In compliance with the new requirements specified by the supervisory regulations, the bank is currently working to strengthen the links between the model used to analyse operational risks and the systems employed to manage technological and IT risks.

The principal controls also include those addressing possible conflicts of interest that might arise from related-party transactions, as well as the risks associated with equity investments in non-financial companies, in particular. These controls are implemented by checking the aggregate exposures in relation to the internal and regulatory limits.

The usual annual comprehensive test of the business continuity plan was carried out successfully in early December 2014; this was the eighth carried out. As in the past, the test checked the key functions of the processes that support the bank's financial, commercial, payment and collection services, as well as those relating to agencies, treasuries and the development of IT applications. Similar checks covered the IT components involved in 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, internet/intranet services provided by the departmental systems housed at the Bank's server farm, certification of the telematic networks and local workstations.

HUMAN RESOURCES

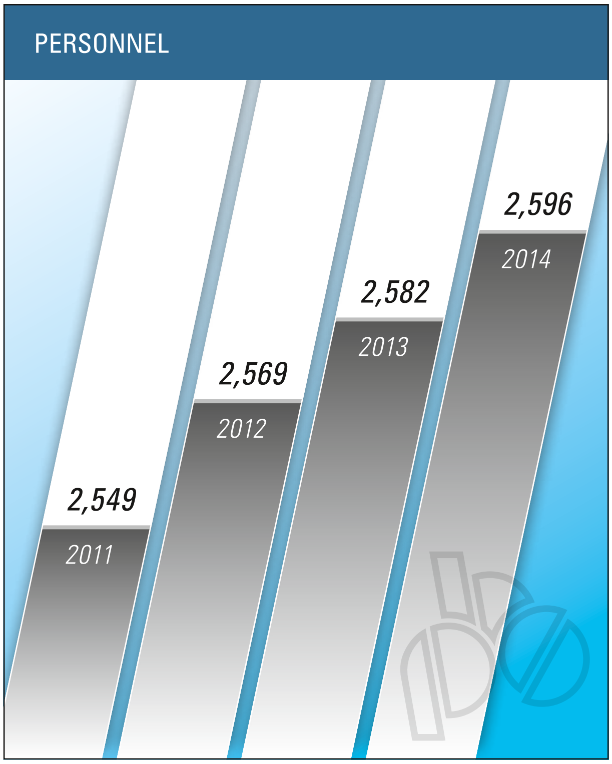
Selection, training and development of human resources: an essential commitment for every healthy business seeking success in the marketplace via, for the most part, independent internal growth.

The demanding entrepreneurial approach adopted in this area by our bank, which has never employed an abundance of personnel, has always been based on meritocratic criteria. We have been able to offer interesting professional opportunities to our men and women, backed by training and regular updates. The bank has been repaid in terms of motivation, skill, unity of purpose and shared corporate values. These elements, together with a spirit of service and our rules of conduct, establish our way of working with and relating to our customers. The resulting competitive advantage obtained has contributed tangibly to the long-term growth achieved by the bank.

Our people work in a prudent and balanced manner every day, with a view to facilitating informed decisions that reflect the profile of each customer. They adopt a proper, long term and transparent approach to the performance of their duties. The bank reinforces this way of working via rigorous personnel selection, appropriate training programmes and the efficient management of all those employed both centrally and at branch level. The personnel department addresses these areas with skill and commitment.

Total employment rose by 14 during 2014 to 2,596, +0.54%, of whom 77% work within the distribution network and 23% centrally. The average is 39 years and 2 months, while the average length of service is 15 years and 1 month. These statistics have risen by 9 and 8 months respectively since last year.

The development of operations and targeted territorial expansion create a need for personnel that, as ever, is met via the careful selection of suitable candidates who have completed their high school or university educations, as well as by organised job rotation in order to facilitate the professional growth of individuals.



Training receives special attention, with both classroom and multimedia sessions. During the year, 1,892 persons received a total of 63,560 man hours of classroom education, while 2,438 persons took a total of 40,538 man hours of multimedia courses.

The courses provided on regulatory matters were significant, including those covering the transparency of services and banking transactions, anti-money laundering, privacy and the health and safety of workers. With reference to the obligatory training required by ISVAP Regulation no. 5 of 16 October 2006, the sessions covered insurance broking for both new employees and those already qualified to provide such services.

In relation to the routine operational areas, established training programmes cover the various aspects of lending: investigation, guarantees, management and control of loans and lines of credit; investment services and the provision of advice; treasury services; the management of communications with the customer by counter staff. Regulatory requirements are addressed by the multimedia courses, whose content and accessibility over time facilitate learning.

The intensive training of new recruits continued throughout 2014. A total of 208 persons, including some individuals who joined in prior years, followed a cycle of five modules each lasting one week. These sessions covered: the organisation of the bank and branch operations; teller operations and communications with customers; the products and services on offer; the lending and international sectors; investment services. In addition, 17 branch managers acted as tutors on the obligatory training courses required by the regulations that govern apprenticeship contracts.

The huge Madatsch glacier from the Cantoniera

Etching and aquatint in two colours partially blue-tinted, mm. 144 x 191

The most gigantic spectacle in the world

«One arrives at the Casa Cantoniera, which bears the name of the nearby wood; and out in front there is the huge Ortlerspitz glacier. Glaciers are one of the most gigantic spectacles in the world. (...) At its foot, pieces of ice spill over each other, breaking into long slits that are frighteningly deep; they rise like obelisks, in the clarity of which the sun refracts the sevenfold ray. But at the summits, where the glacier merges with the eternal snows that feed it, the cold is less extreme, and giving in to the weight of the glacier that pulls downwards, it tends to split sideways. (...) Getting closer to summer, the grim silence of the glacier often gives rise to a tremor resembling thunder, accompanied by severe shocks that make the mountain tremble; these result from deep cracks in the ice, which look awful to the traveller, who sometimes finds himself in front of an abyss».

(Splendiano Morselli, *The Valtellina, the Stelvio*, in Cesare Cantù, *Large illustration of the Kingdom of Lombardy-Venetia*, 1859)

At the *cantoniera* (roadhouse), on the Tyrol side, the road comes to one of its most spectacular point, passing by near the Madatsch glacier which, like a giant flooded river, seems ready to pounce onto the road in the foreground. Its fissures, jagged crevices and split pinnacles of ice lit by blue flashes lengthen eerily like claws, causing a sublime thrill of terror in the traveller and also in Meyer who, together with his companion, contemplates and draws this landscape safely on the other side of the road in the *cantoniera*, protected by the dark spur of rock, but of which we can easily guess the structure.

Rectangular, placed longitudinally along the road and with a porch along its entire length, which allowed a sheltered passage, these roadhouses were not only places to store the tools of the workers involved in road maintenance during the summer and winter, but also places for horses and travellers to stop. As such, they had a kitchen, a heated room where one could stay for free, lodgings for the watchman, who lived there permanently on a government salary and who always had to have enough food for 15 people, to be sold at moderate prices, and enough hay for sale for 15 horses, as well as wood for heating, which was reimbursed by the government. Some roadhouses, like the one shown here, even had a drinking water fountain that also worked during the winter months, and a room where a chaplain – also paid by the government – could celebrate mass.

The new Post House in Bödelein
above the Cantoniera looking towards the pass
Etching and aquatint, mm. 143 x 193

After the excitement of the glacier, the Sottostelvio plateau, nestled between the mountains, is a moment of relaxation and tranquillity. Being protected from avalanches, it was chosen as the place to build the *Franzerhöhe*, military barracks dedicated to Emperor Franz Joseph I, in 1830. At the time of Meyer's passage, it had not yet been completed (the Emperor inaugurated it in 1832), but one of its wings already served as a post house and his carriage reached it by a short side road.
In the foreground, a group of Tyrolean peasants are standing at the side of the road having a chat. All in all, in this view Meyer offers us a short interval of serenity. But already the cart going on down the road with its load of goods reminds us of the asperity of the coming bends that zigzag up the ridge of the mountain, right to the distant top of the pass. So it is not so much the hotel, but the road and the dialogue that it weaves with the alpine nature that is, once again, the protagonist of the view.
This expands, as always, with a panoramic width and a depth that exceed reality and that, thanks to the clever mix of light and shade, undoubtedly have a pictorial effect.
Even in his captions, Meyer avoids any reference to military structures and situations that might alarm the *Grand Tour* public to which he addresses his *Voyage Pittoresque* and he relies entirely on the spectacular engineering of the road, its safety and the comfort of its accommodation and shelter.

Where Tyrolean resounds

«A side road leads to the Franzerhöhe, *military barracks for 300 men and 150 horses in a place protected from avalanches, and where there is also the post house. I did not meet a single carriage on the road, only some sledges loaded with goods, and a few mules...; sometimes a pair of peasants who spoke the Tyrolean slapper, or who smoked their pipes sitting on a curbstone, like two doormats on the road; then they started to yodel at the top of their voices, the sound echoing and re-echoing back from the glacier...».*

(Splendiano Morselli, *The Valtellina, the Stelvio*, in Cesare Cantù, *Large illustration of the Kingdom of Lombardy-Venetia*, 1859)

Importantly, a total of 270 deserving young people - drawn from the technical schools and universities in areas served by the bank - were also given internships at our branches and central offices.

Turning to regulatory matters, Law no. 183/2014 (Jobs Act) mandated the government to reform the social amortisers, employment services and employment policies, as well as the rules governing employment, the activities of inspectors and safeguards for employee health and work-life balance. The related enabling decrees, published in 2015, cover such important areas as permanent employment contracts with increasing degrees of protection; the achievement of work-life balance, especially in the area of parental leave; the reform of contract types, especially those covering permanent employment, freelance work and temporary work.

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

PROMOTIONAL AND CULTURAL ACTIVITIES

Just as the safeguarding and promotion of saving are part of the bank's mission, so the safeguarding and promotion of the cultural, artistic and environmental wealth of the areas in which we work are part of our «Cooperative» approach.

Our voluntary and long-term acceptance of responsibility for contributing to social development strengthens the reciprocal sense of belonging between the bank and the territories served.

A constant commitment, as demonstrated by: the 42 years of Notiziario, our acclaimed magazine that is published every four months; the 45 years of conferences, made unique - not just at provincial level - by authoritative speakers who have made their contributions; numerous, high level publications; the establishment and management of the Credaro library in Sondrio.

In addition to this review of activities during 2014, attention is drawn to the special websites that are dedicated to the bank's cultural activities, including Popsoarte, which presents our artistic wealth.

As the leading local bank, we actively worked with ABI on the organisation in Sondrio, on 17 - 18 January 2014, of the 8th edition of Road Show Italy. This event included analysis of such economic topics as «The banks and local territories» and «The Italian banks for Italy», with senior contributions from ABI, the institutions and entrepreneurs. The event was accompanied by an exhibition entitled «Places in Valtellina», the highlights of which included various paintings owned by the bank were shown.

The annual programme of conferences was opened on 14 February 2014 by John Elkann, Chairman di Fiat spa and Deputy Chairman of Fondazione Giovanni Agnelli, who spoke to and interacted spontaneously with an essentially young audience. The title of his contribution was «What to study, where and why: John Elkann talks with students and answers questions from Gianna Fregonara, manager of the schools channel at Corriere della Sera».

The very relevant meeting on cancer research held on 28 March 2014, with Mauro Melis, managing director of IEO-Istituto Europeo di Oncologia, discussed «Twenty years of Istituto Europeo di Oncologia: past, present and future». On 23 May 2014, the conference held by Giuseppe Tarantola, Honorary Section Chairman of the Court of Cassation, on «Judicial activities and journalistic information» was well attended.

After the summer break, the bank and the local economic system were privileged to host Salvatore Rossi, General Manager of the Bank of Italy and Chairman of IVASS (Insurance Supervision Agency), on 12 September 2014, when he spoke to a large and interested audience on the topic of «Finance for growth». On 24 October 2014, Senator Giulio Tremonti, lawyer and economist, spoke to the public on «Lies and truth - what the people think», which is also the title of his recent book.

The conference held on 31 October 2014 by Carlo Sangalli, Chairman di Confcommercio-Imprese per l'Italia (Confederation of commercial enterprises), was entitled «Firms that give their all: how commerce and services contribute to the future of the country». It also marked the 90th World Savings Day. Following the speech given by Carlo Sangalli, Fabio Panzeri, managing director of TeleUnica, coordinated and contributed to a discussion with a number of retail traders.

On 21 November 2014, Paolo Biglioli, a world-famous heart surgeon of local origin, spoke to the public on the topic «I've seen the things we humans have done - Good and bad healthcare, good and bad humanity», which is the title of the book he wrote together with Paola Salvadori, who was on hand to discuss the topic with him. The annual conference cycle was closed by Cardinal Gianfranco Ravasi, on his 10th visit to the bank. His speech on 15 December 2014, well attended as ever, addressed the delicate topic of «Spreading the Faith in the Internet era».

Well stocked and visited, the characteristics of our «Luigi Credaro» library in Sondrio are drawing ever greater attention. The library bequest made by Salvatore Bonomo, worthy professional and former Deputy Chairman of the bank, was of considerable interest. We have now activated an inter-library loan scheme with Libera Università di Lingue e Comunicazione IULM in Milan, which complements those already in place with other leading Milan universities. We also attended ABI's Festival of Creative Culture, the first edition of which - held on 16 May 2014 - addressed the topic of «The imaginary museum».

On the publishing front, we gave the shareholders who attended the Shareholders' Meeting on 26 April 2014 a book entitled «The 101 lakes of Valtellina and Valchiavenna». This excellent publication contains many photographs of the alpine lakes in the province of Sondrio, accompanied by detailed descriptions of suitable excursions.

The 2013 financial reports of the parent bank and Banca Popolare di Sondrio (SUISSE) SA were accompanied by some interesting cultural interludes. These covered, respectively: the incisions by Antonio Visentini, owned by the bank, on the subject of «Visentini and Canaletto: the European image of Venice in the eighteenth century», which were introduced by Cesare de Seta, art historian and writer, and discussed by Franco Monteforte; the monography dedicated to Alessandro Manzoni, writer, poet and dramatist, who lived much of his life in Switzerland.

«Words over time and the days of 2015» is the subject of the diary-book by Gigliola Magrini for the current year.

Another success at the «Mapei Day», a sporting event under the patronage of the Squinzi family, which the bank helps to organise together with Unione Sportiva Bormiese and Pirovano Stelvio. The 10th edition was held on 13 July 2014, with about 3,200 runners, cyclists – many of whom participated in the 30th Re Stelvio competition – and roller skiers tackling the challenging Bormio-Stelvio Pass route.

As always, 10 August 2014 at Stelvio Pass was dedicated the Madonna della Neve. On the centenary of the start of the Great War, the remembrance was attended by General Antonio Pennino, commander of the «Lombardy» brigade. Mass was said by Father Cesare Bedognè, local chaplain of the brigade and the «Teuliè» military school. The remembrance was also attended by Sister Elisabetta Serena Ciserani, Mother Superior of the Figlie di Santa Maria della Provvidenza (Opera Don Guanella) and Sister Anna Gennai, superior of the Piccola Opera per la salvezza del fanciullo di Traona.

Once again, the bank participated in the ABI initiative entitled «Invito a Palazzo» (open day at the bank). The XIIIth edition was held on 4 October 2014. Guided tours covered the works of art owned by the bank and the «Luigi Credaro» library in Sondrio, as well as the «Carlo Donegani» museum at the Stelvio Pass.

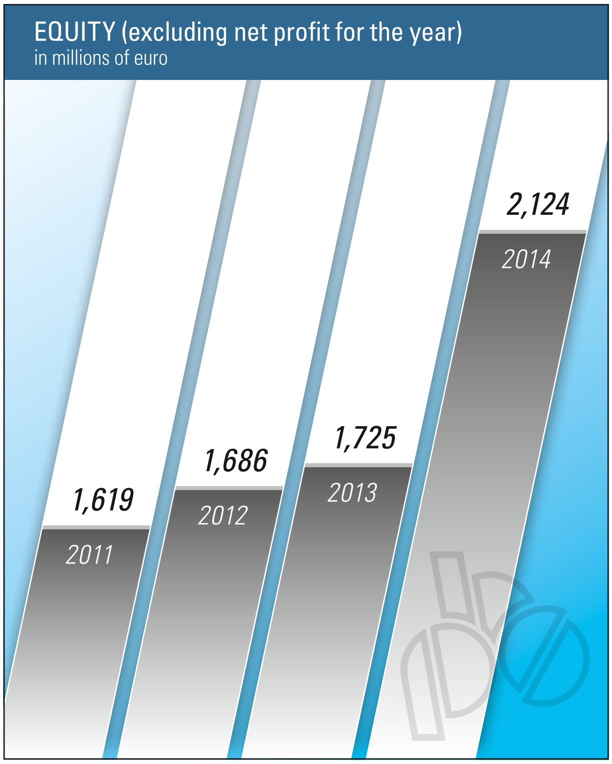
We also contributed to the Prime Minister's programme commemorating the centenary of the start of the First World War, with support for the film-documentary «Stelvio. Crossroads of peace», directed by Alessandro Melazzini. The initiative also sought to promote the province, having regard for Expo 2015, drawing acclaim from home and abroad. To mark the presentation of the film in Sondrio on 6 October 2014, at Sondrio Festival 2014 - International Show of Documentaries about Parks, the bank's exhibition hall in Sondrio presented «Stelvio. A museum under the stars». This exhibition displayed many objects loaned by the bank's «Carlo Donegani» museum at the Stelvio Pass. The exhibition also visited the Chiavenna and Bormio branches to mark repeat showings of the film-documentary at those locations.

At the time of the 15th Snowfestival, organised by Pirovano from 9 to 12 October 2014, significant donations were gathered for Fondazione Ariel, Associazione La Prima Stella and Associazione Ayuda Directa.

Despite bad weather, friendship and enjoyment marked the 1st Hexagonal Interbank Meeting (a development of the numerous previous triangular and quadrangular meetings) held on 17 and 18 October 2014 at the Stelvio, alongside the 13th Pirovano Interbank Meeting attended by 126 competitors from 20 banks.

Among the charitable initiatives promoted by the bank, significant donations were made from the Solidarity Current Account to ADMO, AIRC, AISLA, AVIS and UNICEF.

Lastly, the activities of the Group Club for all employees were greatly appreciated, with the organisation of many cultural, touristic and sporting events.



EQUITY

Shareholders' equity at 31 December 2014, inclusive of valuation reserves and the profit for the year, amounts to 2,221.419 million, being an increase of 447.652 million, +25.24%.

Share capital, represented by 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, having increased by 435.713 million as the result of a capital increase through a combined bonus and rights issue, the means and timing of which were approved by the Board of Directors at a meeting held on 5 June 2014, acting on a mandate granted by the Shareholders' Meeting of 26 April 2014, and which was completed by the beginning of July.

Together with the self-financing generated over the years, this successful capital increase has assured the availability of adequate own funds, which is an essential starting point for the dynamic and balanced growth pursued by the bank. It also assures stability over the long term, in support of the healthy and prudent management of the bank's activities. Lastly, the capital increase made it possible to meet the capitalisation requirements established by the new European regulations.

The capital increase involved: the issue of 30,814,798 ordinary shares with a par value of 3 euro, with dividend rights as from 1 January 2014, without any option rights, allocated free of charge; the issue, for the part issued for cash, of 114,422,994 ordinary shares with a par value of 3 euro, with dividend rights as from 1 January 2014, subscribed for by those entitled to do so at a price of euro 3, which was thus equal to the par value.

The share premium reserve amounted to 79.005 million and had decreased by 92.445 million due to the capitalisation thereof as part of the bonus issue as indicated above.

Reserves increased by 27.468 million to 665.469 million, +4.31%, primarily due to the allocation of a significant portion of the profit for 2013. The increase was offset by the costs relating to the capital increase, net of the tax effect, of 7.987 million and which were recognised as a reduction of equity as required by international accounting standards (IAS/IFRS).

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 44.267 million, up from the positive balance of 15.358 million reported at the end of 2013.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent bank holds 3,550,000 treasury shares with a carrying amount of 25.031 million, compared with 24.316 million. The increase of 530,000 shares since 31 December 2013 partly reflects the allotment of bonus shares and the purchase of share fractions for 0.114 million, as part of the capitalisation increase, and partly the purchase of 202,323 shares, par value 606,969 euro, representing 0.045% of share capital. The total amount paid for these purchases was 0.601 million.

Performance of the BPS stock

The price for BPS stock, which is listed in the Blue Chips segment of the MTA, the screen-based market of the Italian Stock Exchange, fell by 9.85% during the period.

The number of members has risen to 185,309.

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.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios effective from March 2014. This communication was supplemented by another from the ECB to those banks subject to EU-level supervision. Set out below are the Group's adequacy requirements at 31 December 2014 and the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	9,75%	8%
Tier 1 Capital Ratio	9,76%	8%
Total Capital Ratio	**11,28%**	**10,50%**

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Bank carried out an impairment test on the entire structure. The results of this test showed that the Group was worth more than its consolidated equity. Further details are provided in Part F «Information on equity» of the notes to the consolidated financial statements.

Growth in the number of our SHAREHOLDERS

2014	**185,309**
2013	181,217
2012	177,096
2011	173,383
2010	168,328
2009	163,033
2008	158,013
2007	154,715
2006	143,387
2005	132,902

Hotel at the confluence of the Stelvio Pass and the Bormio Pass

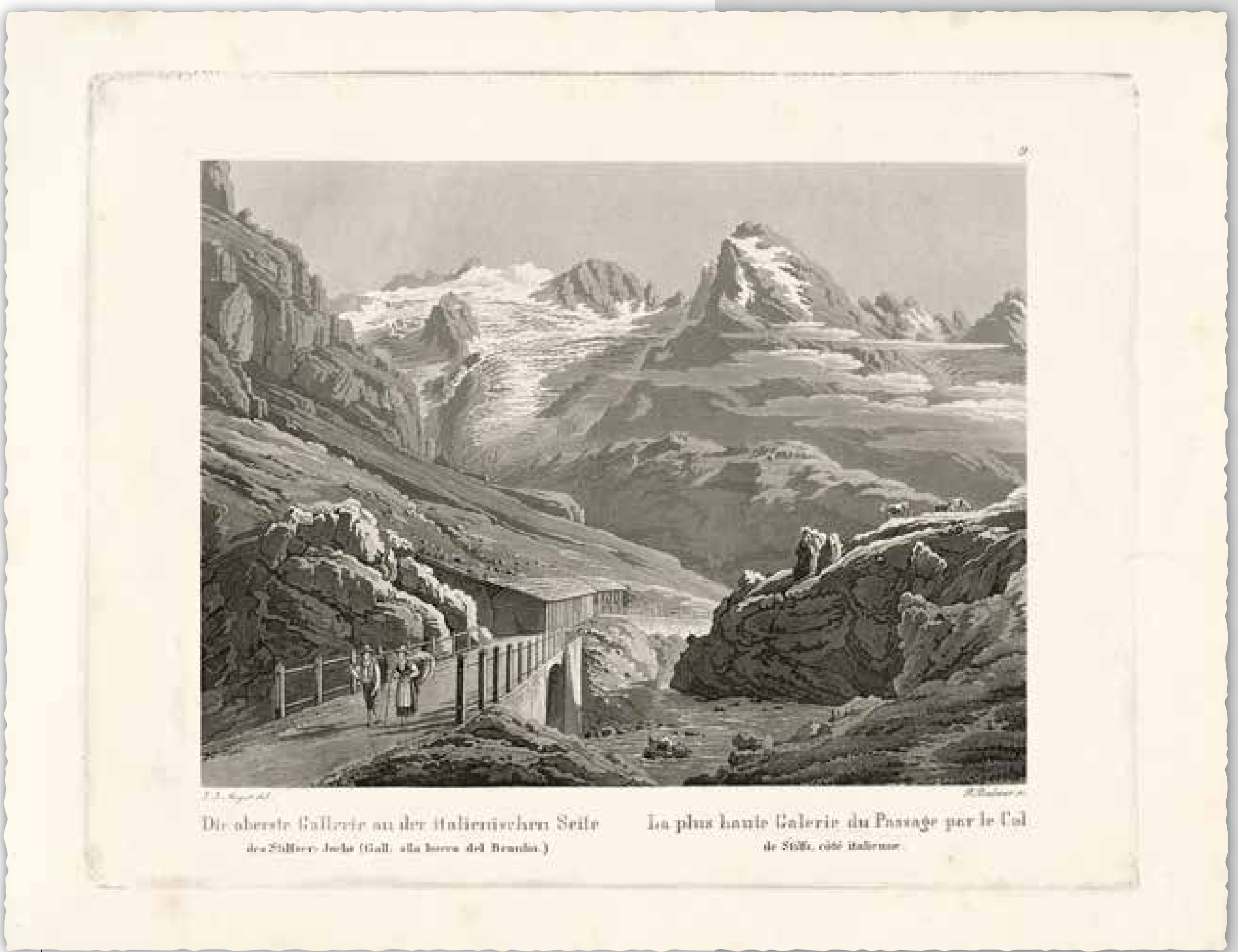
Etching and aquatint hand-watercoloured, mm. 143 x 201

Between sky and snow

«Passage of the Mt. Stelvio road, 14 October 1826.
... We arrived at the top or Yoke of the Stelvio (Stilfserjoch) at four o'clock in the afternoon ... The air there was very fine, very thin, but given the heat of the sun, we hardly realised it; so Her Majesty (Archduchess Marie Louise of Austria, former Empress of France)*, having reached the Casa Cantoniera, ... could keep her landau open and admire that sea of eternal snow that like a tablecloth of the finest Indian muslin covers the whole of the plain, surrounded by steep cliffs, which were just as white, right up to the top of the mountain. A valley surrounded by high mountains ... it could be compared with something left over from the Chaos that existed before the creation.*
Like when you are in the middle of the ocean, always between sky and water, here you are eternally between sky and icy snow».

(Adam Adalbert, Count of Neipperg, *Diary*, 1826)

In 1831, at the top of the Stelvio Pass there was just a featureless square with a bothy for road workers and a simple granite memorial stone that indicated the triple border between Lombardy, Switzerland and Tyrol. So Meyer does not show us where the pass reaches its highest point; instead, he chooses the first scenic spot on the Italian side, in close proximity to the IV Cantoniera, next to the barracks of the Guardia di Finanza, which served as a customs house, at the confluence of the Stelvio Pass with the Bormio Pass - as Passo Umbra was then called - which led to Val Monastero. The view looks back towards the pass, which you can just see at the end of the hairpin bends on the left, at the foot of what is now Cima Garibaldi or Three Language Peak (*Dreisprachenspitze* for the Swiss), at the exact spot from which a huge ridge of snow and ice branches off, culminating at Cima Scorluzzo on the right.
In this way, our gaze is pushed up toward the pass, but once there it stops at the white line of the glacier that leads to the right towards Cima Scorluzzo. From here, our gaze begins to descend along the meadows of Scorluzzo Plain, helped by the descent of the caravan of mules coming from the pass and by the coach going in the direction of Bormio and that brings our attention back to the Cantoniera. This creates a circular motion of the eye that gives a two-directional effect to the view, up and down which ends up involving even the tiniest detail which the colour helps to pick out even better.
Here, too, grazing animals, merchants and travellers on the ample square in front of the Cantoniera, all human presences that are used to measure the picturesque vastness of the natural alpine scenery, which is the real subject of the view.



The highest tunnel on the Italian side of the Stelvio Pass
(The "Mouth of Braulio" Tunnel)
Etching and aquatint mm. 142.5 x 188.5

The Mouth of Braulio

«... we arrive at the mouth of Braulio, where there is a wooden gallery that serves to secure that brief stretch, which is subject to frequent snowslides. Here by means of another little bridge known as the High Bridge, we cross the Braulio Valley, and from the right slope of the mountain we pass to the left ...
The name of Mouth (or entrance) of Braulio undoubtedly derives from the configuration of the valley in that location, where it narrows, separating in some way the initial lower valley from the higher valley».

(Giovanni Donegani, *Guide to Stelvio*, 1842)

Here, on the Italian side, we meet the first of the many avalanche galleries with which the Stelvio road is dotted. But if the foreground with the road contains the usual information about the safety of the route, it is also the viewpoint from which there opens up another spectacular panoramic view of the high peaks, which forms a pair with the equivalent view near Trafoi on the Tyrolean side. As in that one, in this case the jagged Crest of Reit emerges distinctly from the Crystal Glacier against a clear sky above the clouds, which float far below, highlighting their extraordinary altitude. The landscape in the foreground is rough and rocky, where only two peasants in typical local costumes walk across the bridge towards us, giving a picturesque note of rural humanity.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2013:

– capital/direct funding from customer
  8.22% v. 7.37%;
– capital/customer loans
  10.82% v. 8.51%;
– capital/financial assets
  24.48% v. 26.07%;
– capital/total assets
  6.82% v. 5.82%;
– net non-performing loans/capital
  27.39% v. 25.39%.

INCOME STATEMENT

Expectations for a gradual recovery during the year were disappointed as the economic cycle showed signs of a further downturn. Despite significant efforts from the European Central Bank, which reduced rates to historical lows and made new liquidity available, the picture remained weak with a danger of deflation. In the meantime, the quality of loans continued to deteriorate, with an adverse effect on banking profitability.

Against this challenging background, the results of the bank were more than satisfactory. Profit for the year amounted to 97.552 million, up by 99.77% from 48.832 million in the prior year.

Net interest income

Net interest income grew, despite weakness during the year, to 520.560 million compared with 488.150 million in 2013, +6.64%, with a slight widening of the spread.

Interest income fell by 6.02% due to lower rates on loans to customers and on financial investments, as well as to the contraction in lending to customers. This decline was mitigated by constant action to ensure a proper balance between remuneration and the risks accepted. The increased size of the securities portfolio also made a contribution, despite the much lower yields, with those on government securities - in particular - reflecting the relaxation of market tensions.

Interest expense, on the other hand, fell by 20.50% due to the lower cost of the funding obtained from customers, especially in relation to the more costly positions, and in the interbank market. All this despite the large increase in deposits from customers.

There was a satisfactory rise in net fee and commission income, +7.27%, from 225.820 to 242.237 million, with contributions from almost all components of this line item. Commission from guarantees given performed well, as did those from the acceptance of instructions, the placement of funds and insurance products, collections and payments, loans and currency conversion.

Dividends amounted to 16.242 million, down by 19.80% due, for the most part, to the payment of an extraordinary dividend by Arca Vita spa in the prior year.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 189.455 million compared with 160.544 million, +18.01%. This increase was essentially attributable to the securities element, which generated must larger trading/disposal gains than in the prior year.

The net trading income of the HFT portfolio amounted to 90.114 million, compared with 102.437 million in 2013. Analysing its component parts, net trading income on securities rose to 42.333 from 39.913 million; the contribution made by net unrealised capital gains was 14.735 million, compared with 41.487 million in the previous year; derivatives come to 4.536 million, compared with 7.057 million. Currency profits and exchange gains rose from 13.980 to 28.510 million, including a large unrealised exchange gain of 12.598 million, principally due to the measurement of AFS securities denominated in dollars.

SUMMARY INCOME STATEMENT

(in thousands of euro)	31/12/2014	31/12/2013	(+/-)	% change
Net interest income	520,560	488,150	32,410	6.64%
Dividends	16,242	20,253	-4,011	-19.80%
Net fee and commission income	242,237	225,820	16,417	7.27%
Results of financial activities	189,455	160,544	28,911	18.01%
Total income	**968,494**	**894,767**	**73,727**	**8.24%**
Net adjustments to loans and financial assets	-473,561	-472,766	-795	0.17%
Net financial income	**494,933**	**422,001**	**72,932**	**17.28%**
Personnel expenses	-175,541	-170,317	-5,224	3.07%
Other administrative expenses	-206,324	-195,302	-11,022	5.64%
Other operating income/expense	70,782	69,175	1,607	2.32%
Net accruals to provisions for risks and charges	3,455	2,556	899	35.17%
Adjustments to property equipment and investment property and intangible assets	-24,664	-23,470	-1,194	5.09%
Operating costs	**-332,292**	**-317,358**	**-14,934**	**4.71%**
Operating profit (loss)	**162,641**	**104,643**	**57,998**	**55.42%**
Share of profit (loss) of equity investments and other investments (+/-)	-637	-6,565	5,928	-90.30%
Profit (loss) before tax	**162,004**	**98,078**	**63,926**	**65.18%**
Income taxes	-64,452	-49,246	-15,206	30.88%
Profit	**97,552**	**48,832**	**48,720**	**99.77%**

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

The contribution made by available-for-sale financial assets, held-to-maturity investments and financial liabilities amounted to 94.154 million, as against 52.719 million, mainly reflecting gains on the disposal of Italian government bonds. The result from assets carried at fair value was 5.187 million, compared with 5.387 million in the previous year.

Total income

Total income accordingly rose 8.24% to 968.494 million. Within this aggregate, the weighting of net interest income decreased from 54.56% to 53.75%.

As mentioned, the continuation of the recession and economic decline has fuelled the downward spiral of impaired loans. As a result, it was again necessary to make substantial provisions against the deterioration in lending quality, not least due to the adoption of extremely prudent assessment criteria.

Net adjustments to loans, available-for-sale financial assets and other financial transactions came to 473.561 million compared with 472.766 million (+0.17%). The element of this relating to customer loans rose by 1.79% from 446.094 to 454.076 million. This statistic reflects the continuation of the recession and its effects on the banking system, which translates into the risk associated with borrowers. As already indicated, the policies adopted by the bank in this area implement highly prudent criteria for the assessment of risk. The results of the AQR were also taken into proper consideration. This line item also includes a substantial adjustment of the amounts due from Alitalia CAI spa, following the restructuring of that company's debt to the banking system. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has risen from 2.14% to 2.21%. Losses from the impairment of securities have increased from 12.881 to 19.308 million. Of this amount, 12.184 million relates to the writedown of the investment in Release spa (already written down in the prior year by 9.664 million), while 7.124 million relates to certain AFS shares and mutual funds whose stock market prices are objectively lower than their original carrying amounts. Adjustments to other financial transactions amounted to 0.177 million, compared with 13.792 million in the prior year when an increase in impaired loans was recognised, together with a flat-rate provision against performing guarantees given. This provision was determined using a methodology similar to that adopted in relation to ordinary loans. The prior year also included a provision of 3.892 million to cover our share of the support to be given by the Interbank Deposit Protection Fund in favour of Banca Tercas, which is in Special Receivership.

The net financial income therefore comes to 494.933 million, +17.28%.

Operating costs amounted to 332.292 million, +4.71%. The increase, despite constant monitoring, essentially reflects the growth in the scale of operations. The ratio of operating costs/total income, i.e. the «cost income ratio», has fallen to 34.31% from 35.47% in 2013.

Considering the various components of this ratio, administrative expenses amounted to 381.865 million, +4.44%; of these, personnel expenses rose from 170.317 to 175.541 million, +3.07%, partly as a consequence of contractual increases; other administrative expenses increased from 195.302 to 206.324 million, +5.64%, due in the main to higher stamp duties linked to the rise in other operating income, but also to costs associated with IT costs and consultancy and legal fees.

Net releases from the provisions for risks and charges amounted to 3.455 million because the provisions made during the year, 4.092 million, were offset by 7.547 million used or released from the provisions recorded in prior years.

The depreciation of property, equipment and investment property and amortisation of software amounted to 24.664 million, +5.09%.

Other operating income, net of other operating expenses, contributed 70.782 million, +2.32%.

The operating profit therefore came to 162.641 million, +55.42%.

The net loss on equity investments and other investments amounted to 0.637 million, being a profit of 11 thousand on the disposal of fungible assets, net of writedowns of the equity investments in Pirovano Stelvio spa and Banca della Nuova Terra by 0.485 million and 0.163 million respectively. The net loss in the prior year of 6.565 million related to writedowns of the holdings in Alba Leasing SpA by 3,273 million; in Banca della Nuova Terra spa by 2.831 million and in Pirovano Stelvio spa by 0.466 million; net of gains on the disposal of tangible assets of 0.005 million.

Profit for the year

Profit before income taxes therefore totalled 162.004 million, +65.18%. After deducting income taxes of 64.452 million, up by 30.88%, the profit for the year comes to 97.552 million, compared with 48.832 in the previous year, +99.77%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 39.78% compared with 50.21% in the previous year when the additional IRES charge still applied.

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 the company aims to implement any appropriate initiative necessary to spread and encourage savings».

Our commitment, as always, has been to satisfy the needs of our members and customers for banking products and services, including loans in particular. This mission sets us apart as a cooperative bank and we have worked to meet the needs of both individuals and the local communities in which we operate. In fact, we recognise that our role is to enhance the economic and social growth potential of the territories served, while respecting their individual characteristics. We seek to contribute to forms of development that reflect the real needs and aspirations of the local communities concerned. In this way, we also comply with the guiding principles established in the Valtellina Community Statute: solidarity and subsidiarity.

Loans to customers amount to 20,536 million, confirming the scale of our commitment even though the macroeconomic situation continues to be very difficult.

We have supported numerous eco-compatible economic initiatives by making loans intended to spread further the use of renewable energy and implement rural development plans. We have also continued our collaboration with INPS (Italian Social Security) and the Central Institute of Italian Cooperative Banks on the issue and payment of «work vouchers» for casual labour. Working together with INPS, we have signed agreements to advance such benefits as government-assisted layoff payments on an interest-free basis, without expenses.

The difficulties generated by the economic crisis, the instability and unpredictable fluctuations of the financial markets and the marked drop in interest rates have disseminated great uncertainty among investors. In order to safeguard savings - the reserve created to face the future and the raw materials for lending - we have constantly updated out commercial proposals, which are presented on a simple and transparent basis. The individual's risk appetite has always been respected too.

Our catalogue also includes ethical financial instruments and supplementary pension products, in order to assure an adequate level of retirement income.

Despite the adverse trends already discussed, direct deposits have risen to 27,025 million, +12.32%, in confirmation of the growing confidence of our customers.

Entities and institutions are among the principal recipients of our specialist services. Our offer - delivered through dedicated desks, traditional branches and electronic tools - is designed for both local entities and the numerous other institutions, with which we have cooperated for some time. Without focusing on any particular segment, we provide services to small municipalities and to regional and national entities, as well as to local associations and to major non-profit organisations with an international outlook.

The growth in membership confirms our ability to involve new partners in our work, thus playing an active role within the new communities that we serve. We now have 185,309 members. The simultaneous increase in the number of member-customers is a concrete and dynamic reflection of the way we implement the founding principles of the cooperative banking movement.

It is sufficient to reflect on the response of our members to the capital increase proposed in the middle of last year, with a take up that reflects their consolidated and prospective ties with the bank. This is not speculative, short-term investment, but a commitment to help a living, healthy and profitable organism provide a broad range of support to local economies.

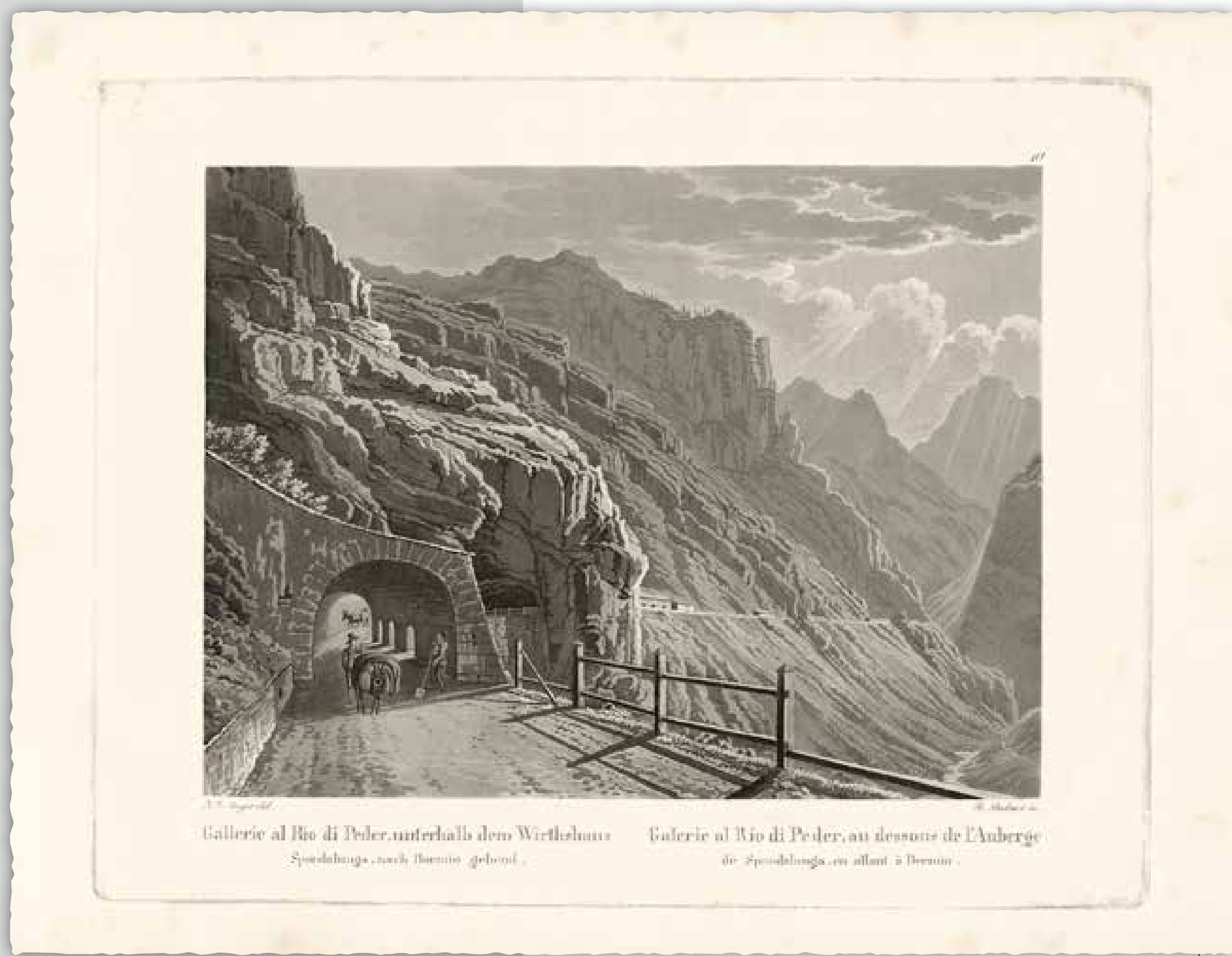
Art. 2528, final para., of the Italian Civil Code requires the annual report to describe the reasoning adopted when deciding to admit new members. This information is presented in the «Equity» section of this report.

Institutional communications - carried out in full compliance with the specific regulations - take account of the nature and sheer number of our members. This is a fundamental aspect of being a cooperative bank and the importance we attach to relations with our members. In this regard, we note that communications are the key to informed participation by the members in the life of the bank. The traditional mid-year and year-end «Chairman's Letters» are addressed to all members and friends, in order to update them on a periodic and timely basis about the performance of the bank. The directors' report and annual financial statements provide a comprehensive picture of the events that took place during the year, explained using language that seeks to be understandable by all. The regulations require ever broader communications to an every wider audience; accordingly, our Italian language documentation seeks to avoid the excessive use of English terms, in order to maintain transparency and avoid forms of elitism.

Contact between the bank and our members is facilitated by attendance at the annual general meeting, which is a key moment in the life of the bank when important corporate decisions are made. Direct participation is facilitated by the transport services provided and represents an opportunity to take lunch together. Indirect participation is of course possible by proxy voting. This participation by members in the life of the bank also extends to the various meetings organised directly by the Bank and in collaboration with local entities and institutions.

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. 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 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 support provided, in collaboration with other parties, for the improvement of economic and social conditions in the various geographical areas of activity;



Gallery at the Rio di Peder, below the Spondalunga Hotel, in the direction of Bormio

Etching and aquatint, mm. 142 x 188.5

The excavation

«Along the stretch of the excavation between the first and second roadhouse, we could say that nature is struggling against the daring of men, because to overcome the many difficulties, they were obliged to break down entire cliffs with mines, to cross deep chasms with arches resting on the rocky projections, to cut the whole area of the road through live rock, to support it with walls built alongside precipices and to lay the foundation of tunnels on the mountain where it drops vertically to endless depths. [...] This disaster-filled pass also threatened to destroy everything because of the danger of colossal avalanches falling from the peaks above.

As an admirable remedy, robust galleries were built to serve as avalanche protection, other tunnels were torn from the rock, or new masonry galleries were built, or the rock was cut in the shape of a tholos, alternating with new tunnels bored through the mountain».

(Giovanni Donegani, *Guida allo Stelvio*, 1842)

Unlike the Tyrolean side, the Italian one has a series of dreadful precipices that induce in the traveller no less strong and intense emotions and views than those of the high peaks and glaciers. Here, after the Spondalunga hotel, the road no longer zigzags on the ridge of the mountain, but is carved directly into the rock. which it even enters, opening a path through a system of tunnels and open galleries. We have an example in this view that shows the gallery at the Rio di Peder, actually a double gallery, the first in masonry, the second, lower down, partly dug directly into the rock from which the waterfall plunges. Beyond this outcrop, the road is carved for over 600 metres on the very steep, craggy ridge, so-called *excavation*, in an infernal scenario of rocky slopes and cliffs falling in abysses that intersect in endless, fascinating plots, on which the line of the road stands as a hallmark of human genius in the terrible and sublime chaos of nature. The passing of pack horses, at the entrance and exit of the last section of the tunnel, emphasises precisely this victory of man and his technology that does not depress, but excites the imagination and enhances the natural spectacle. Here no longer shepherds, grazing animals or peasants, but pack animals that, at the end of this infernal stretch, catch their breath and greet the tranquil road worker intent on maintaining the road.

From inside the third tunnel in the Vallone della Neve looking towards the Spondalunga Hotel
Etching and aquatint hand-watercoloured, mm. 144 x 191

Continuing towards Bormio, Meyer suddenly turns back to show us what we have just left behind.
It is the moment of the sublime, of that feeling that comes from the view of a terrible and scary spectacle, enjoyed away from the danger, perhaps the most critical and tormented point in the road, *il Vallone della Neve* (the Valley of Snow). The watercoloured version of the engraving allows us to see all the details of the scene. Having put his rucksack and walking stick on the ground, the painter admires the magnificent natural scenery from a window pierced in the rock to add light to the gallery, protected by a parapet, and is intent on drawing the landscape next to his travelling companion, who shows him the most impressive and spectacular points. We can't see them, as the scene ends on the right with the road cut into the rock, in jarring contrast to the open space that can be enjoyed from the window.
Meyer portrays himself intent on drawing what we cannot see, but offers us a no less interesting moment of the sublime than what he is admiring, the sublime of the jagged rocky ledge that frames it and seems to grind in the sun its glistening claws of stone and the dark entrance of the tunnel that curves down towards the scene that we admire from the window in the background of the rocky winding road rising to Spondalunga. It generates a circular glance between the inside and the outside and a game of continuous intertwining and overlapping between technique, art and nature that makes the engraving one of the most memorable of the entire album.

The graces of wildness

«Even the rugged cliffs, mossy caverns, irregular caves and unequal waterfalls, adorned with all the graces of wildness, seem to me to be all the more fascinating, because they represent nature more bluntly, and are surrounded by a glory that far outweighs the ridiculous counterfeits of princely gardens».

(Shaftesbury, *Characteristics of men, manners, opinions, times,* 1714)

– the contributions made in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services;
– the donations made – 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 SUBSEQUENT EVENTS

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

On 15 January, the Swiss central bank (BNS) decided to abandon the minimum exchange rate against the euro of 1.20 francs, which was introduced three years ago to limit the strength of the Swiss currency. This manoeuvre has had important repercussions on the exchange rate between the two currencies.

On 24 January, the Italian government issued Decree 3/2015 on «Urgent measures for the banking system and investment», which requires cooperative banks with assets in excess of 8 billion to transform into limited liability companies (S.p.A.). The measure, which affects 10 banks including our own, has been sharply criticised by the banking system, leaders of industry and trade unionists. The cooperative model has demonstrated its worth over many years and, even in these years of crisis, continues to provide strong support to the real economy and local territories. The process of converting the Decree into Law began in Parliament on 10 February. We trust that a sense of responsibility will prevail, with recognition of the social importance of the movement promoted by Luigi Luzzatti back in 1863.

On 8 January, inspectors from the European Central Bank began an audit of «Governance, Remuneration and Internal Controls» at the bank. The last inspection by the competent Supervisory Authorities dates back to March 2014. At that time, the checks performed by the Bank of Italy in preparation for the start of European supervision by the ECB related to the Asset Quality Review.

On 26 February, Dagong Europe, an agency affiliated to the Chinese «Dagong Global Credit Rating» agency gave the following ratings to the bank:
– long-term rating = BBB (4th of 10 levels, from AAA to D);
– short-term rating = A-3 (3rd of 6 levels, from A to D);
– outlook = stable.

On 25 February 2015, the ECB communicated the additional requirements for the Total Capital Ratio and the Common Equity Tier 1 Ratio applicable to the BPS Banking Group. The ECB established that the level of capital needed to ensure adequate coverage of the Group's risks is 11% in terms of the Total Capital Ratio (the regulatory limit is 10.5%), and 9% in terms of the CET1 Ratio (minimum of 8% for banks subject to EU supervision).

The consolidated prudential ratios at 31 December 2014 were 11.28% and 9.75% respectively, which is higher than the above limits.

In March, the bank subscribed to the following capital increases proposed by equity investments:

– Banca Popolare di Sondrio (SUISSE) SA, investment of Swiss francs 30,000,000, corresponding to euro 28,390,271.60, to align the ratio of own funds to risk-weighted assets following the operational growth of the company and specific instructions from FINMA, the Swiss Supervisory Authority;
– Release spa, investment of euro 18,720,000, to align equity with the needs of the company and reconstruct the level of own funds required to comply with current supervisory requirements.

OUTLOOK FOR OPERATIONS

The latest available macroeconomic data leaves room, if not for optimism, for reasonable belief that the lowest point in the economic crisis is now behind us. Such phenomena as the depreciation of the euro, the weakening of financial tensions, the low level of interest rates and the drop in the oil price should facilitate the recovery of the real economy. As a result, the banking sector will benefit from an improvement in the general picture.

With regard to the bank, the level of net interest income should be consolidated and accompanied by a slight improvement in fee and commission income. On the other hand, the results from financial activities are difficult to predict due to the low yields on government securities (in particular), which are at an historical minimum. With regard to credit risk, the probable improvement in the macroeconomy means that it is reasonable to expect a reduction in the level of loan adjustments required. Given tight cost control, the rise in operating costs will reflect the expansion of the organisational structure.

* * *

Shareholders,

The 2014 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 profit for the year of € 97,552,111, have been audited by KPMG spa.

STATEMENT OF FINANCIAL POSITION

Total assets			€	32,573,219,077
Liabilities	€	30,351,800,155		
Valuation reserves	€	44,266,836		
Capital	€	1,360,157,331		
Share premium reserve	€	79,005,128		
Treasury shares	€	-25,031,162		
Reserves	€	665,468,678		
Total liabilities and equity (excluding profit for the year)			€	32,475,666,966
Profit for the year			€	97,552,111

ALLOCATION OF PROFIT FOR THE YEAR

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

– to the legal reserve 10%	€	9,755,211.10
– to the statutory reserve 30%	€	29,265,633.30
– dividend to shareholders of € 0.06 per share	€	27,203,146.62
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	31,228,119.98
Total	€	**97,552,111.00**

EQUITY

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

– Valuation reserves	€	44,266,836
– Share capital – 453,385,777 shares, par value € 3 each	€	1,360,157,331
– Share premium reserve	€	79,005,128
- Treasury shares	€	-25,031,162
– Reserves	€	735,717,642
Total	€	**2,194,115,775**

Shareholders,

I think that we have explained in full everything that we did over the last year. Now we have to thank those who made it possible to achieve these results.

Firstly, we would like to thank our shareholders and customers for their business and constant presence, prompting us to work well and helping us to grow.

Our appreciation for the efforts of the Board of Statutory Auditors which, chaired by Piergiuseppe Forni, has performed its broad and delicate functions with, as ever, dedication and professionalism. Recognition too for the work of the Advisory Committee, which is always on hand, and to 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; we also thank the Italian Banking Association (ABI), the National Association of Cooperative Banks, our Italian and foreign correspondent banks and fellow cooperative banks.

Profound respect for and gratitude to the management of the ECB - European Central Bank, which became our Supervisory Authority on 4 November 2014: from Chairman Mario Draghi to the members of the Executive Committee and all other collaborators.

Thanks also to the management of the Bank of Italy, from the Governor to the Members of the Directorate, 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.

During the year, the bank was subjected to Bank of Italy inspections regarding both the quality of our assets (Asset Quality Review) and the comprehensive assessment required prior to the start of direct supervision by the European Central Bank. The inspection team was led by Maria Carla Malinconico. We express our gratitude to her and her many team members for their lessons 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 respect and recognition go to the Federal Commission of the Berne Banks for their supervision of our Swiss subsidiary, and to the Bank of France, which supervises the French banking system and, accordingly, the branch of «Suisse» located in the Principality of Monaco.

The results that we have achieved are also, indeed above all, due to our exceptional staff, to whom we address our heartfelt thanks. We wish a long, healthy and serene life to all those who retired during the year: Elisa Caterina Ferrari, Cinzia Beatrice Maffenini, Flavio Bonacina, Fabio Colombera, Sergio Del Giorgio, Gianfranco Della Maddalena, Luigi Dioli, Camillo Andrea Molinari, Giuseppe Franco Paganoni and Pierbattista Pozzi.

Apologies to anyone we have accidentally forgotten, who gave us advice, information or other help: our gratitude to you all.

Shareholders,

In presenting the 2014 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the reports of the Statutory and Independent 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 2014 and the proposed allocation of profit for the year, which includes the payment of a dividend to the shareholders of € 0.06 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 2014, comprising the balance sheet, income statement and related explanatory notes; the financial

statements that show a profit for the year of € 97,552,111. The Shareholders' Meeting therefore specifically approves the allocation of profit for the year of € 97,552,111 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	€	9,755,211.10
– 30% to the statutory reserve	€	29,265,633.30
b) to pay a dividend of € 0.06 to each of the 453,385,777 shares in circulation at 31/12/2014 with dividend rights as from 1/1/2014, 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	€	27,203,146.62
c) to allocate the residual profit:		
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	31,228,119.98

In accordance with the Stock Exchange calendar, the dividend will be paid from 20 May 2015, going ex-coupon (no. 37) on 18 May 2015.

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 thus acquired may be re-sold or cancelled».

The matter is governed by CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments. In particular, articles 73 and 144 bis of this Regulation establish how information should be communicated to the General Meeting and the procedures for carrying out purchases and sales.

In implementation of this regulation, 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 2015 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 Euro 93,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 5% 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 Managing Director, 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.

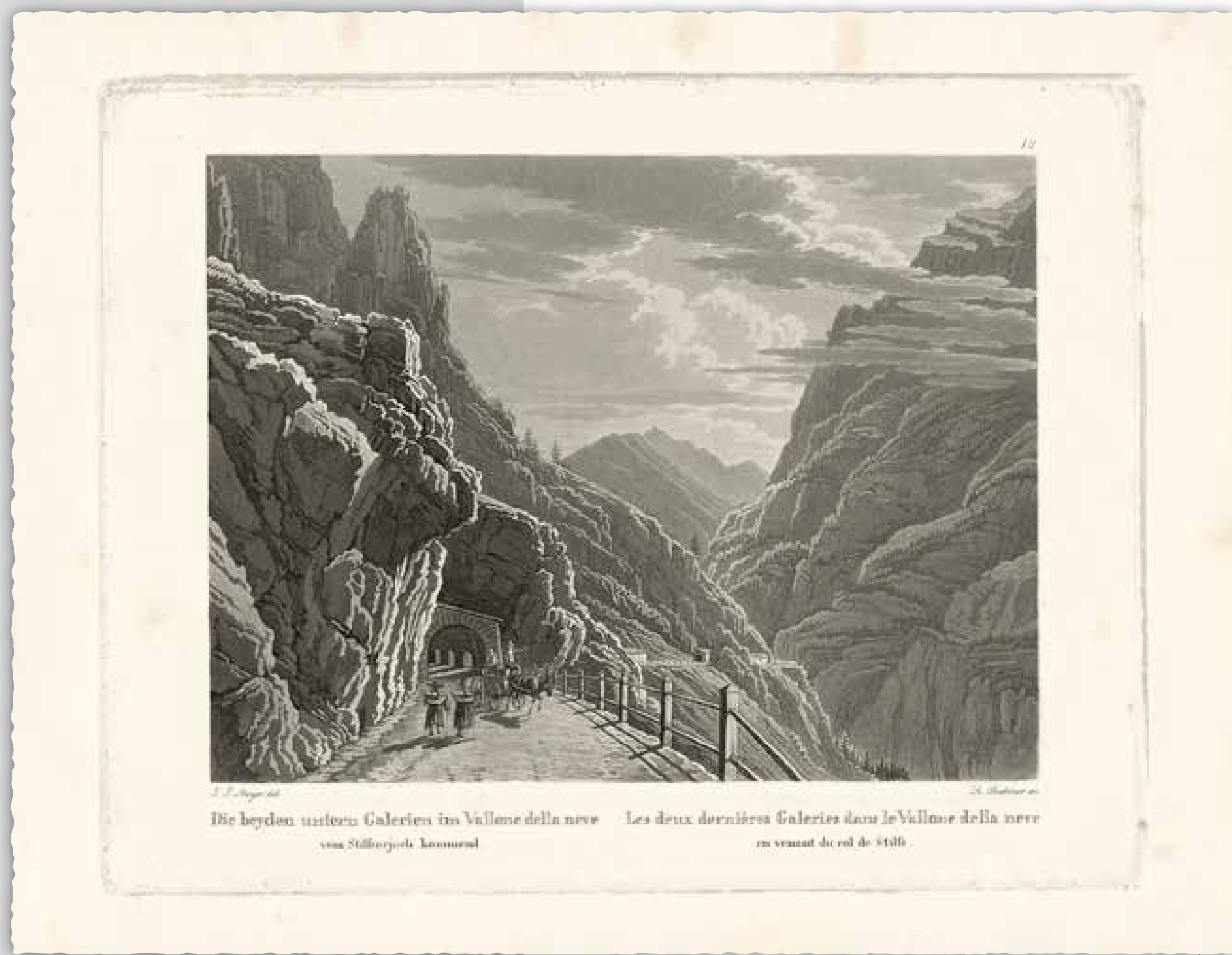
Point 3) on the agenda: Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

Shareholders,

As required by the supervisory instructions in force at the time, on 26 April 2014 the Shareholders' Meeting approved the «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

On 17 March 2015, the Board of Directors acted on a proposal from the Compensation Committee and approved the new text of the «Compensation Policies of the Banca Popolare di Sondrio Banking Group». This document seeks to implement the new supervisory instructions for banks on the subject of Compensation and incentive policies and practices – 7th revision dated 18 November 2014, issued to implement Directive 2013/36/EU of 23 June 2013 (CRD IV).

These new supervisory instructions have introduced important innovations in this delicate area. Among other matters, application of the criteria of proportionality - well used by us in the past - has been significantly reduced for larger banks such as ourselves.



The last two galleries in the Valley of Snow, coming from the Stelvio Pass
Etching and aquatint, mm. 143 x 189

The Valley of Snow, between Spondalunga and the Old Thermal Baths of Bormio, is perhaps the stretch of the Stelvio road most documented by Meyer, who devotes three etchings to it in his album.

What impressed the Swiss artist was not only the deep ravine down to the River Adda, above which the road runs along the side of the mountain, but also the long series of tunnels and galleries, partly cut into the rock, partly artificial, with which the road passes over the steep ridge forming an extremely impressive landscape.

Getting down from ones carriage at the cliff's edge, entering the dark and protective bowels of the mountain, like in a maternal cave, watching – safe on the road and in the tunnels – a succession of horrible and sublime paintings of shapeless wildlife, this was one of the strongest attractions for the 19th century traveller looking for new sensations, who discovered these places, once inaccessible, for the very first time.

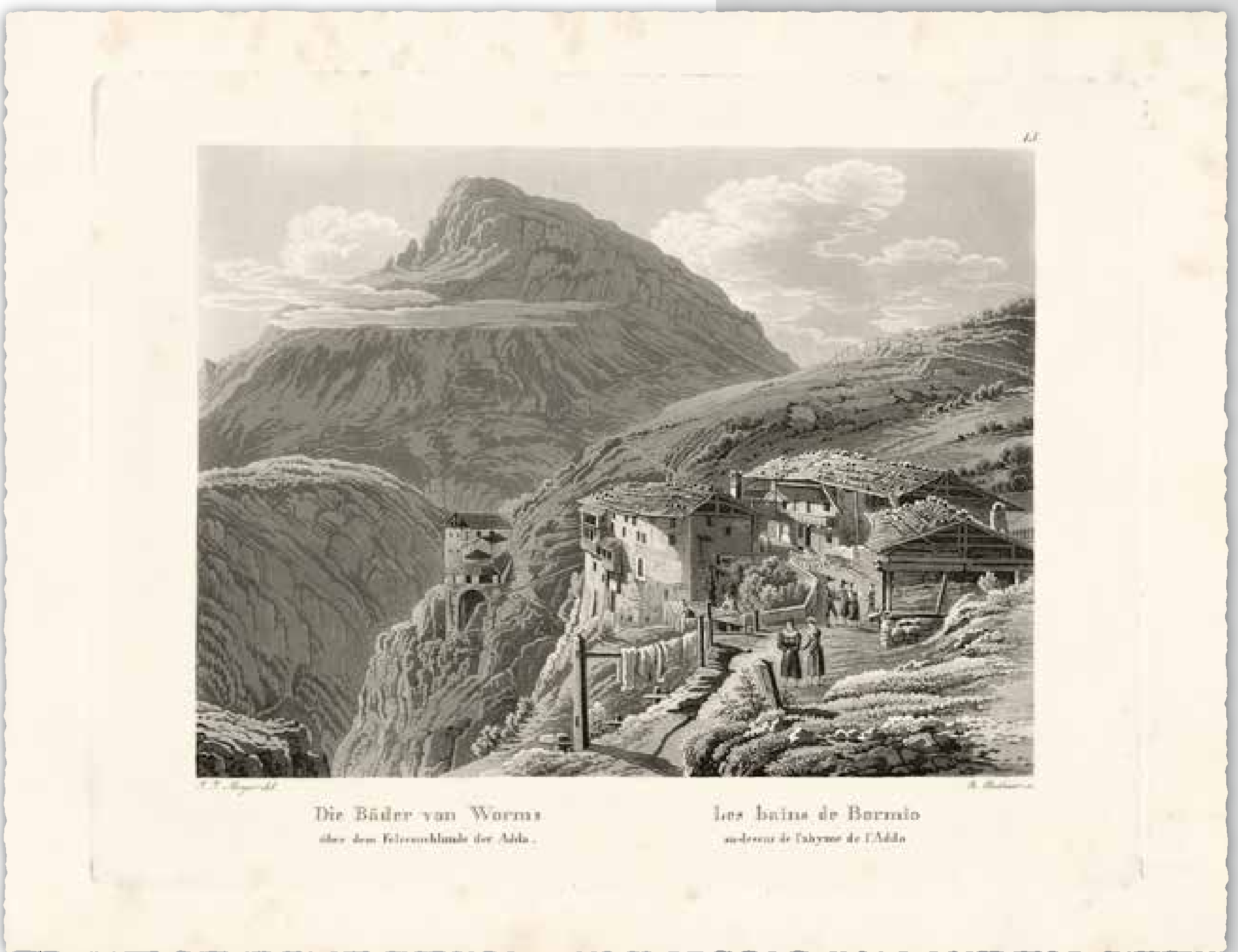
These are the last two galleries in the Valley of Snow. At the first, a cart going up the hill passes two wayfarers, the painter and his companion with rucksack and walking stick, going down after the phantasmagoric stop inside the third tunnel. The other gallery is visible at the bottom of the first curve that bypasses a rocky ridge.

Compared with the steep and tormented overlap of hard limestone rocks, on the ridge known as Glandadura, which the sun's rays light up with sinister flashes, the slope in the shade on the right beyond the horrid gorge, furrowed by deep fissures, but embroidered with ancient pines and larches, is less frightening, that even today is still called romantically the "Field of Flowers".

The sublime

«Sublime is whatever pleases immediately for its opposition to the interest of the senses. (...) Any spectator who beholds massive mountains climbing skyward, deep gorges with raging streams in them, wastelands lying in deep shadow and inviting melancholy meditation, is seized by amazement bordering on terror, by horror and a sacred thrill; but since he knows he is safe, this is not actual fear; they are only trying to give themselves over to imagination, to feel its power to connect the emotion aroused by these views with the serenity of the soul, and to be superior to the nature in ourselves, and then also to the one outside of us, as this can influence our well-being.
In fact, imagination makes our state of satisfaction depend on physical conditions».

(Immanuel Kant, *Critique of Judgement*, 1790)



The Thermal Baths of Bormio overlooking the River Adda
Etching and aquatint, mm. 143 x 191

When Meyer travelled the new Stelvio road in 1830, the planned building of the New Baths, near the town of Bormio, had not yet been built. The famous Thermal Baths of Bormio – apparently known to the Romans and already renowned in the 4th century at the time of Cassiodorus, minister of Theodoric and then Theodatus, who on behalf of the latter recommended an Ostrogoth count to go to "*Aquas Bormias ... ad sanandan podagram*", i.e. to cure his gout, an illness of revellers – still only consisted of a set of "wooden farmhouses, fairly uncomfortable and indecent, to tell the truth", wrote Splendiano Morselli in 1859. They are the ones depicted here by Meyer who, emphasising their rustic simplicity, perfectly attuned to the primitive austerity of the environment, captures all the picturesque and romantically evocative aspect, for their position overlooking the abyss of the River Adda.
Meyer lingers in the minute description of the environment. In the foreground, the group of thermal buildings known as the *Bagni di Sopra*, and further down, the so-called Roman baths or *Bagni di Sotto*, next to the mediaeval church of St. Martin.
In high summer, the Baths appear to be fairly crowded with tourists. The ancient statutes of the County of Bormio, in fact, banned locals from frequenting the baths during the summer to leave space for outsiders. In the foreground, curiously, we see two women walking, a detail that is not insignificant. The Thermal Baths of Bormio were in fact called «the Women's Baths because they were especially indicated for illnesses of that gender», wrote Splendiano Morselli. And while the guests of the Baths linger outdoors in conversation, washerwomen clean and hang out the customers' laundry in the sun.
It is one of Meyer's most narrative views, where the picturesque scene merges with the sublime landscape in a fascinating mix of history, nature and alpine ethnography.

The Old Thermal Baths of Bormio

«The thermal waters of Bormio belong to the oldest and most famous baths in the Alps. (...) The Old Baths date back to ancient times (...). The current buildings are ancient-looking, as is the internal structure; the complex belongs to different eras and consists of various buildings which are joined together by solid foundation walls. Among them there is also a chapel in the name of San Martino. They are found in the proximity of the main springs, based on the rock, or in it, and in this position they look very picturesque on the solid foundation that supports them».
(Gottfried Ludwig Theobald, *I Bagni di Bormio e le Alpi circongiacenti*, in "Corriere dei Bagni di Bormio, gazzettino settimanale", 1868)

Consequently, the new Compensation policies contain substantial changes with respect to the past, which are summarised below.

Firstly, the general principle is that the variable components of compensation must be compatible with the levels of capital and liquidity envisaged in the regulations, and sustainable with respect to the financial situation of the Group, without limiting the ability of the bank to maintain or reach a level of capitalisation commensurate with the risks accepted.

Accordingly, a formalised process was applied to identify the most significant personnel within the Group, using the techniques and criteria specified in Commission Delegated Regulation (EU) 604/2014 of 4 March 2014, which is referenced by the relevant supervisory instructions. This work significantly expanded the number of persons involved.

It has also been established, as a general rule, that individual variable compensation will not exceed a maximum of 30% of the related fixed compensation. As an exception, a limit of 40% applies in the case of the Chairman of the Management Board of Banca Popolare di Sondrio (SUISSE) SA. This difference – which also existed in earlier Compensation Policies – is due to the compensation practices adopted in the Swiss banking market and in the Canton of Ticino in particular.

Within the variable part of compensation, the quantitative and qualitative components are essentially equal.

The qualitative part of variable compensation is, as in the past, linked to indicators of the quality of the performance displayed by the individual.

On the other hand, the quantitative part is linked to a corporate profitability indicator adjusted for risk (Rorac).

In addition, thresholds for access have been defined - representing sustainability indicators for capital and liquidity at a consolidated level - and must be met before the variable compensation is paid.

The variable remuneration recognised to key personnel is subject to «deferred payment», with an up-front part of 60% and three tranches totalling 40% that are spread over three years. Furthermore, 50% of the up-front part and 50% of the deferred part is paid via the allotment of shares in Banca Popolare di Sondrio.

The Board of Directors may also establish a threshold of significance for the variable portion, below which the deferral rules and those regarding payment in the form of shares do not apply.

The compensation of those in charge of control functions is adequate considering the responsibilities and commitment involved in their duties; furthermore, in compliance with the supervisory instructions, they do not receive any incentives linked to economic performance.

Other changes include the application of malus clauses in relation to bonuses still payable, and clawbacks with regard to those already paid.

The new policies represent the first important step taken by the bank towards the application of innovative compensation systems, with respect to the traditional approach rooted in our culture. Consequently, considering the limited time available, we decided to introduce mechanisms that are as simple and reliable as possible, which can be refined and enhanced in the coming years based on the experience accumulated. Lastly, we decided to confirm the fixed emoluments recognised to all directors. This is consistent with our traditional, prudent approach to operations and is explained by the cooperative nature of our bank, as well as by the spirit of service that has always hallmarked the approach taken to their duties by our directors.

In implementing the 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 made available as required by law, in particular through publication on the Bank's website www.popso.it/assemblea2015 and distributed to all shareholders present.

The Compliance Unit was involved in the process of validating the compensation policies and related systems, confirming their consistency with the regulations, the Articles of Association, the Code of Ethics and the standards of conduct applied by the bank, even in its role as a parent company.

Shareholders,

The supervisory instructions on compensation policies and practices require the information provided to the Shareholders' Meeting about the compensation and incentive systems and practices adopted to be consistent with that supplied to the public on the website.

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 policies and practices are consistent with the said regulations.

For its part, the Remuneration Committee has fulfilled the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors. In carrying out its work, the Committee has served in an advisory role and made proposals to the Board of Directors. It has monitored proper application of the rules governing the remuneration of those in charge of internal control functions, and has expressed its opinion on the achievement of the performance goals and qualitative objectives set in order to recognise the variable element of remuneration due to the parties identified in the regulations. The Remuneration Committee has found no anomalies in the application of the compensation policies during the exercise of its functions.

The information to be provided to the Shareholders' Meeting pursuant to the supervisory instructions is contained in a document entitled «Public disclosures about compensation policies and practices required by the supervisory regulations», which is published on the website www.popso.it, in the corporate information section, and distributed to the shareholders present at the meeting.

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

Shareholders,

in implementation of art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, and related regulations approved by CONSOB, the Board of Directors has approved the Compensation Report, which is made up 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; as well as the procedures for the adoption and implementation of this policy. The second section illustrates with charts and tables, in the form required by the regulations, the compensation paid during the year concerned.

Under art. 123-ter, paragraph 1, of the CFA, the «Compensation Report» is distributed and made available to the public in the manner and terms established by current legislation, in particular via publication on the Bank's website www.popso.it/assemblea2015. It is also distributed to the shareholders present at the meeting.

Under art. 123-ter, paragraph 6, of the CFA, we submit for your approval the first section of the Remuneration Report.

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,

pursuant to art. 41 of the Articles of Association, it is up to the Shareholders' Meeting to determine the annual remuneration of the Board of Directors. The Meeting also has to determine the amount of the attendance fees and, as a lump sum, the reimbursement of expenses for directors' attendance at meetings of the corporate bodies. According to the remuneration policies of the Banca Popolare di Sondrio Banking Group, this remuneration has always been set as a fixed amount, without having much of an impact on the financial statements, given that the amount involved is relatively small. Forms of incentive pay based on financial instruments or linked to the company's performance are not foreseen for directors.

At its meeting of 17 March, the Board of Directors approved the proposal made by the Remuneration Committee in terms of annual remuneration of the directors, in light of the difficult overall environment. It is now submitted to the General Meeting:

- directors' emoluments: € 37,000 for each director, giving a total of € 555,000;
- individual attendance fees:

  € 300 for attending meetings of the Board of Directors; € 150 for attending meetings of the Chairman's Committee and Board committees; € 75 for attending meetings of the Supervisory and Discount Committees;
- personal flat-rate reimbursements for the travel expenses incurred in order to attend meetings of the Board of Directors, the Chairman's Committee,

the other Board committees and the Supervisory and Discount Committees;
- for residents of the province of Sondrio: € 80;
- for residents outside the province of Sondrio: € 160.

Point 6) on the agenda: appointment of five Directors for the three-year period 2015-2017

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.

The provisions of art. 32, paras. 3 and 4, of the Articles of Association apply, pursuant to which:

«The composition of the Board of Directors must ensure gender balance in accordance with current regulations.

For the first three partial renewals of the Board - pursuant to art. 34, paragraph 2 - more than one year from the date of entry into force of Law 120 of 12 July 2011, the gender balance is achieved by ensuring that at least one-fifth of the directors elected for a three-year term go to the gender that is less represented.»

Pursuant to art. 33, paragraph 1, of the articles of association, the directors have to meet the requirements laid down by law and by the supervisory rules for banks. Art. 33, paragraph 2, also states that at least two members of the Board of Directors must meet the independence requirements laid down in art. 147-ter, paragraph 4, of Decree 58 of 24 February 1998. In this regard, note that of the ten directors whose term of office is not about to expire, three meet this requirement.

Lastly, art. 33, paragraph 3, provides that with a specific regulation, the Board of Directors sets the limit on the number of positions that directors can hold at the same time in other companies. In this regard, it has been decided that the directors may not hold board or management positions in more than five listed companies at the one time.

The presentation of the lists of candidates is governed by article 35 of the Articles of Association, as follows:

""""

Art. 35
Presentation of the lists of candidates

The members of the Board of Directors are elected from lists containing as many candidates as the number of directors; in the lists the candidates are listed with a progressive number.

The lists must be filed at the Company's registered offices within the terms and methods established by current regulations.

The lists must be compiled so as to guarantee the gender balance in the Board of Directors resulting from the voting, as per the principles set out by the law and the articles of association, having regard, in the progressive numbering of the candidates, to the election mechanism as set out in article 36.

Each member may only present or contribute to the presentation of one list of candidates and each candidate may only appear on one list.

The lists may be presented by a minimum of 500 members, with the requirements set out in article 13, paragraph 2 above.

Additionally, lists can be presented by one or more members with the requirements set out in article 13, paragraph 2 above who separately or together hold shares representing not less than 0.50% of the share capital. The members must indicate the number of shares held in total and certify that share holding.

The signature of each presenting member has to be authenticated according to the law or by employees of the bank nominated for that purpose by the Board of Directors.

By the deadline set for the submission of lists, the curriculum of each candidate must be submitted, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of the director as set out by the law and by the articles of association. 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.

""

Note that current legislation, to which art. 35 of the Articles of Association refers, states that the lists of candidates for the office of director have to be deposited at head office by the 25th day prior to the date of the Meeting.

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

Pursuant to the current «Supervisory Regulations for Banks», Circular no. 285 of 17 December 2013, the Board of Directors carried out a preliminary analysis to determine the optimal quali-quantitative composition of the Board and the profile of suitable candidate directors.

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio», published on the Bank's website www.popso.it/assemblea2015.

This document has been made known to the Bank's shareholders, so that the choice of candidates to be submitted for the renewal of the Board of Directors can take into account the professional skills required to perform the tasks entrusted to the Board.

The election of directors is governed by art. 36 of the Articles of Association, as follows:
""""

Art. 36
Election of the directors

Each member may vote for only list of candidates.

The Directors' elections shall be carried out as follows:

a) take all of the candidates from the list that obtained the highest number of votes, in the order in which they are listed, except for the last one;

b) take the first candidate from the list that obtained the second highest number of votes.

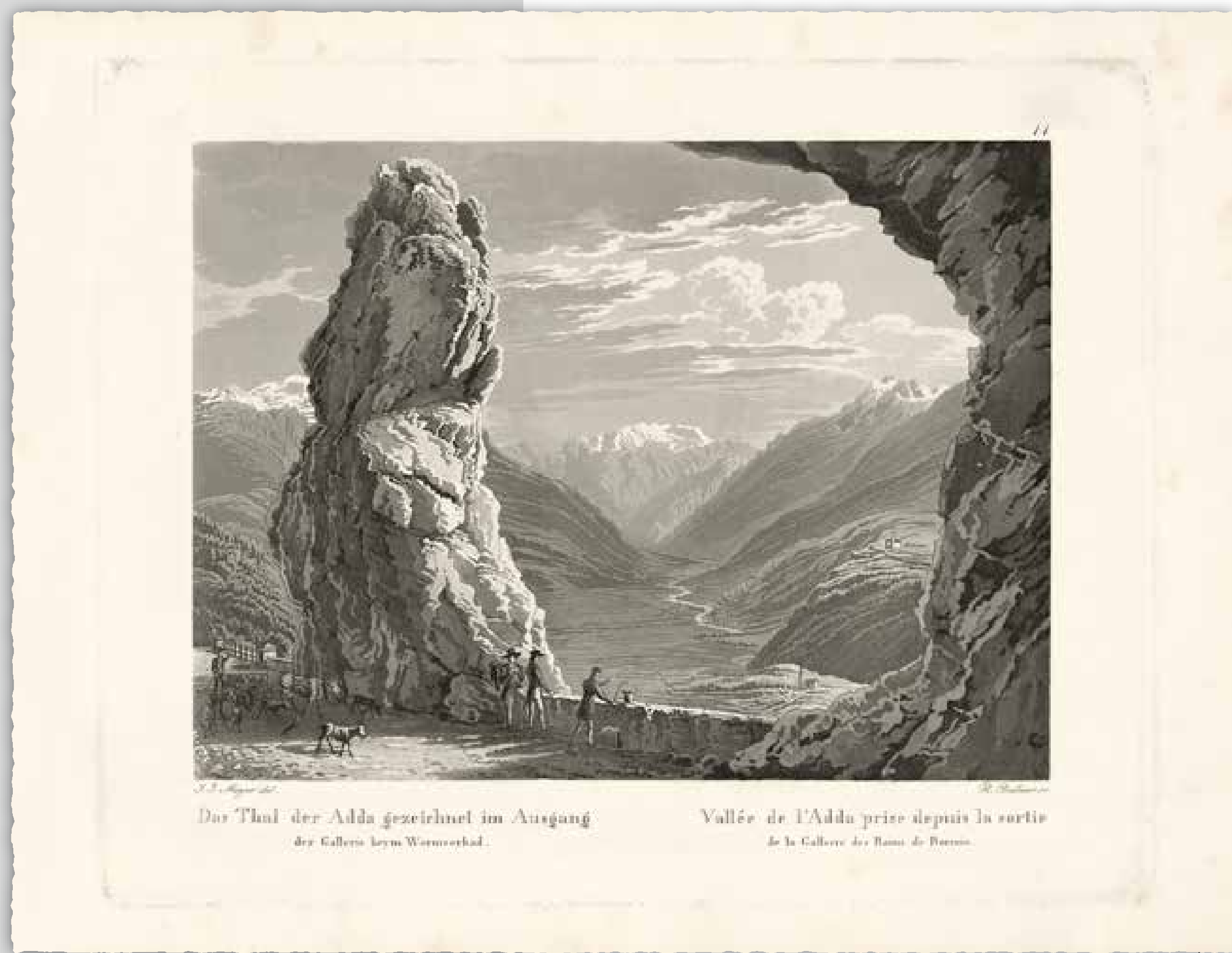
If two or more lists receive the same number of votes, the list whose first listed candidate is the oldest by age shall be considered the winner.

The lists which do not obtain votes equal in number to at least half the number necessary for the presentation of the lists, shall not be considered. If only one list exceeds that limit and similarly if only one list is presented, then all the directors shall be chosen from that list.

If no valid lists are presented by the shareholders, the Board of Directors may present to the Shareholders' Meeting a pre-compiled voting card containing a non-binding list of candidates. In this case, each shareholder may alter all or part of the voting form, deleting the candidates they do not intend to vote for and, if they want, adding one or more new candidates in place of those deleted. Following the counting of the votes, the candidates obtaining the highest number of votes are elected. If no valid list is presented and the Board of Directors does not make a proposal pursuant to this article, the Meeting shall elect the Directors by a relative majority among the individual candidates.

If the composition of the Board of Directors resulting from the votes does not respect the gender balance principle the director who does not comply with that principle and placed at the highest position in the winning list is replaced by the next candidate from the same list who complies with that principle. If even after applying this criteria suitable replacements are not identified then the replacement criteria is applied to the director elected in the list obtaining the second highest number of votes. If even then suitable replacements are not identified or in case it is impossible to apply this mechanism then the Shareholders' Meeting decides by simple majority from amongst the individual candidates, thereby putting in replacements in the order indicated above.

For partial renewals of the Board as provided for by article 34, paragraph 2, when a director is not to be named for the first time or due the expiry of term or for other reasons and the director to be replaced is from the list



The Adda Valley at the end of the Bagni di Bormio tunnel
Etching and aquatint, mm. 145 x 196

The emotion of the Valley

«They passed the post stagecoach that came from Bormio; the driver shouted to them "Are you going down already?. Then they passed other carriages, all of them heading for the mountains.
"Valley air", said Geronimo, and in that instant, just round a corner, the Valtellina appeared below them».
(Arthur Schnitzler, *Blind Geronimo and his brother*, 1900)

Meyer again leaves his rucksack on the ground to enjoy the panoramic view of the Adda Valley from natural balcony that opens up between the rocks at the Bagni tunnel exit, looking in the direction of Bormio. The panoramic window is carved into the rock only on the right, this being the base of the arch that marks the entrance to the tunnel, because the pyramid rock on the left, which contributes so powerfully to the suggestive effect of the view, was left intact by the engineer who designed it, both for the undoubted picturesque effect, and to use it as a support for the Bagni bridge which is just visible in the bottom left corner.
This rocky pillar is also the last farewell from the wild roughness and shapeless wildness of rocks and cliffs that captivated the artist on the descent from the Stelvio. The landscape now opens up to the bucolic serenity of the fields and terraces planted with rye, woods and pastures, flocks and shepherds who reappear in the shade of the rocky pillar.
This atmosphere of serenity that emanates from the spreading valley is reflected in the foreground on the same tormented jaggedness of the pillar which, illuminated by the sun, loses all of its menace and aggressiveness, colouring itself instead in the charming tones of the surrounding landscape.
The sublime takes leave here from the *tremendum* of the mountain and turns to the infinite sweetness of the valley that disappears between two rows of mountains, crossed by the winding course of the River Adda.
It emanates no less a romantic longing for peace and the absolute.

View of the city of Bormio looking towards Valfurva coming from the Stelvio Pass
Etching and aquatint, mm. 145 x 195

This view of Bormio is on the last part of the descent from the Stelvio, in the direction of Valfurva. Nestled on a large plateau, the town, looking more like a small city, is punctuated by numerous towers (there were 32 of them in the Middle Ages) and high steeples that betray its ancient importance and nobility. At the centre of the town there is the church of St. Ignatius with an octagonal dome and, further away, the large parish church in the *piazza del Kuèrc* (church square), near the *Torre delle Ore* (clock tower) which closes the town.
The landscape scene that Meyer builds around the town is also very detailed, with the usual panoramic opening, giving the slopes of Vallecetta an almost hilly look and its peak the features of Cima Piazzi.
Of some interest are also the three buildings that dot the slopes of the Reit on the left. These are three historical buildings that were still visible at the time that Meyer came by. At the bottom can be seen the profile of the Gesarota, the church that burned down in 1817, though its walls were still standing in Meyer's time. Higher up, the ruins of the Castle of St. Peter, which was destroyed by Visconti's troops in 1376 and, at the top, one of the towers of the castle which held the *Bajona*, the huge bell that once served to rally everyone in the County. The pyramid-shaped Mt. Tresero in the background also appears to be somewhat elongated, making it higher than it really is. These and other examples of poetic licence that Meyer takes with the landscape are justified, however, as after the epic mountains of the Stelvio, he wants to show an open charming urban landscape, full of history and surrounded by a kind of natural garden, from which the road starts a new itinerary down the Valtellina and along Lake Como.

The ancient capital of the County

«Bormio, which is the capital of the VI district of the province of Valtellina, situated at a distance of 108 miles from Milan, is currently a village populated by only about a thousand inhabitants, but remembers with its remains having once been rich and populous and the capital of the county of the same name. It is on the edge of a large plain in the shape of a basin, surrounded by high mountains; it is located centrally to the entrance to four valleys, namely: Valfurva, from which comes the Frodolfo stream, Valle di Pedenos, or Val Viola, commonly called Valle di Dentro, Valle di Fraele, which communicates with the Grisons towards Santa Maria, and the Valle del Braulio, leading up to the Yoke of the Stelvio. (...). The Stelvio road commences from the western part of the town of Bormio and with a gentle curve begins to climb toward the Valle del Braulio».

(Giovanni Donegani, *Guida allo Stelvio*, 1852) obtaining the second highest number of votes, all candidates from the list obtaining the highest number of votes will be elected.

"""

The Board of Directors therefore invites you to appoint five directors through the voting list to replace the ones whose mandate has expired.

Point 7) on the agenda: Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2015-2017; determination of their annual emoluments.

Shareholders,

In accordance with the law and the Articles of Association, the Shareholders' Meeting is called upon to elect the entire Board of Statutory Auditors for the three-year period 2015-2017. The mandates have expired of Piergiuseppe Forni, Pio Bersani and Mario Vitali, serving statutory auditors, and of Bruno Garbellini and Daniele Morelli, alternate auditors.

The requirements for statutory auditors are governed by art. 48, para. 4, of the Articles of Association, which state:

«In addition to the reasons for ineligibility and forfeiture envisaged by the law, the provisions of article 17 above also apply. In any case the Statutory Auditors cannot take up offices in corporate bodies other than those of control in other companies of the Group as well as in companies where the bank holds a strategic investment, even if held indirectly. Further, the office of Statutory Auditor cannot be held by persons who exceed the limit of cumulative holding of offices of administration and control as fixed by the law and by the relative implementation regulations or by those who are members of administrative or control bodies of other banks with the exception of the associations which represent trade institutes and the subsidiaries. The Statutory Auditors must also meet the standards of integrity, professionalism and independence set by current regulations.»

Para. 5 of art. 48 also applies. This states that:

«The composition of the Board of Statutory Auditors must ensure gender balance in accordance with current regulations».

The presentation of the lists of candidates is governed by article 49 of the Articles of Association, as follows:

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Art. 49
Presentation of the lists of candidates

The election of the members of the Board of Statutory Auditors is made on the basis of the lists presented by the shareholders where candidates are listed with progressive numberings. Each list has 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 filed at the Company's registered offices within the terms laid down in current regulations.

The lists must ensure gender balance in accordance with current regulations and these articles of association. For this purpose one of the candidates for serving statutory auditor must belong to the less represented gender.

Each member may only present or contribute to the presentation of one list of candidates and each candidate may only appear on one list.

The lists may be presented by a minimum of 500 members, with the requirements set out in article 13, paragraph 2 above.

Additionally, lists can be presented by one or more members with the requirements set out in article 13, paragraph 2 above who separately or together hold shares representing not less than 0.50% of the share capital. The shareholders must indicate the total number of shares held and must certify that shareholding.

The signature of each presenting member has to be authenticated according to the law or by employees of the bank delegated to that function by the Board of Directors.

By the deadline set for the submission of lists, the curriculum of each candidate must be submitted, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of Statutory Auditor as set out by the law and by the articles of association.

Any lists which are deposited without complying with procedure and deadlines set out above will be considered as if they were not presented.

""

Note that current legislation, to which art. 49 of the Articles refers, states that the lists of candidates for the office of statutory auditor have to be deposited at head office by the 25th day prior to the date of the Meeting.

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

The election of statutory auditors is governed by art. 50 of the Articles of Association, as follows:

""

Art. 50
Election of Statutory Auditors

Each member may vote for only one list of candidates.

The procedure for the election of the Board of Statutory Auditors is described below:

a) two Serving Statutory Auditors and one Alternate Statutory Auditor are taken from the list that obtained the highest number of votes, in the order that they are listed in each section.

b) one Serving Statutory Auditors and one Alternate Statutory Auditor are taken from the list that obtained the second highest number of votes, in the order that they are listed in each section. The serving Statutory Auditor chosen from this list is nominated the Chairman of the Board of Statutory Auditors.

If two or more lists receive the same number of votes, the list whose first listed candidate for alternate Statutory Auditor is the oldest by age shall be considered the winner.

If only one list is presented, then all the serving and alternate Statutory Auditors shall be chosen from that list. In that case the Chairmanship of the Board of Statutory Auditors goes to the first listed candidate in the list.

If no valid lists are presented by the shareholders, the Board of Directors may present to the Shareholders' Meeting a pre-compiled voting card containing a non-binding list of candidates. In this case, each shareholder may alter all or part of the voting form, deleting the candidates they do not intend to vote for and, if they want, adding one or more new candidates in place of those deleted. Following the counting of the votes, the candidates obtaining the highest number of votes are elected. If no valid list is presented and the Board of Directors does not make a proposal pursuant to this article, the Meeting shall elect the Directors by a relative majority among the individual candidates.

If the composition of the Board of Statutory Auditors resulting from the votes does not respect the gender balance principle the Statutory Auditor who does not comply with that principle and placed at the highest position in the winning list is replaced by the candidate from the same list who complies with that principle. If even after applying this criteria suitable replacements are not identified then the replacement criteria is applied to the Statutory Auditor elected in the list obtaining the second highest number of votes. If even then suitable replacements are not identified or in case it is impossible to apply this mechanism then the Shareholders' Meeting decides by simple majority from amongst the individual candidates, thereby putting in replacements in the order indicated above.

""

The Board of Directors therefore invites you use the list voting process in order to appoint the Board of Statutory Auditors and its Chairman.

With regard to the emoluments of the Board of Statutory Auditors, art. 53 of the Articles of Association requires the Shareholders' Meeting to determine the annual amount, which is fixed for the entire duration of the mandate. The Shareholders' Meeting also determines the attendance fees payable for participation by the statutory auditors at meetings of the Board of Directors and the Chairman's Committee, as well as the reimbursements payable - even on a flat-rate basis - for the expenses incurred in the performance of their duties.

The compensation policies of the Banca Popolare di Sondrio Banking Group do not envisage the payment of emoluments in the form of financial instruments or of bonuses linked to economic results.

At the meeting held on 17 March 2015, the Board of Directors acted on a proposal from the Compensation Committee to formulate a recommendation for the emoluments of the Board of Statutory Auditors, for submission to the Shareholders' Meeting:

- Chairman of the Board, annual emoluments of € 75,000;
- each serving statutory auditor, annual emoluments of € 55,000;
- individual attendance fees:
  € 300 for attending meetings of the Board of Directors;
  € 150 for attending meetings of the Chairman's Committee;
- flat-rate individual reimbursements for travel expenses incurred in order to attend the meetings of the Board of Directors and of the Chairman's Committee, on the following basis:
  for residents of the province of Sondrio € 80;
  for residents outside the province of Sondrio € 160;
- flat-rate individual indemnities for the performance of inspections, on the following basis:
  € 150 if performed in the province of residence of the auditor;
  € 250 if performed outside the province of residence of the auditor.

Sondrio, 17 March 2015

THE BOARD OF DIRECTORS

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

Shareholders,

Pursuant to art. 153 of Decree 58/1998, this report covers the work carried out in the performance of our duties, as well as our recommendations regarding the financial statements and their approval.

During 2014, we carried out the institutional tasks assigned to us in compliance with the Italian Civil Code, Decrees 385/1993 (TUB), 58/1998 (TUF) and 39/2010 (Consolidated Law on Legal Audits), statutory requirements and the regulations issued by the supervisory and control authorities. Our work also took account of the code of conduct for statutory auditors recommended by the Italian Accounting Profession.

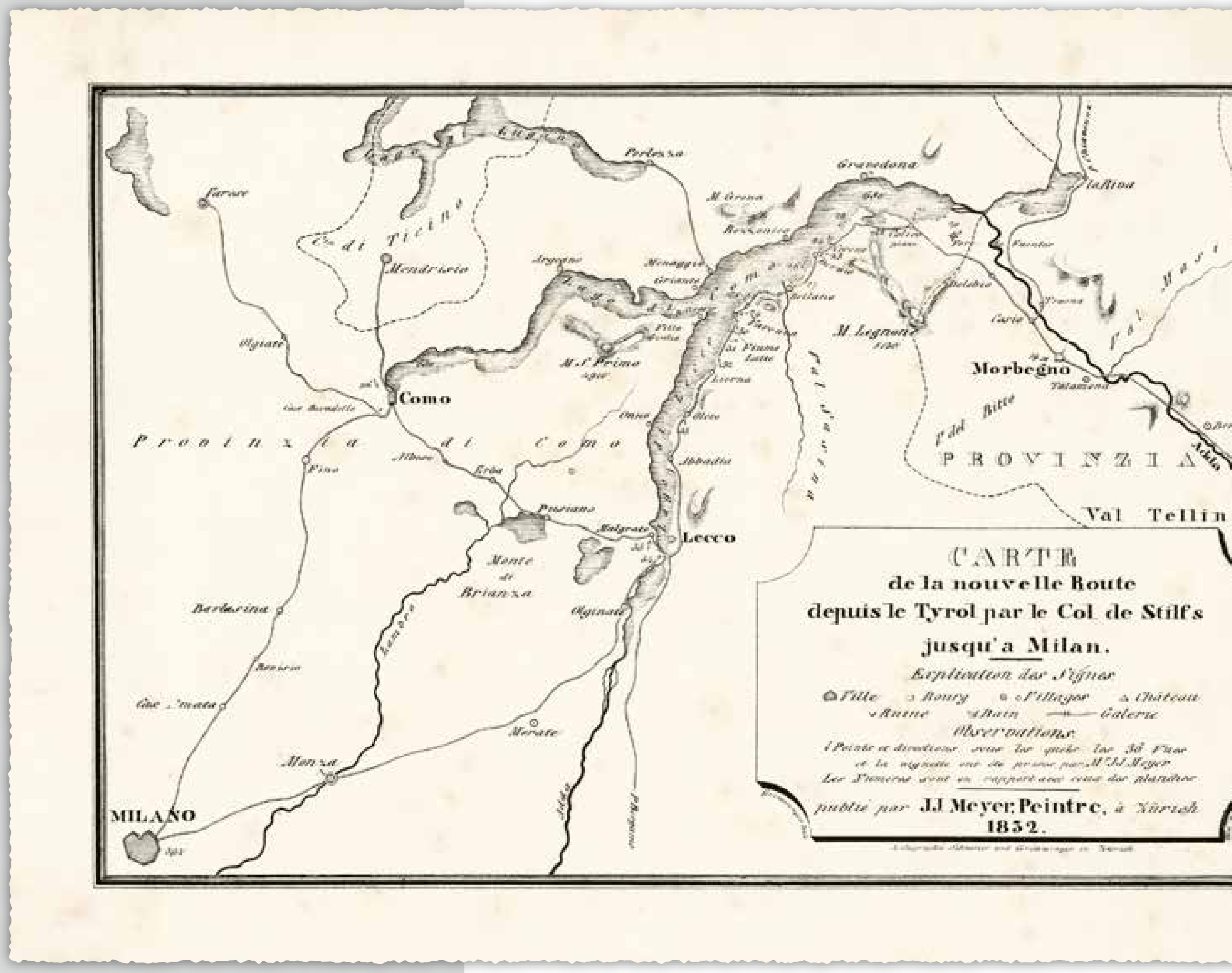
Supervisory activities of the Board of Statutory Auditors

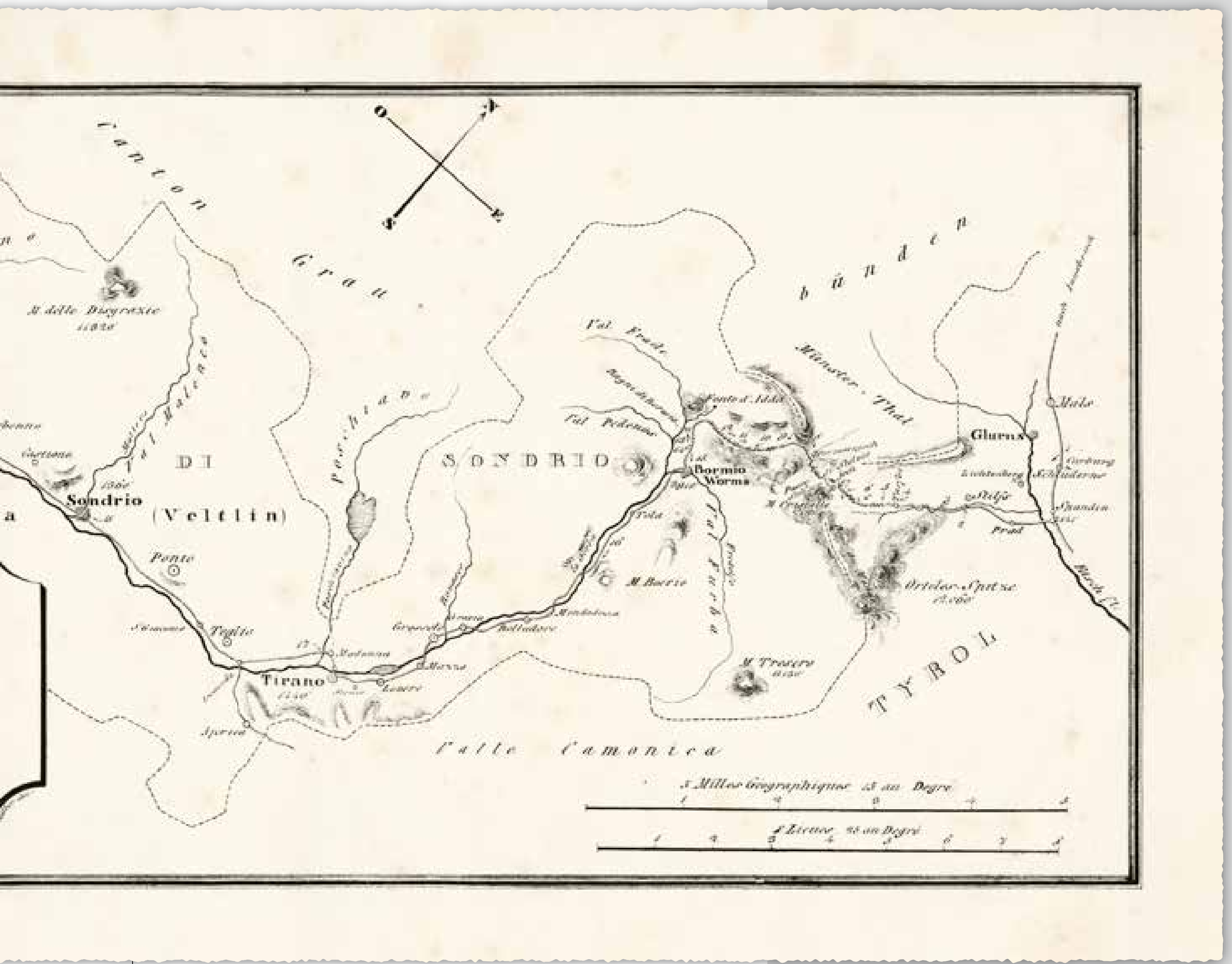
As required by art. 149 of Decree 58/1998, we have monitored:

- compliance with the principles of proper administration;
- the adequacy of the organisational structure, the system of internal control and the administrative-accounting system;
- the practical application of the corporate governance rules envisaged in the codes of conduct;
- the adequacy of the instructions given to Group companies.

During 2014, we attended the Shareholders' Meeting and, except for limited and justified absences, the meetings of the Board of Directors, the Chairman's Committee and the Controls and Risks Committee.

By attending these meetings, we obtained from the directors (pursuant to the disclosures required by art. 150 of Decree 58/98) and top management precise and timely information about the principal economic and financial transactions carried out by the bank and its subsidiaries during the year. In addition, we monitored constantly the adequacy of the overall system of controls by interacting intensively with the second and third-level control functions, as well as by carrying out periodic checks on the central organisation of the bank (21 inspections) and at branches (26 inspections). These activities also enabled us to carry out, in collaboration with the Internal Audit Department - Central and Branch Inspections Office, specific checks on the proper operations of branches, as well as on the proper implementation of processes and procedures there.


CARTE
de la nouvelle Route
depuis le Tyrol par le Col de Stilfs
jusqu'a Milan.
publié par J.J. Meyer, Peintre, à Zürich
1832.
Como
Lecco
Morbegno
MILANO
Monza
Merate
Mendrisio
Gravedona
Perlezza
Erba
PROVINZIA
Val Tellin



Heinrich Keller, *Road Map of the new road from Tyrol through the Stelvio Pass to Milan*, 1832

To accompany his 36 views, Meyer also wanted to insert a road map of the route he had followed, so he asked his Zurich friend Heinrich Keller, cartographer and panorama artist, to draw one.
It was completed and attached to the album only in early 1832, after the 36 views had been published in instalments, starting in 1831.
The map has to be read from right to left, which underlines the direction of travel from north to south. At the various locations that feature in the views, there is a small number that indicates the corresponding table of the album in which they are reproduced, and a small arrow next to the location which points out the direction from which the view was taken and its geographical orientation, based on the four cardinal points indicated in the top right-hand corner.

Principal economic and financial transactions during the year

The directors' report on operations describes the principal economic and financial transactions that took place during the year. As is our duty, we nevertheless wish to draw your attention to the following significant matters:

– capital increase of 435.7 million – This operation was carried out by the Board of Directors on the basis and timing authorised at the Extraordinary Shareholders' Meeting held on 26 April 2014, making a decisive contribution towards ensuring the adequacy of the bank's capital ratios, as identified by the Comprehensive Assessment carried out by the ECB and the EBA (see the section of this report entitled «Audits by the Supervisory Authorities»);
– early repayment of 1,800 million in LTRO (Long Term Refinancing Operation) loans – The decision taken in 2014 to repay early the two LTRO loans arranged with the ECB in 2012, otherwise due on 29 January 2015 (1,300 million) and 26 February 2015 (500 million), was based on all the following elements: positive assessment of the current and prospective liquidity of the bank; positive inflow of customer deposits; decision to participate in the new ECB funding initiative, being the T-LTRO programme designed to provide financial support to households and firms, with a view to stimulating the real economy (the bank has been allocated funds totalling 1,098 million);
– issue of covered bonds – During 2014, the bank assigned mortgage loans totalling 802 million to the vehicle company, Popso Covered Bond srl, in order to guarantee a first series of covered bonds with a nominal value of 500 million. This issue is part of a long-term programme of covered bond issues totalling up to 5 billion euro.

The Directors' Report mentions the following significant events that occurred subsequent to year end:

– increases in the share capital of subsidiaries and associates – This involved an increase of Swiss francs 30 million in the capital of Banca Popolare di Sondrio (SUISSE) SA, subscribed for in full by the bank, and an increase in the capital of Release spa (6.24% proportional interest of the bank, amounting to 18.7 million). The increase in the share capital of the Swiss subsidiary satisfies the requirement to strengthen its capital base, considering both its risk-weighted assets and the prospects for market growth there. Both capital increases were completed in March 2015;
– transformation of cooperative banks into limited liability companies – As you know, the government measure involves cooperative banks with assets in excess of 8 billion, which therefore includes the bank. Without commenting in any way, we trust that this transformation will help to add value for the shareholders, while safeguarding the core values of the bank.

Please see the Report on operations for a complete description of operating activities during 2014. In this regard, we confirm to the best of our knowledge that the decisions taken were made in compliance with the law, the Articles of Association and the regulations issued by the Supervisory Authorities (Bank of Italy and Consob).

Compliance with the principles of proper administration

Based on the information obtained during the year from the directors, from general management and from top management in general, we believe that the operations carried out during 2014 were founded on the principles of proper administration and, at the same time, that no obviously imprudent or risky transactions were carried out, including those potentially involving an unmanaged conflict of interest, in contrast with resolutions adopted by the bank or likely to jeopardise its net assets.

We also believe that the bank did not arrange and is not party to atypical or unusual transactions with third parties, companies within the banking group or other related parties.

With regard to related-party transactions, pursuant to art. 2391-bis of the Italian Civil Code, we confirm that the Board of Directors has complied with the Regulation issued by Consob Decision 17221/2010 and subsequent amendments, the Bank of Italy's instructions on «Risk-taking activities and conflicts of interest with related parties» and the related internal regulations. Such transactions were in fact settled on market terms or, in the absence of suitable comparative parameters, at cost and, in all cases, based on an assessment of the objective mutual benefit and propriety.

Adequacy of the organisational structure

To the extent of our responsibilities, we have monitored the adequacy of the organisational structure and, based on the outcome of the investigations carried out and the information obtained from the various business functions, while also having regard for the scale and complexity of the bank, the organisational structure is, in our opinion, essentially adequate in relation to the needs of the bank. In this regard and with a view to the progressive, full adoption of the instructions contained in Bank of Italy Circular 263/2006 and subsequent amendments, the bank is continuing the necessary work required to update its organisation chart, strengthen its teams and improve its processes and the related IT architecture, especially with regard to the management of loans, the identification and assessment of risks, and their control.

Adequacy of the system of internal control

We have assessed and monitored the adequacy of the system of «internal control» and, in doing so, the effectiveness of the activities performed by the *Internal Audit*, *Risk Management*, *Compliance* and *Anti-money laundering* functions.

These supervisory activities involved constant interaction between the Board of Statutory Auditors and the above second and third-level control functions, in order to check compliance with corporate rules and procedures, as well as the adequacy and effectiveness of the overall system of internal control, with particular reference to the management and control of risks.

In order to achieve this objective, we worked with:

– the Internal Audit Department, which is responsible for checking the adequacy and effectiveness of the system of internal controls and the related processes; our activities at branch level, in collaboration with this Department, were performed to verify compliance with the established operating procedures, as well as to identify any organisational weaknesses at this level;
– the Risk Management Function, with which we assessed lending risk in the light of the guidelines and indications resulting from the most recent measures introduced by the Bank of Italy including, in particular, those envisaged in the 15th update of Circular 263/2006; again in collaboration with this function, we monitored the validity of the controls in place to manage and mitigate operational risks;
– the Compliance Unit, with which we established constant dialogue on the examination and assessment of certain topics within the regulatory framework applicable to the bank; to the extent of its responsibilities, this Unit has reported to us on compliance by the bank, with particular regard to the regulations governing investment services, transparency and privacy;
– the Anti-money laundering Function, which has made available detailed information about the current situation, the related improvements in progress and those to be implemented, as well as about the assessment of compliance with current regulations. This information was obtained from the reports prepared about the work performed, which have been made more incisive by the strengthening of the system of controls, as well as from the specific checks carried out and from meetings. With regard to the current regulations, the Board of Statutory Auditors notes the measures adopted by the Function to guarantee compliance by the bank with Law 186 of 15 December 2014 on «Instructions for the identification and return of capital held abroad, as well as for strengthening the fight against tax evasion. Instructions on anti-money laundering matters».

We also held discussions with the managers of the various functions mentioned above, with a view to assessing the organisational adequacy of the bank, both at present and looking forward, as well as the consistency of existing behaviours with the bank's objectives and strategies.

Adequacy of the administrative-accounting system. Financial Reporting Officer

We have monitored the propriety of the administration and accounting system, as well as its ability to record the results of operations and present them properly in the financial statements, by obtaining information from the managers of the relevant business functions, examining significant company documentation and analysing the results of the work performed by the Legal Auditor and the Financial Reporting Officer.

We confirm that the Financial Reporting Officer issued the required attestation by the legal deadline regarding:

- the adequacy and effective application of the administration and accounting procedures for the preparation of the financial statements at 31.12.2014;
- their agreement with the underlying accounting records and entries;
- the ability of the financial statements to present a true and fair view of the economic and financial position of the bank.

The checks on the suitability of the administrative and accounting processes, and on the controls designed to ensure the proper and complete presentation of the results of operations in the economic and financial positions presented during the year and at year end, enable us to conclude positively on the adequacy of the function performed by the Financial Reporting Officer.

Implementation of the corporate governance rules envisaged in the codes of conduct prepared by the companies that manage the regulated markets

On the matter of governance, the bank has not adopted the «Code of Self-Regulation for listed companies» published by Borsa Italiana spa, having regard for its specific nature as a cooperative bank. Nevertheless, the model approved by the Board of Directors expresses principles and provides a framework of rules and procedures that assure substantial consistency with the objectives of the Code.

The establishment and practical implementation during 2014 of a Controls and Risks Committee, in addition to the already established RPT Committee, Compensation Committee and Supervisory Body pursuant to Decree 231/2001, further refines the governance model adopted, aligning it even more with the instructions issued by the Supervisory Authorities, and provides effective support to the Board of Directors in the incisive performance of its duties regarding the management and control of risks.

We also confirm that on 25 March 2014 the Board of Directors approved the «Report on corporate governance and the ownership structure» pursuant to art. 123-bis TUF, which is available on the bank's website.

Instructions given to Group companies

With regard to the management, coordination and control activities carried out by the parent bank in relation to the subsidiary companies, we note that:

– with regard to Banca Popolare di Sondrio (SUISSE) SA (100%), which has operated in Switzerland since 1995 with a focus on retail customers, control activities are carried out by the Internal Audit Department of the parent bank, which works with the IA managers at the subsidiary. This company operates in accordance with the instructions issued by FINMA, the authority that supervises financial activities in Switzerland. Based on the results of the work performed by the parent bank's IA Department and the contents of the auditors' report on the annual financial statements issued by KPMG SA, the independent auditors, we can confirm - considering also the information obtained from discussions with the directors and managers - that no matters worthy of mention have been identified with regard to the control of risks or compliance with the instructions given by the parent bank;

– with regard to Factorit spa (60.5%), we confirm that our monitoring activities were carried out via the presence on the board of statutory auditors of the subsidiary of two of the parent bank's serving statutory auditors, as well as via our interactions with the Internal Audit Department of the parent bank, which is also responsible for the internal audit of the subsidiary on an outsourcing basis;

– with regard to Sinergia Seconda srl (100%), essentially a supporting company, and Pirovano Stelvio spa (100%), our monitoring activities were essentially carried out via our presence on their boards of statutory auditors. We also maintained relations with KPMG spa, the auditors of both companies, and obtained all necessary information about the economic and financial aspects of the related financial statements.

The regulatory activity performed by the parent bank, with regard to its relations and information flows with subsidiaries, was particularly intensive during the year: as required by Bank of Italy Circular 263, during 2014 the Board of Directors adopted and/or updated regulations that were promptly transmitted to Banca Popolare di Sondrio (SUISSE) and Factorit; in turn, these subsidiaries adopted them and included them in their respective systems of internal rules. With regard to the governance of risks, these regulations covered in particular: the ICAAP process, determination of the RAF, the process of managing risks and the specific controls over operating, liquidity, concentration, excessive leverage, RPT and equity investment risks.

ECB Supervision - Comprehensive Assessment

During 2014, the bank was subjected to a Comprehensive Assessment performed by the European Central Bank and the European Banking Authority, in coordination with the Bank of Italy, in order to assess the capital adequacy of the Group ahead of the start, from 4 November 2014, of the new Single Supervisory Mechanism (SSM) established by Regulation (EU) 1024/2013 of 15 October 2013. Accordingly, from 4 November 2014, the bank is subject to direct supervision by the European Central Bank. The Asset Quality Review, carried out with reference to the situation at the end of 2013, and the two stress tests of the financial parameters covering the three-year period 2014-2016, confirmed the essential capital adequacy of the Group following the capital increase authorised in 2014, at an EGM of the shareholders of the parent bank, which was implemented successfully.

Independence of the Legal Auditor and other appointments granted to the Auditing Firm

Pursuant to art. 17, para. 9, letter a), of Decree 39/2010 and art. 149-duodecies of Consob Regulation 11971, information is given about the remuneration recognised for the services provided to the Group by the firms belonging to the Italian network of KPMG (including the Auditing Firm, KPMG spa) during 2014.

The remuneration, net of reimbursements for the actual expenses incurred in the performance of the work and VAT, is analysed below in thousands of euro:

– KPMG spa for «Audit Services»:	
• Banca Popolare di Sondrio	404
• Sinergia Seconda srl	20
• Pirovano Stelvio spa	11
• Factorit spa	60
• Popso Covered Bond srl	30
– KPMG spa for «Issue of Comfort Letters»:	
• Banca Popolare di Sondrio	410
of which	
– for the capital increase	280
– for the covered bond issue	130
– KPMG Advisory spa for «Consultancy services mostly for support in performance of the Comprehensive Assessment, AQR and Stress Tests»:	
• Banca Popolare di Sondrio	854

The Board of Statutory Auditors has examined the document on the independence of the Legal Auditor required by art. 17 of Decree 39/2010. This document does not highlight any situations affecting the independence of that firm or representing causes of incompatibility pursuant to arts. 10 and 17 of that Decree and the related enabling instructions.

In addition to the above, KPMG SA, a member of the KPMG international network, was paid 385 thousand euro for «Audit Services» performed in relation to Banca Popolare di Sondrio (SUISSE).

Other information required by CONSOB Communication 1025564 of 6 April 2001 and subsequent amendments and by art. 2545 of the Italian Civil Code (cooperative criteria)

In accordance with the above requirements, we confirm that:

– 4 complaints were received about investment services; this small number, which was the same as in 2013 and lower than in prior years, the nature

of the complaints and the absence, at present in relation to the past year, of legal action, confirms the substantial propriety of the work performed by the bank;
- no petitions under art. 2408 of the Civil Code were received;
- we did not issue any opinions apart from those required by law.

As required by art. 2545 of the Italian Civil Code and art. 2 of the Articles of Association, the operating criteria adopted for the achievement of the bank's cooperative objectives are described and detailed in the Directors' Report and are confirmed and highlighted in the activities carried out by the bank.

In this regard, we have noted that the operating criteria adopted by the bank take proper account of the social function attributed to «cooperative banks» with reference to their underlying cooperative principles.

Financial Statements and Report on operations

We have examined the financial statements at 31 December 2014, which are presented today for your examination and approval. In this regard, we confirm that they were approved by the Board of Directors of Banca Popolare di Sondrio on 17 March 2015 and, on that date, they were provided to us together with the Directors' report on operations and the other obligatory documentation.

You are reminded that they have been audited by KPMG spa, the appointed legal auditor of the accounts, and referred to the related auditors' report prepared pursuant to arts. 14 and 16 of Decree 39 dated 27 January 2010.

The financial statements are also accompanied, according to art. 81-ter of CONSOB Resolution no. 11971 of 14 May 1999 («Issuers Regulation»), by the certification pursuant to paragraph 5 of art. 154-bis of Legislative Decree 58/1998, drawn up and signed by the Managing Director and the Financial Reporting Officer.

The financial statements for the year are summarised below:

Balance sheet

Assets	€	32,573,219,077
Liabilities and equity	€	30,351,800,155
Equity	€	2,123,866,811
Profit for the year	€	**97,552,111**

Income statement

Pre-tax profit from continuing operations	€	162,004,599
Income taxes	€	64,452,488
Profit for the year	€	**97,552,111**

Although the auditing firm is responsible for performing the accounting checks, the duty of the Statutory Auditors is to monitor the preparation of the financial statements in both formal and substantive terms. We have therefore checked that the directors complied with the Civil Code and the instructions issued by the Supervisory Authorities in matters concerning the preparation of the financial statements as regards the adoption of correct accounting principles, agreement between the contents of the financial statements and the company's affairs during the year and the completeness of the directors' report on operations.

With reference to the contents of the financial statements, we obtained specific information about the effects on them of the outcome of the Comprehensive Assessment carried out in 2014 by the European Central Bank (ECB) and the European Banking Authority (EBA), noting that the provisions were recorded to reflect almost entirely the indications deriving from the outcome of the assessment; the residual difference was explained in full and agreed with the above Authorities.

In performing our work on the financial statements, we complied with the code of conduct recommended by the Italian Accounting Profession and, of course, we maintained contact with the representatives of KPMG spa. In this regard, we can confirm that:

– the financial statements for 2014 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 to prepare the previous year's financial statements, except for the effect of the entry into force, from 1 January 2014, of Regulation (EU) 1254/2012 relating to IFRS 10, IFRS 11, IFRS 12 and the amendments to IAS 27 and 28, as described properly in the notes to the 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; this report describes the operations and events arising during the year, both with regard to the related economic and financial information, and with reference to the «other information», such as management of the risks relating to the activities of the bank, human resources, the criteria underlying the bank's mutual activities, promotional and cultural activities etc.;
– the report on operations also properly describes the significant events and transactions that have taken place subsequent to year end.

Consolidated Financial Statements

With regard to the consolidated financial statements, which report a profit of 115.203 million euro compared with 53.033 million in 2013, we note that they were correctly prepared in accordance with the relevant accounting standards, in terms of the definition of the scope of consolidation and with regard to compliance with the relevant regulations. In reaching these conclusions, we noted the functioning of the systems in place to provide the related data and the application of the related operational controls.

Closing remarks

Shareholders,

Given all of the above and noting that the reports of KPMG, the auditing, do not contain qualifications or any emphasis of matter and confirm that the separate and consolidated financial statements for 2014:

- were prepared in accordance with the rules and criteria governing their preparation;
- present a true and fair value of the economic and financial position of the bank and the Group;

we express our opinion in favour of approving the financial statements for 2014.

In reminding you that our three-year mandate expires at this Shareholders' Meeting, we thank you for your confidence in us and invite you to appoint a new Board of Statutory Auditors for the next three years.

Sondrio, 27 March 2015

THE BOARDS OF
STATUTORY AUDITORS
Piergiuseppe Forni. Chairman
Pio Bersani. Auditor
Mario Vitali. Auditor

Equity investments

International unit

Online Bank

Loans to households

Loans to businesses

The Bank and young people

Carta +ma

Asset management

Bancassurance and supplementary pension schemes

Publications

Conferences

World Savings Day

Gift to the shareholders

Equity investments

QUOTED ON PAGE 49

the equity investments held by the bank essentially relate to companies that supply the goods and services which complete the bank's commercial range offered

SUBSIDIARIES

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FACTORIT SPA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL

POPSO COVERED BOND SRL

RAJNA IMMOBILIARE SRL

ASSOCIATED COMPANIES

UNIONE FIDUCIARIA SPA

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

ARCA SGR SPA

ICBPI SPA

CARTASI SPA

ETICA SGR SPA

GROUP SRL

QUOTED ON PAGE 57

International unit

qualified staff and effective solutions
ensure appropriate assistance to businesses in global markets

ONE-STOP SHOP FOR INTERNATIONALISATION

The right solution for your business abroad

■ PAYMENTS AND COLLECTION ■ CASH MANAGEMENT ■ FOREX AND TREASURY ■ HEDGING AND TRADING ■ PHYSICAL AND FINANCIAL GOLD ■ TRADE FINANCE AND INSURANCE COVERAGE ■ SUPPORT ON FOREIGN MARKETS ■ CLASSROOM AND ON-LINE TRAINING ■ ASSISTANCE ON EUROPEAN AND INTERNATIONAL TENDERS AND LOANS ■ DESKS OUTSIDE ITALY

Online Bank

QUOTED ON PAGE 62

the services of your bank at your fingertips, whenever you want and wherever you want, as well as being easily and safely accessible

SCRIGNO*Internet Banking*: the simple, convenient and safe solution to operate on line.

Correspondence on line: it reduces costs for customers and makes it possible to receive communications in digital form rather than on paper.

MyBank: this is a European payment service that allows you to make online purchases of goods and services at online shops, debiting the amount to your current account.

An innovative app promoted in agreement with CartaSi for making digital payments. Briefly, payments by smartphone with the innovative NFC technology will also be available.

SCRIGNO*IdentiTel* is a strong authentication* tool for instructions given online through **SCRIGNO**, based on so-called "tokens" in the form of hardware and software.

** It complies with national and European directives in the field of online payments.*

Operations:
- current account balance and movements
- balance of securities held in custody
- Card +ma
- Carta Ateneo+
- mobile phone top-ups
- pre-paid phone cards
- bank transfers
- payment bulletins
- verification of last access

QR code:
- paying post office slips by photographing the barcode/QR code

Geolocalisation:
- branch and ATM search

... to have your bank always "in your pocket"!

A simple, fast and secure solution for customers and users to pay taxes and utilities, charging the amount to debit cards or to a current account (MyBank).

QUOTED ON PAGE 61

Loans to households

simple, transparent and competitive proposals
that we offer as a variety of solutions for all needs

Loans to businesses

QUOTED ON PAGE 61

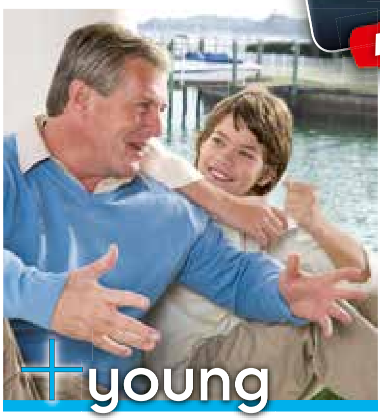
attentive to the evolving needs of companies,
we offer effective products to support the development

The Bank and young people

special attention to young people
with products tailored to promote a growth path

Carta +ma

the evolved pre-paid payment card,
a single tool with multiple features... starting from the age of 14



QUOTED ON PAGE 61

Asset management

we have always operated with prudence and transparency
in line with the risk profiles and objectives of investors

ASSET MANAGEMENT

Popso (SUISSE)
Investment Fund SICAV

ARCA Società di Gestione del Risparmio

MUTUAL FUNDS

Etica SGR SpA SISTEMA VALORI RESPONSABILI

ETHICAL MUTUAL FUNDS

Bancassurance and supplementary pension schemes

QUOTED ON PAGE 61

we assist customers with our expertise to help them find the best solutions to protect them from the risks that the future may hold

ARCA Società di Gestione del Risparmio

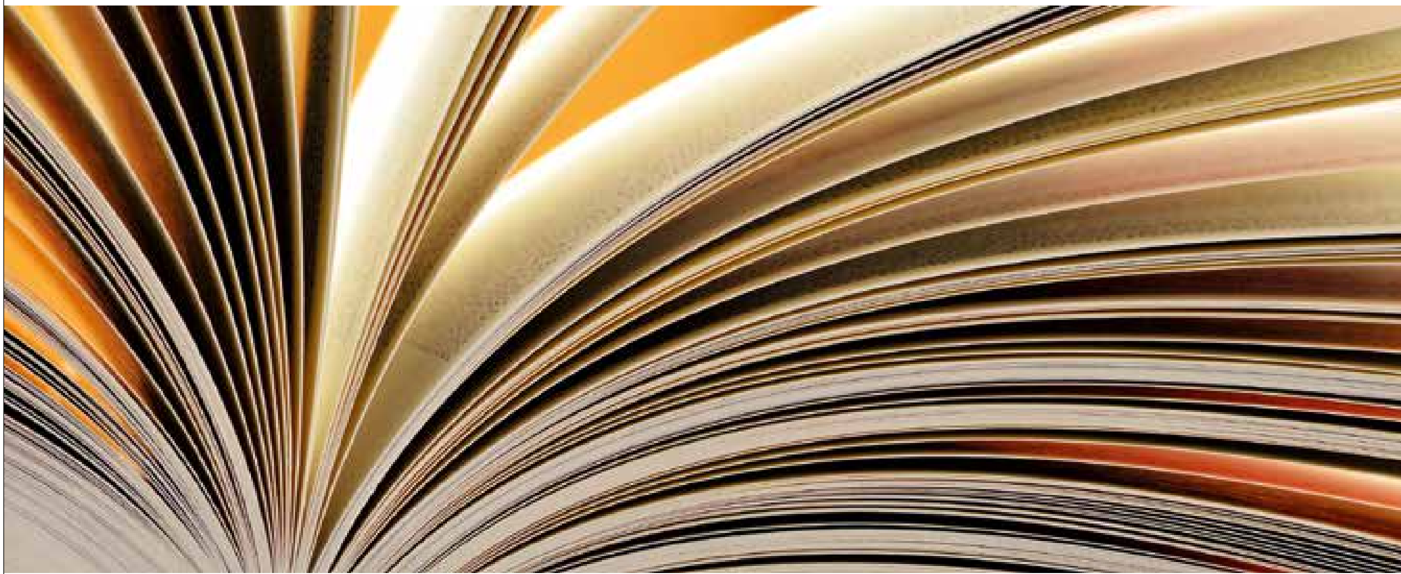
Arca Previdenza FONDO PENSIONE APERTO

ARCA ASSICURAZIONI

ARCA VITA

QUOTED ON PAGE 76

Publications



testimonials of a path of growth and sharing
the values that represent us

Conferences

QUOTED ON PAGE 76

meetings with famous people,
a bank attentive and present in the community

JOHN ELKANN
14 February 2014

MAURO MELIS
28 March 2014

GIUSEPPE TARANTOLA
23 May 2014

SALVATORE ROSSI
12 September 2014

GIULIO TREMONTI
24 October 2014

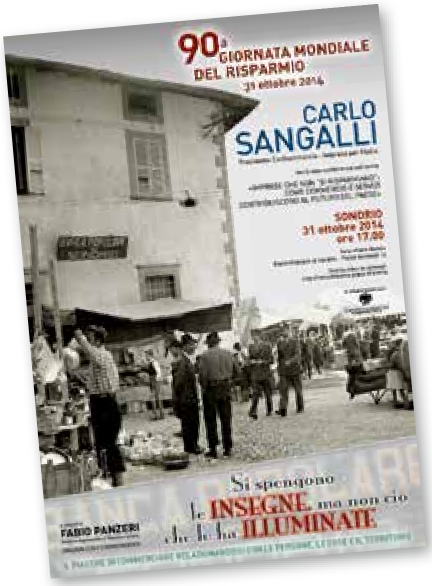
PAOLO BIGLIOLI
21 November 2014

GIANFRANCO RAVASI
15 December 2014

QUOTED ON PAGE 77

90th World Savings Day
31 October 2014

«the signs are turned off
but not what illuminated them»



CARLO SANGALLI

Gift to the shareholders

To the shareholders present at the meeting we gave a box set, with a preface by Roberto De Martin – President of the prestigious Film Festival of Trento – containing the DVD of *Stelvio. Crossroads of Peace*, a movie produced and directed by the Valtellina director Alessandro Melazzini, accompanied by a small book on the history of the Stelvio Pass signed by Franco Monteforte.

STELVIO
Crossroads of Peace

27 December 2014

*From the top:
presentation of the cast
at the "Sondrio Festival" in 2014.
The technical and artistic staff
of the film with the top management
of Banca Popolare di Sondrio
at its projection in Rome.
Film crew and actors
at the projection in Milan.*

*The director
and producer
Alessandro
Melazzini.*

STELVIO
a museum under the stars

from 24 December 2014
to 10 January 2015

*From left to right,
Francesco Morosini
(engineer),
Alessandro Melazzini
(producer and director),
Alessandro Soetje
(director of photography),
Luca Guerriero
(assistant operator).*

FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2014

BALANCE SHEET
(in euro)

	ASSET ITEMS		31-12-2014		31-12-2013
10.	CASH AND CASH EQUIVALENTS		**108,352,180**		**109,512,487**
20.	FINANCIAL ASSETS HELD FOR TRADING		**2,341,476,201**		**3,167,660,707**
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		**88,358,337**		**79,226,036**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**6,496,843,763**		**3,373,245,002**
50.	HELD-TO-MATURITY INVESTMENTS		**148,620,141**		**182,620,516**
60.	LOANS AND RECEIVABLES WITH BANKS		**1,591,500,904**		**1,481,714,447**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**20,535,826,086**		**20,843,577,225**
100.	EQUITY INVESTMENTS		**411,565,806**		**411,739,750**
110.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**159,370,059**		**155,622,700**
120.	INTANGIBLE ASSETS		**11,917,167**		**11,676,361**
130.	TAX ASSETS		**360,228,837**		**300,623,482**
	a) current	8,105,885		28,625,878	
	b) deferred	352,122,952		271,997,604	
	b1) of which as per Law 214/2011	320,197,761		243,011,732	
150.	OTHER ASSETS		**319,159,596**		**345,496,620**
	TOTAL ASSETS		**32,573,219,077**		**30,462,715,333**

THE CHAIRMAN
Francesco Venosta

THE BOARD OF STATUTORY AUDITORS
Piergiuseppe Forni. Chairman
Pio Bersani - Mario Vitali

	EQUITY AND LIABILITY ITEMS		31-12-2014		31-12-2013
10.	DUE TO BANKS		**2,305,353,629**		**3,692,634,209**
20.	DUE TO CUSTOMERS		**23,733,700,374**		**21,208,780,218**
30.	SECURITIES ISSUED		**3,290,923,515**		**2,850,637,840**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**98,098,533**		**60,308,903**
80.	TAX LIABILITIES		**45,844,815**		**27,955,834**
	b) deferred	45,844,815		27,955,834	
100.	OTHER LIABILITIES		**679,296,184**		**668,480,929**
110.	POST-EMPLOYMENT BENEFITS		**42,441,900**		**38,264,866**
120.	PROVISIONS FOR RISKS AND CHARGES:		**156,141,205**		**141,885,236**
	a) pension and similar obligations	117,042,900		100,538,997	
	b) other provisions	39,098,305		41,346,239	
130.	VALUATION RESERVES		**44,266,836**		**15,357,661**
160.	RESERVES		**665,468,678**		**638,000,834**
170.	SHARE PREMIUM RESERVE		**79,005,128**		**171,449,522**
180.	SHARE CAPITAL		**1,360,157,331**		**924,443,955**
190.	TREASURY SHARES (-)		**(25,031,162)**		**(24,316,346)**
200.	PROFIT FOR THE YEAR (+/-)		**97,552,111**		**48,831,672**
	TOTAL LIABILITIES AND EQUITY		**32,573,219,077**		**30,462,715,333**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

INCOME STATEMENT
(in euro)

ITEMS			2014		2013
10.	INTEREST AND SIMILAR INCOME		859,665,284		914,711,027
20.	INTEREST AND SIMILAR EXPENSE		(339,105,440)		(426,561,240)
30.	**NET INTEREST INCOME**		**520,559,844**		**488,149,787**
40.	FEE AND COMMISSION INCOME		257,984,748		240,711,245
50.	FEE AND COMMISSION EXPENSE		(15,747,499)		(14,890,754)
60.	**NET FEE AND COMMISSION INCOME**		**242,237,249**		**225,820,491**
70.	DIVIDENDS AND SIMILAR INCOME		16,242,011		20,252,957
80.	NET TRADING INCOME		90,113,864		102,437,364
100.	**GAINS/LOSSES FROM SALES OR REPURCHASES OF:**		**94,154,389**		**52,719,360**
	b) available-for-sale financial assets	95,504,969		52,518,082	
	c) held-to-maturity investments	-		54,712	
	d) financial liabilities	(1,350,580)		146,566	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		5,186,918		5,387,128
120.	**TOTAL INCOME**		**968,494,275**		**894,767,087**
130.	NET IMPAIRMENT LOSSES ON:		(473,560,652)		(472,765,909)
	a) loans and receivables	(454,076,144)		(446,093,551)	
	b) available-for-sale financial assets	(19,307,623)		(12,880,725)	
	d) other financial transactions	(176,885)		(13,791,633)	
140.	**NET FINANCIAL INCOME**		**494,933,623**		**422,001,178**
150.	ADMINISTRATIVE EXPENSES:		(381,864,998)		(365,619,305)
	a) personnel expenses	(175,541,214)		(170,317,050)	
	b) other administrative expenses	(206,323,784)		(195,302,255)	
160.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		3,455,337		2,556,469
170.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(12,750,956)		(12,562,065)
180.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(11,913,001)		(10,908,158)
190.	OTHER OPERATING INCOME/EXPENSE		70,782,043		69,174,944
200.	**OPERATING COSTS**		**(332,291,575)**		**(317,358,115)**
210.	NET LOSSES ON EQUITY INVESTMENTS		(648,217)		(6,569,735)
240.	NET GAINS ON SALES OF INVESTMENTS		10,768		5,134
250.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**162,004,599**		**98,078,462**
260.	INCOME TAXES		(64,452,488)		(49,246,790)
270.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**97,552,111**		**48,831,672**
290.	**PROFIT FOR THE YEAR**		**97,552,111**		**48,831,672**

STATEMENT OF COMPREHENSIVE INCOME

Items/Amounts		31/12/2014	31/12/2013
10.	**Profit for the year**	**97,552,111**	**48,831,672**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	(12,883,360)	(1,688,742)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100.	Available-for-sale financial assets	41,792,535	25,440,747
130.	**Total other income items net of income taxes**	**28,909,175**	**23,752,005**
140.	**Comprehensive income (item 10+130)**	**126,461,286**	**72,583,677**

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2013	Change in opening balances	Opening balance at 1.1.2014	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations
Share capital:					
a) ordinary shares	924,443,955	–	924,443,955	–	–
b) other shares	–	–	–	–	–
Share premium reserve	171,449,522	–	171,449,522	–	–
Reserves:					
a) from earnings	638,000,834	–	638,000,834	33,545,835	–
b) other	–	–	–	–	–
Valuation reserves	**15,357,661**	**–**	**15,357,661**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(24,316,346)**	**–**	**(24,316,346)**	**–**	**–**
Profit for the year	**48,831,672**	**–**	**48,831,672**	**(33,545,835)**	**(15,285,837)**
Equity	**1,773,767,298**	**–**	**1,773,767,298**	**–**	**(15,285,837)**

A dividend from the results for 2013 of € 0.05 per share, totalling € 15.407 million, was paid from 8 May 2014. The directors have proposed a dividend of € 0.06 from the results for 2014. 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 20 May. The payout envisaged totals € 27.203 million.

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2012	Change in opening balances	Opening balance at 1.1.2013	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations
Share capital:					
a) ordinary shares	924,443,955	–	924,443,955	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**171,449,522**	**–**	**171,449,522**	**–**	**–**
Reserves:					
a) from earnings	622,318,690	–	622,318,690	15,682,144	–
b) other	–	–	–	–	–
Valuation reserves	**(8,394,344)**	**–**	**(8,394,344)**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(24,316,346)**	**–**	**(24,316,346)**	**–**	**–**
Profit for the year	**25,822,369**	**–**	**25,822,369**	**(15,682,144)**	**(10,140,225)**
Equity	**1,711,323,846**	**–**	**1,711,323,846**	**–**	**(10,140,225)**

	Changes during 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 31.12.2014**
–	435,713,376	–	–	–	–	–	**–**	**1,360,157,331**
–	–	–	–	–	–	–	**–**	**–**
–	(92,444,394)	–	–	–	–	–	**–**	**79,005,128**
(6,077,991)	–	–	–	–	–	–	**–**	**665,468,678**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**28,909,175**	**44,266,836**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**(714,816)**	**–**	**–**	**–**	**–**	**–**	**(25,031,162)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**97,552,111**	**97,552,111**
(6,077,991)	**343,268,982**	**(714,816)**	**–**	**–**	**–**	**–**	**126,461,286**	**2,221,418,922**

	Changes during 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 31.12.2013**
–	–	–	–	–	–	–	–	**924,443,955**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**171,449,522**
–	–	–	–	–	–	–	–	**638,000,834**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**23,752,005**	**15,357,661**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24,316,346)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**48,831,672**	**48,831,672**
–	**–**	**–**	**–**	**–**	**–**	**–**	**72,583,677**	**1,773,767,298**

CASH FLOW STATEMENT (Indirect method)

	31/12/2014	31/12/2013
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**597,606,544**	**559,352,789**
- profit for the year (+/-)	97,552,111	48,831,672
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	(29,659,383)	(46,097,693)
- net hedging gains (losses) (-/+)	–	–
- net impairment adjustments (+/-)	483,704,811	480,471,925
- net adjustments to property, equipment and investment property and intangible assets (+/-)	24,663,957	23,470,223
- provisions for risks and charges and other costs/revenues (+/-)	22,102,926	21,814,221
- unpaid taxes and duties (+)	64,452,488	49,246,790
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	(65,210,366)	(18,384,349)
2. **Cash generated/absorbed by financial assets**	**(2,469,943,653)**	**(546,333,552)**
- financial assets held for trading	875,506,614	(1,007,020,534)
- financial assets at fair value through profit or loss	(4,697,778)	28,794,355
- available-for-sale financial assets	(3,103,275,921)	(927,210,103)
- loans and receivables with banks: sight	(62,592,343)	166,019,865
- loans and receivables with banks: other receivables	(47,276,274)	207,412,196
- loans and receivables with customers	(157,903,518)	1,093,440,474
- other assets	30,295,567	(107,769,805)
3. **Cash generated/absorbed by financial liabilities**	**1,532,657,793**	**11,134,040**
- due to banks: sight	139,630,491	(177,743,416)
- due to banks: other payables	(1,500,192,891)	33,364,481
- due to customers	2,545,738,141	378,438,025
- securities issued	440,655,282	34,507,208
- financial liabilities held for trading	10,406,281	(51,072,800)
- financial liabilities carried at fair value	–	–
- other liabilities	(103,579,511)	(206,359,458)
Net cash generated/absorbed by operating activities	**(339,679,316)**	**24,153,277**

	31/12/2014	31/12/2013
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**47,750,164**	**51,985,360**
- sales of equity investments	–	–
- dividends collected from equity investments	12,731,538	17,726,425
- sales of held-to-maturity investments	35,000,000	34,250,000
- sale of property, equipment and investment property	18,626	8,935
- sale of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(29,132,098)**	**(70,596,358)**
- purchases of equity investments	(474,273)	(16,951,848)
- purchases of held-to-maturity investments	–	(12,179,168)
- purchases of property, equipment and investment property	(16,504,017)	(30,024,097)
- purchases of intangible assets	(12,153,808)	(11,441,245)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**18,618,066**	**(18,610,998)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	334,567,504	–
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(15,185,837)	(10,040,225)
Net cash generated/absorbed by financing activities	**319,381,667**	**(10,040,225)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**(1,679,583)**	**(4,497,946)**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	**31/12/2014**	**31/12/2013**
Cash and cash equivalents at beginning of year	109,512,487	114,158,995
Total net cash generated/absorbed in the year	(1,679,583)	(4,497,946)
Cash and cash equivalents effect of change in exchange rates	519,276	(148,562)
Cash and cash equivalents at end of year	**108,352,180**	**109,512,487**

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 2014 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 Decree 38/2005 and subsequent updates.

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. 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 difficulties encountered by sovereign debt securities in the recent past, 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 changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if 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 and subsequent updates.

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.

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 ***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 17/03/2015 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 adopted during the period are consistent with those adopted in relation to the financial statements for 2013, except for the entry into force, from 1 January 2014, pursuant to Regulation (EU) 1254/2012 of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

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. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. 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 financial statements at 31 December 2014, 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 2014. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a lack of growth and high levels of uncertainty about the prospects for recovery, 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 to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects – even significant effects – on the amounts reported in the financial statements at 31 December 2014.

In compliance with the requirements of IAS 8, we report below the regulatory changes which introduced new standards or amended existing ones, the application of which is compulsory from 2014 onwards:

- Regulation (EU) 1254/2012 of 11/12/2012 relating to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as to amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments apply from 1 January 2014 (first financial year commencing on or after 1/1/2014).
- Regulation (EU) 1256/2012 of 13/12/2012: Amendments to IFRS 7 Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities and to IAS 32 Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities. The amendments apply from 1 January 2013 (first financial year commencing on or after 1/1/2013 for the amendments to IFRS 7) and from 1 January 2014 (first financial year commencing on or after 1/1/2014 for IAS 32).
- Regulation (EU) 313/2013 of 4 April 2013 which adopted the «Transition Guidance (amendments to IFRS 10, 11 and 12)». The purpose of these amendments is to clarify the intentions of the IASB when the transition guidance for IFRS 10 was first published. The amendments further reduce the comparative information required on transition to IFRS 10, IFRS 11 and IFRS 12. They apply from 1 January 2014.
- Regulation (EU) 1174/2013 of 20 November 11 which adopted «Investment entities» (Amendments to IFRS 10, 12 and IAS 27). IFRS 10 Consolidated Financial Statements has been amended to require investment entities to measure subsidiaries at fair value through profit or loss, rather than consolidate them, in order to reflect better their business model. IFRS 12 Disclosure of Interests in Other Entities has been amended to require the disclosure of specific information about the subsidiaries of investment entities. The amendments to IAS 27 have eliminated the ability of investment entities to choose between measuring subsidiaries at cost or at fair value in their separate financial statements. The amendments to IFRS 10 and 12 and to IAS 27 also affect IFRS 1, 3 and 7 and IAS 7, 12, 24, 32, 34 and 39. In force from 1/1/2014.
- Regulation (EU) 1374/2013 of 19 December 2013 which adopted «Recoverable amount disclosures for non-financial assets» (amendment to IAS 36). The amendments clarify that the information to be disclosed about the recoverable amount of assets, when that amount is based on fair value net of disposal costs, only relates to those assets whose value has been impaired. They apply from 1 January 2014.
- Regulation (EU) 1375/2013 of 19 December 2013 which adopted «Novation of derivatives and continuation of hedge accounting» (amendment to IAS 39). The amendments govern situations in which a derivative designated as a hedging instrument is subject to novation from a counterparty to a central counterparty, as a result of regulatory requirements. They apply from 1 January 2014.

The EU also endorsed various amendments to international accounting standards during 2014, by adopting the following regulations:

- Regulation (EU) 634/2014 of 14/6/2014 which adopts the interpretation of IFRIC 21 Levies. This interpretation provides guidance on the recognition of a liability to pay a levy when the liability is governed by IAS 37, as well as on the recognition of a liability to pay a levy whose timing and amount are uncertain. The application is mandatory for financial periods beginning on 17 June 2014.
- Regulation (EU) 1361/2014 of 18/12/2014 which amends Regulation (EU) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EU) 1606/2002 of the European Parliament and of Council with regard to IFRS 3, IFRS 13 and IAS 40. It will apply from 1/1/2015 (first financial year starting on or after 1/1/2015).

The amendments made to the Basel Committee accords on the banking supervision of capital adequacy and public disclosures («Basel 3») were adopted and came into force in the European Union on 1 January 2014. Adoption involved two measures: Regulation (EU) 575/2013 (CRR) and Directive 2013/36/EU (CRD IV). The European Union regulation was supplemented by Bank of Italy Circular 285 of 17 December 2013, which aligned the supervisory regulations with the amended regulatory framework.

In the 3rd update to Circular 262 of 22 December 2014, the Bank of Italy adopted the disclosure requirements specified by certain accounting standards that came into force from 2014.

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 official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on official 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 are used, where available; 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 and similar income» 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. Available-for-sale financial assets

Classification

This caption comprises financial assets that are not derivatives and which are not classified as Receivables, Financial assets held for trading or held-to-maturity investments. 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.

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 held-to-maturity investments 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 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 discretional, 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 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

Available-for-sale financial assets 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. Held-to-maturity investments

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, 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

Held-to-maturity investments 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, not listed on an active market. Receivables also include trade receivables, repo transactions, loans originating from finance leases and securities not listed on an active market that were acquired as a result of subscriptions or private placements, with payment amounts that are known or determinable.

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.

For measurement purposes, loans are classified into two macro categories: impaired loans and performing loans.

Impaired loans comprise:

a) non-performing loans

b) watchlist loans

c) restructured loans

d) past due loans

Non-performing loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.

Watchlist loans reflect the exposure to borrowers that are experiencing temporary objective difficulties that are likely to be resolved within a reasonable period of time. Objective difficulties are determined with reference to specific parameters established by the Bank of Italy, while subjective difficulties are determined by the Bank based on its own assessment.

Restructured loans are those for which, following a deterioration in the economic-financial position of the borrower, the Bank has agreed to amend the original contractual conditions and accept a loss.

Past due loans comprise amounts that have remained unpaid and/or overdrawn for more than 90 continuous days, determined with reference to the amount and timing parameters specified in the current supervisory instructions.

Loans may be measured on a detailed or an overall basis. Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, 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 both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan

b) expected timing of recoveries, considering the progress made by recovery procedures

c) internal rate of return.

Non-performing loans are assessed on either a detailed or an overall basis. 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.

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Subjective watchlist loans are also assessed on either a detailed or an overall basis. The detailed analysis 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.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans.

Objective watchlist loans are determined using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. These loans are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Restructured loans are assessed on a detailed basis with reference to the following parameters:

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 are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. These are adjusted on an overall basis with reference to historical/statistical evidence of the related losses incurred in the past.

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). The expected loss on these loans (nominal amount of the loan multiplied by the PD and the LGD) is adjusted by the LCP (Loss Confirmation Period), which reflects for the various homogenous classes of loan the delay between the deterioration in the financial situation of the customer and the recognition of that situation by the Bank.

Recognition of components affecting the income statement

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

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 losses on other financial assets» with the contra-entry to other liabilities.

5. Financial assets at fair value through profit or loss

The portfolio of «Financial assets at fair value through profit or loss» 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 at fair value through profit or loss booked to the income statement in the period when they arise to «net gains on financial assets and liabilities at fair value through profit or loss».

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.

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. Control is presumed to exist when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;
b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;
c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

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 is being provided.

Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

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.

Measurement and 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, equipment and investment property

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. In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

Recognition

Property, equipment and investment property 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, equipment and investment property are stated at cost net of accumulated depreciation and any permanent impairment of value, except for property held for investment purpose, which are valued at fair 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, equipment and investment property 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 «depreciation and net impairment losses on property, equipment and investment property» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

Derecognition

Property, equipment and investment property 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.

Recognition

Intangible assets are recorded at purchase cost plus any related charges, only if it is probable that the future economic benefits attributable to such assets 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 recoverable amount of the asset 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 «amortisation and net impairment losses on 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 post-employment benefits; once again, the actuarial gains and losses deriving from actuarial estimates are treated in accordance with the provisions of the revised version of IAS 19 endorsed by EC Regulation 475 of 5 June 2012, i.e. booked to equity as shown in the statement of comprehensive income. These are:
   1) Pension and similar obligations. This is classified as an «internal» pension fund and represents a defined-benefit obligation. 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, 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 securities issued

Classification

Amounts due to customers and banks and securities issued 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 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. 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 and similar expense».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sales 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. 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 non-monetary 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 every six months 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.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

18. Other information

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.

Securitisations

During the year, the Bank carried out a securitisation of performing residential mortgage loans. These loans were sold without recourse to a vehicle company and its senior and junior securities were purchased by the Bank. Given that the Bank maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet. The economic effects were recognised consistently, giving prevalence to substance over form.

Covered bond

On 6 November 2013, the Board of Directors of the bank authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the bank.

On 30 May 2014, a portfolio of performing loans totalling € 802 million was assigned without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the first series of covered bonds amounting to € 500 million issued on 5 August 2014.

Non-Performing Exposures and Forbearance

On 9 January 2015, the European Commission amendments to the definition of impaired financial assets for consistency with the new notions of Non-Performing Exposures and Forbearance introduced by the technical enabling regulations for harmonised consolidated reporting for supervisory purposes established by the European Banking Authority. The purpose of these amendments was to have just one definition for both individual and consolidated reporting purposes. The new definition came into force on 1 January 2015; accordingly, the notion of impaired financial assets was unchanged at 31 December 2014.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets : book value, fair value and impact on comprehensive income

Type of financial instruments (1)	Portfolio of origin (2)	Portfolio of destination (3)	Net book value as of 31.12.2014 (4)	Fair value at of 31.12.2014 (5)	Income items without any transfer (pre-tax)		Income items recorded during transfer (pre-tax)	
					Valuation (6)	Others (7)	Valuation (8)	Others (9)
A. Debt securities	HFT	HTM	73,460	70,735	3,539	768	627	768

Income items include securities service employees' pension and similar obligations.

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those not transferred.

A.3.3 Transfer of financial assets held for trading

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. Table A.3.1 shows the profits and losses that would have been made if the Group had not taken advantage of this possibility.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 Fair Value Measurement came into force on 1 January 2013. This standard collects in one document the rules governing the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change the concept of fair value, but provides new application guidelines and envisages additional disclosures.

The information about fair value required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in an orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument. With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the CVA (Credit value adjustment) and represents the potential loss associated with the counterparty credit risk, while the DVA (Debit value adjustment) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

A.4.2 Processes and sensitivity of the measurements

The Bank uses various methodologies to determine the fair value of assets and liabilities. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

For changes of +/- 1 basis point in the credit spread or changes in other input parameters, the fair value of the financial instruments changes by about € 25 thousand.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets – according the definition of IAS 39 – for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) 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.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used. Following the entry into force of IFRS 13, which strengthened the guidelines underlying the classification of financial instruments, the Bank revised such classifications during the year and transferred its financial instruments to the most appropriate fair value level.

A.4.4 Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

	31/12/2014			31/12/2013		
Financial assets/liabilities carried at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	2,175,702	104,498	61,276	3,041,728	67,878	58,055
2. Financial assets at fair value through profit or loss	84,702	–	3,656	79,226	–	–
3. Available-for-sale financial assets	6,432,499	2,613	61,732	3,257,770	–	115,475
4. Hedging derivatives	–	–	–	–	–	–
5. Property, equipment and investment property	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**8,692,903**	**107,111**	**126,664**	**6,378,724**	**67,878**	**173,530**
1. Financial assets held for trading	–	98,099	–	29	60,280	–
2. Financial liabilities carried at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	–	–	–	–	–
Total	**–**	**98,099**	**–**	**29**	**60,280**	**–**

Based on the guiding principles for the classification of financial instruments established in IFRS 13, a number of transfers of fair value from Level 1 to Level 2 were recorded during the year. These transfer amount to € 1.910 million of financial assets held for trading, € 2.613 million of available-for-sale financial assets.

The impact of the CVA (Credit value adjustment) and the DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because a large part of the exposures are covered by credit support annexes (CSA).

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

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available for sale financial assets	Hedging derivatives	Property, equipment and investment property	Intangible assets
A. **Opening balance**	**58,055**	**–**	**115,475**	**–**	**–**	**–**
2. **Increases**	**5,753**	**3,714**	**20,096**	**–**	**–**	**–**
2.1. Purchases	222	3,714	6,749	–	–	–
2.2. Income booked to:						
2.2.1. Income statement	4,550	–	181	–	–	–
of which realized gains	4,550	–	–	–	–	–
2.2.2. Equity	–	–	1,132	–	–	–
2.3. Transfers from other levels	–	–	–	–	–	–
2.4. Other increases	981	–	12,034	–	–	–
3. **Decreases**	**2,532**	**58**	**73,839**	**–**	**–**	**–**
3.1. Sales	–	–	4,192	–	–	–
3.2. Reimbursements	1,923	–	45,000	–	–	–
3.3. Losses booked to:						
3.3.1. Income statement	68	58	13,018	–	–	–
of which realized losses	68	58	13,018	–	–	–
3.3.2. Equity	–	–	6	–	–	–
3.4. Transfers to other levels	64	–	–	–	–	–
3.5. Other decreases	477	–	11,623	–	–	–
4. **Closing balance**	**61,276**	**3,656**	**61,732**	**–**	**–**	**–**

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

There are no financial liabilities carried at a level 3 fair value.

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

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2014				31/12/2013			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	148,620	135,063	-	27,019	182,621	156,305	-	25,358
2. Loans and receivables with banks	1,591,501	-	-	1,591,501	1,481,715	-	-	1,481,715
3. Loans to customers	20,535,826	-	-	20,914,725	20,843,578	-	-	21,180,146
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**22,275,947**	**135,063**	**-**	**22,533,245**	**22,507,914**	**156,305**	**-**	**22,687,219**
1. Due to banks	2,305,354	-	-	2,305,354	3,692,634	-	-	3,692,634
2. Customer deposits	23,733,700	-	-	23,733,700	21,208,780	-	-	21,208,780
3. Securities issued	3,290,924	518,968	2,842,706	-	2,850,638	-	2,870,957	
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**29,329,978**	**518,968**	**2,842,706**	**26,039,054**	**27,752,052**	**-**	**2,870,957**	**24,901,414**

Key:
BV: book value
L1: Level 1
L2: Level 2
L3: Level 3

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IAS 39 para. AG. 76 derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

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 cash equivalents analysis

	31/12/2014	31/12/2013
a) Cash	108,352	109,512
b) Unrestricted deposits with central banks	–	–
Total	**108,352**	**109,512**

Section 2 Financial assets held for trading - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2014			31/12/2013		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	2,086,591	–	61,276	2,976,300	–	58,055
1.1 Structured securities	46,659	–	46,534	116,639	–	9,035
1.2 Other fixed-yield securities	2,039,932	–	14,742	2,859,661	–	49,020
2. Variable-yield securities	54,710	2,133	–	41,990	–	–
3. Mutual funds	34,124	–	–	22,561	–	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**2,175,425**	**2,133**	**61,276**	**3,040,851**	**–**	**58,055**
B. **Derivatives**						
1. Financial derivatives:	277	102,365	–	877	67,878	–
1.1 for trading	277	102,365	–	877	67,878	–
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	**277**	**102,365**	**–**	**877**	**67,878**	**–**
Total (A+B)	**2,175,702**	**104,498**	**61,276**	**3,041,728**	**67,878**	**58,055**

The fixed-yield securities included in Level 3 principally comprise capital accumulation certificates, carried at cost, and bonds deriving from the securitisation of loans, measured using price information received from external infoproviders and for which the market cannot be considered active.

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

Items/Amounts	**31/12/2014**	**31/12/2013**
A. **Cash assets**		
1. Fixed-yield securities	2,147,867	3,034,355
a) Governments and central banks	1,931,167	2,828,241
b) Other public entities	17	22
c) Banks	157,358	153,291
d) Other issuers	59,325	52,801
2. Variable-yield securities	56,843	41,990
a) Banks	20,910	13,570
b) Other issuers:	35,933	28,420
- insurance companies	785	977
- financial companies	1,790	2,544
- non-financial companies	33,358	24,899
- other	–	–
3. Mutual funds	34,124	22,561
4. Loans	–	–
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**2,238,834**	**3,098,906**
B. **Derivatives**		
a) Banks	74,469	40,550
b) Customers	28,173	28,205
Total B	**102,642**	**68,755**
Total (A + B)	**2,341,476**	**3,167,661**

Mutual funds are made up of: equity funds and sicavs for € 32.907 million, bond funds for € 0.776 million and real estate funds for € 0.441 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**	**3,034,355**	**41,990**	**22,561**	**–**	**3,098,906**
B. **Additions**	**6,013,133**	**267,851**	**100,967**	**–**	**6,381,951**
B.1 Purchases	5,923,364	260,903	99,034	–	6,283,301
B.2 Positive changes in fair value	24,397	117	631	–	25,145
B.3 Other changes	65,372	6,831	1,302	–	73,505
C. **Decreases**	**6,899,621**	**252,998**	**89,404**	**–**	**7,242,023**
C.1 Disposals	6,392,127	243,120	88,777	–	6,724,024
C.2 Reimbursements	486,923	–	–	–	486,923
C.3 Negative changes in fair value	158	9,545	590	–	10,293
C.4 Transfer to other portfolios	–	–	–	–	–
C.5 Other changes	20,413	333	37	–	20,783
D. **Closing balance**	**2,147,867**	**56,843**	**34,124**	**–**	**2,238,834**

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 at fair value through profit or loss - line item 30

3.1 Financial assets at fair value through profit or loss: breakdown by sector

	31/12/2014			31/12/2013		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**494**	**–**	**–**	**493**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	494	–	–	493	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**84,208**	**–**	**3,656**	**78,733**	**–**	**–**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total	**84,702**	**–**	**3,656**	**79,226**	**–**	**–**
Cost	**80,209**	**–**	**3,714**	**74,438**	**–**	**–**

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 at fair value through profit or loss: breakdown by debtor/issuer

Items/Amounts	31/12/2014	31/12/2013
1. **Fixed-yield securities**	**494**	**493**
a) Governments and central banks	494	493
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**	**87,864**	**78,733**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**88,358**	**79,226**

Mutual funds are made up of: bond funds and sicavs for € 49.435 million, equity funds and sicavs for € 30.127 million, real estate funds for € 4.758 million and flexible funds for € 3.545 million.

3.3 Financial assets at fair value through profit or loss: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	**Total**
A. **Opening balance**	**493**	**–**	**78,733**	**–**	**79,226**
B, **Additions**	**5**	**–**	**27,034**	**–**	**27,039**
B.1 Purchases	–	–	21,715	–	21,715
B.2 Positive changes in fair value	1	–	4,569	–	4,570
B.3 Other changes	4	–	750	–	754
C. **Decreases**	**4**	**–**	**17,903**	**–**	**17,907**
C.1 Disposals	–	–	17,768	–	17,768
C.2 Reimbursements	–	–	–	–	–
C.3 Negative changes in fair value	–	–	135	–	135
C.4 Other changes	4	–	–	–	4
D. **Closing balance**	**494**	**–**	**87,864**	**–**	**88,358**

«Other changes» include net trading income and accrued interest coupons and premiums (as an increase) and coupons collected (as a decrease).

Section 4 *Available-for-sale financial assets – line item 40*

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

	31/12/2014			31/12/2013		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**6,035,797**	**–**	**6,725**	**3,181,707**	**–**	**53,229**
1.1 Structured securities	768,884	–	3,293	303,187	–	3,000
1.2 Other fixed-yield securities	5,266,913	–	3,432	2,878,520	–	50,229
2. **Variable-yield securities**	**12,285**	**2,613**	**40,246**	**13,862**	**–**	**51,185**
2.1 Carried at fair value	12,285	2,613	–	13,862	–	-
2.2 Carried at cost	–	–	40,246	–	–	51,185
3. **Mutual funds**	**384,417**	**–**	**14,761**	**62,201**	**–**	**11,061**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**-**
Total	**6,432,499**	**2,613**	**61,732**	**3,257,770**	**–**	**115,475**

The increase in structured fixed-yield securities classified at level 1 since the end of last year is attributable to the purchase of Italian BTPs, which are securities linked to the Italian inflation rate.

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 only identified impairment losses in relation to Release spa.

Variable-yield securities include € 2.500 million in profit-sharing transactions pursuant to art. 2549 of the Civil Code relating to the production and exploitation of cinematographic work.

Mutual funds consist of closed-end unlisted equity funds for € 8.203 million, bond funds for € 359.630 million and a real estate funds for € 6.558 million, balanced funds for € 14.743 million and a flexible fund for € 10.044 million. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

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

Items/Amounts	31/12/2014	31/12/2013
1. **Fixed-yield securities**	**6,042,522**	**3,234,936**
a) Governments and central banks	6,035,797	3,171,722
b) Other public entities	1,304	1,307
c) Banks	–	40,609
d) Other issuers	5,421	21,298
2. **Variable-yield securities**	**55,144**	**65,047**
a) Banks	15,249	15,826
b) Other issuers:	39,895	49,221
- insurance companies	1,927	1,937
- financial companies	21,508	33,692
- non-financial companies	16,460	13,592
- Other	–	-
3. **Mutual funds**	**399,178**	**73,262**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**6,496,844**	**3,373,245**

4.4 Available-for-sale financial assets: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	**Total**
A. **Opening balance**	**3,234,936**	**65,047**	**73,262**	**–**	**3,373,245**
B. **Additions**	**6,020,210**	**13,264**	**435,411**	**–**	**6,468,885**
B.1 Purchases	5,763,618	1,238	410,031	–	6,174,887
B.2 Positive changes in fair value	80,989	141	21,985	–	103,115
B.3 Write-backs	–	–	–	–	–
- booked to income statement	–	–	–	–	–
- booked to equity	–	–	–	–	–
B4 Transfers from other portfolios	–	–	–	–	–
B.5 Other changes	175,603	11,885	3,395	–	190,883
C. **Decreases**	**3,212,624**	**23,167**	**109,495**	**–**	**3,345,286**
C.1 Disposals	2,609,722	343	103,085	–	2,713,150
C.2 Reimbursements	515,000	–	–	–	515,000
C.3 Negative changes in fair value	571	43	1,549	–	2,163
C.4 Writedowns - from impairment	–	18,473	835	–	19,308
- booked to income statement	–	18,473	835	–	19,308
- booked to equity	–	–	–	–	–
C.5 Transfer to other portfolios	–	–	–	–	–
C.6 Other changes	87,331	4,308	4,026	–	95,665
D. **Closing balance**	**6,042,522**	**55,144**	**399,178**	**–**	**6,496,844**

This item passes from € 3,373.245 million to € 6,496.844 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 principal increases included the purchase di fixed-yield securities, mainly Italian Government securities, for € 5,763.618 million, subscription to the increase in the capital of Banca Carige spa for € 1.184 million, and the purchase of mutual funds for € 410.031 million. Increases in fair value amounted to € 103.115 million, while other increases of € 190.883 million mainly related to the interest and profits earned and recorded in relation to fixed-yield securities. Those relating to variable-yield securities included € 4.981 million on the conversion of Prelios bonds into shares, € 2 million on new profit-sharing contracts, € 2.463 million on the recognition of Aedes shares and € 2.441 million in relation to other transactions.

The decreases include sales of fixed-yield securities, above all Italian Government securities, of € 2,609.722 million, sale of equities of € 0.343 million and sale of mutual fund units of € 103.085 million, repayment of fixed-yield securities of € 515 million, negative changes in fair value of € 2.163 million, while writedowns for impairment of equities and mutual funds amounted to € 19.308 million. Lastly, other decreases total € 95.665 million and reflect the collection of coupons € 46.812 million, reclassifications from equity on disposals, € 32.625 million, and from amortised cost, € 1.870 million, the elimination of Prelios bonds converted into shares, € 4.981 million and other operations, € 1.043 million, the elimination of profit-sharing agreements, € 1.520 million, reclassifications from equity, € 0.316 million, elimination of Aedes, € 1.361 million and other operations, € 1.111 million, redemption of mutual funds, € 3.838 million, and other operations, € 0.188 million.

Section 5 *Held-to-maturity investments - line item 50*

5.1 Held-to-maturity investments: breakdown by sector

Type of transaction/Amounts	31/12/2014 Book value	31/12/2014 Fair Value Level 1	31/12/2014 Fair Value Level 2	31/12/2014 Fair Value Level 3	31/12/2013 Book value	31/12/2013 Fair Value Level 1	31/12/2013 Fair Value Level 2	31/12/2013 Fair Value Level 3
1. **Fixed-yield securities**	**148,620**	**135,063**	**–**	**27,019**	**182,621**	**156,305**	**–**	**25,358**
- structured	16,895	–	–	16,707	16,795	–	–	16,104
- other	131,725	135,063	–	10,312	165,826	156,305	–	9,254
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 € 74.372 million at par, had been carried at fair value at the date of the financial statements, they would have been worth € 70.735 million with a loss of € 2.725 million.

5.2 Held-to-maturity investments: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2014	31/12/2013
1. **Fixed-yield securities**	**148,620**	**182,621**
a) Governments and central banks	22,403	22,366
b) Other public entities	–	–
c) Banks	53,673	68,390
d) Other issuers	72,544	91,865
2. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**148.620**	**182,621**
Total fair value	**162,082**	**181,663**

5.4 Held-to-maturity investments: changes during the year

	Fixed-yield securities	Loans	Total
A. **Opening balance**	**182,621**	**–**	**182,621**
B. **Additions**	**11,856**	**–**	**11,856**
B.1 Purchases	–	–	–
B.2 Write-backs	–	–	–
B.3 Transfers from other asset portfolios	–	–	–
B.4 Other changes	11,856	–	11,856
C. **Decreases**	**45,857**	**–**	**45,857**
C.1 Disposals	–	–	–
C.2 Reimbursements	35,000	–	35,000
C.3 Write-downs	–	–	–
C.4 Transfers to other asset portfolios	–	–	–
C.5 Other changes	10,857	–	10,857
D. **Closing balance**	**148,620**	**–**	**148,620**

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 C.2 relates to the repayment of securities expired.

Section 6 *Loans and receivables with banks - line item 60*

6.1 Loans and receivables with banks: breakdown by sector

	31/12/2014				31/12/2013			
	Book value	Fair Value			Book value	Fair Value		
Type of transaction/Amounts		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. **Deposits with central banks**	**267,799**	**–**	**–**	**267,799**	**105,504**	**–**	**–**	**105,504**
1. Time deposits	–	–	–	–	–	–	–	–
2. Compulsory reserve	267,799	–	–	–	105,504	–	–	–
3. Repurchase agreements	–	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–	–
B. **Loans and receivables with banks**	**1,323,702**	**–**	**–**	**1,323,702**	**1,376,211**	**–**	**–**	**1,376,211**
1. Loans	1,323,702	–	–	1,323,702	1,376,211	–	–	1,376,211
1.1 Current accounts and sight deposits	256,617	–	–	–	194,025	–	–	–
1.2 Time deposits	965,677	–	–	–	1,155,920			
1.3 Other loans:	101,408	–	–	–	26,266	–	–	–
- Repurchase	–	–	–	–	–	–	–	–
- Financial leases	–	–	–	–	–	–	–	–
- Other	101,408	–	–	–	26,266	–	–	–
2. Fixed-yield securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–
2.2 Other fixed-yield securities	–	–	–	–	–	–	–	–
Total	**1,591,501**	**–**	**–**	**1,591,501**	**1,481,715**	**–**	**–**	**1,481,715**

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 *Loans and receivables with customers - line item 70*

7.1 Loans and receivables with customers: breakdown by sector

Type of transaction/ Amounts	31/12/2014						31/12/2013					
	Book value			Fair Value			Book value			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**18,356,194**	**-**	**2,013,413**	**-**	**-**	**20,747,907**	**19,080,666**	**-**	**1,762,912**	**-**	**-**	**21,180,146**
1. Current accounts	5,211,474	-	941,117	-	-	-	5,865,311	-	851,584	-	-	-
2. Repurchase agreements	587,505	-	-	-	-	-	49,412	-	-	-	-	-
3. Mortgage loans	8,314,578	-	866,734	-	-	-	8,631,873	-	758,015	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	173,703	-	11,827	-	-	-	163,229	-	11,112	-	-	-
5. Financial lease	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	4,068,934	-	193,735	-	-	-	4,370,841	-	142,201	-	-	-
Fixed-yield securities	**166,219**	**-**	**-**	**-**	**-**	**166,818**	**-**	**-**	**-**	**-**	**-**	**-**
8. Structured securities	166,219	-	-	-	-	-	-	-	-	-	-	-
9. Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**18,522,413**	**-**	**2,013,413**	**-**	**-**	**20,914,725**	**19,080,666**	**-**	**1,762,912**	**-**	**-**	**21,180,146**

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.

Mortgage loans include € 1,922 million of residential mortgages, which were the subject of a securitisation and covered bonds transactions.

The securitisation transaction involved the sale without recourse of mortgage loans to the SPV Centro delle Alpi RMBS S.r.l., the senior and junior securities of which were issued in connection with this operation and were purchased by the Bank. Given that the Bank maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

The covered bond transaction involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers. Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

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	31/12/2014 Performing	31/12/2014 Impaired Purchased	31/12/2014 Impaired Other	31/12/2013 Performing	31/12/2013 Impaired Purchased	31/12/2013 Impaired Other
1. **Fixed-yield securities**	**166,219**	**–**	**–**	**–**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	166,219	–	–	–	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	166,219	–	–	–	–	–
- insurance companies	–	–	–	–	–	–
- Other	–	–	–	–	–	–
2. **Loans to:**	**18,356,194**	**–**	**2,013,413**	**19,080,666**	**–**	**1,762,912**
a) Governments	279	–	–	78	–	–
b) Other public entities	130,827	–	6	85,817	–	–
c) Other parties	18,225,088	–	2,013,407	18,994,771	–	1,762,912
- non-financial companies	11,252,428	–	1,602,946	12,349,916	–	1,391,934
- financial companies	3,261,027	–	33,072	2,836,335	–	32,125
- insurance companies	1,462	–	–	3,051	–	–
- other	3,710,171	–	377,389	3,805,469	–	338,853
Total	**18,522,413**	**–**	**2,013,413**	**19,080,666**	**–**	**1,762,912**

Section 10 *Equity investments - line item 100*

10.1 Equity investments: disclosure

Name	Registered offices of the company	Operational office	% holding	% of votes
A. **Investments in wholly-owned subsidiaries**				
1. BANCA POPOLARE DI SONDRIO SUISSE SA	Lugano	Lugano	100.000	100.000
2. FACTORIT S.p.a.	Milan	Milan	60.500	60.500
3. SINERGIA SECONDA S.r.l.	Milan	Milan	100.000	100.000
4. PIROVANO STELVIO S.p.a.	Sondrio	Sondrio	100.000	100.000
5. POPSO COVERED BOND S.r.l.	Conegliano	Conegliano	60.000	60.000
B. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	Sondrio	Sondrio	50.000	50.000
C. **Associated companies (subject to significant influence)**				
1. ALBA LEASING S.p.a.	Milan	Milan	19.021	19.021
2. ARCA VITA S.p.a.	Verona	Verona	14.837	14.837
3. BANCA DELLA NUOVA TERRA S.p.a.	Milan	Milan	19.609	19.609
4. UNIONE FIDUCIARIA S.p.a.	Milan	Milan	24.000	24.000
5. POLIS FONDI SGR PA	Milan	Milan	19.600	19.600
6. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	Milan	Milan	33.333	33.333

With limited exceptions, the above equity investments are held to complement the activities of the bank, since they provide supplementary services or help to support the local territories served.

10.5 Equity investments: changes during the year

	31/12/2014	31/12/2013
A. **Opening balance**	**411,740**	**398,637**
B. **Additions**	**474**	**19,673**
B.1 Purchases	9	15,390
B.2 Write-backs	–	–
B.3 Revaluations	–	–
B.4 Other changes	465	4,283
C. **Decreases**	**648**	**6,570**
C.1 Disposals	–	–
C.2 Adjustments	648	6,570
C.3 Other changes	–	–
D. **Closing balance**	**411,566**	**411,740**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(30,926)**	**(30,278)**

This item passes from € 411.740 million to € 411.566 million.

The increases refer to:

- an increase of € 0.009 million for the purchase of 60% of Popso Covered Bond srl, a company created as part of the issue of covered bonds;
- coverage of loss of Pirovano Stelvio spa of € 0.465 million.

The decreases refer to:

- a writedown of € 0.163 million of Banca Nuova Terra spa;
- the write-down of Pirovano Stelvio spa for € 0.485 million.

10.6 – 10.7 – 10.8 – 10.9 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, equipment and investment property - line item 110*

11.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2014	31/12/2013
1. **Owned assets**	**130,511**	**125,744**
a) land	44,446	44,364
b) buildings	67,714	63,531
c) furniture	6,314	6,810
d) IT equipment	1,413	1,500
e) other	10,624	9,539
2. **Assets purchased under finance leases**	**28,859**	**29,879**
a) land	6,803	6,803
b) buildings	22,056	23,076
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**159,370**	**155,623**

Property, equipment and investment property are valued at cost. Buildings have a fair value of € 293,843 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 134.610 million.

Property, equipment and investment property are free from restrictions and commitments guaranteeing liabilities.

Assets purchased under finance leases are represented by buildings used as bank branches.

11.5 Property, equipment and investment property used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Other	**Total**
A. **Opening gross amount**	**51,167**	**156,633**	**22,470**	**13,753**	**45,556**	**289,579**
A.1 Total net reductions in value	–	(70,026)	(15,660)	(12,253)	(36,017)	(133,956)
A.2 Opening net amount	51,167	86,607	6,810	1,500	9,539	155,623
B. **Additions**	**82**	**7,892**	**1,361**	**951**	**6,217**	**16,503**
B.1 Purchases	82	4,740	1,361	951	6,217	13,351
B.2 Capitalised improvement expenditure	–	3,152	–	–	–	3,152
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**	**–**	**4,729**	**1,857**	**1,038**	**5,132**	**12,756**
C.1 Disposals	–	–	–	–	5	5
C.2 Depreciation	–	4,729	1,857	1,038	5,127	12,751
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**	**51,249**	**89,770**	**6,314**	**1,413**	**10,624**	**159,370**
D.1 Total net reductions in value	–	(74,756)	(17,517)	(13,258)	(40,584)	(146,115)
D.2 Closing gross amount	51,249	164,526	23,831	14,671	51,208	305,485
E. **Valuation at cost**	**51,249**	**89,770**	**6,314**	**1,413**	**10,624**	**159,370**

This item totals € 159.370 million, an increase of € 3.747 million, + 2.41%.

The principal changes relate to:

- owned buildings: purchases in Valmadrera, Bergamo via Ghislandi Vittore. and Vercelli of buildings to be used as branches and garage in Sondrio, piazza Garibaldi;
  restructuring of the international unit offices in Sondrio, Lungo Mallero Cadorna;
  in Sondrio Palazzo Lambertenghi, Mazzo di Valtellina, Aprica, Novate Mezzola, Dongo, Gravedona, Bergamo-via G. d'Alzano and Abbiategrasso for restructuring works;
- 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, and equipment and investment property	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.

11.7 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 8.304 million, compared with € 5.032 million the previous year.

Section 12 Intangible assets - line item 120

12.1 Intangible assets: breakdown by type

	31/12/2014		31/12/2013	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**–**	**–**	**–**
A.2 **Other intangible assets**	**11,917**	**–**	**11,676**	**–**
A.2.1 Carried at cost:	11,917	–	11,676	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	11,917	–	11,676	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**11,917**	**–**	**11,676**	**–**

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:

	31/12/2014	31/12/2013
recorded in 2011	–	1
recorded in 2012	1	4,049
recorded in 2013	3,813	7,626
recorded in 2014	8,103	–
Total	**11,917**	**11,676**

12.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total 31/12/2014
		Specified	Unspecified	Specified	Unspecified	
A. **Opening gross amount**	**–**	**–**	**–**	**84,266**	**–**	**84,266**
A.1 Total net reductions in value	–	–	–	(72,590)	–	(72,590)
A.2 Opening net amount	–	–	–	11,676	–	11,676
B. **Additions**	**–**	**–**	**–**	**12,154**	**–**	**12,154**
B.1 Purchases	–	–	–	12,154	–	12,154
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**	**–**	**–**	**–**	**11,913**	**–**	**11,913**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	11,913	–	11,913
- Amortisation	–	–	–	11,913	–	11,913
- Write-downs	–	–	–	–	–	–
+ 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**	**–**	**–**	**–**	**11,917**	**–**	**11,917**
D.1 Total net reductions in value	–	–	–	(84,503)	–	(84,503)
E. **Closing gross amount**	**–**	**–**	**–**	**96,420**	**–**	**96,420**
F. **Valuation at cost**	**–**	**–**	**–**	**11,917**	**–**	**11,917**

Key:
Specified: Specified duration
Unspecified: unspecified duration

12.3 Other information

Contractual commitments to purchase software user rights amount to € 7.144 million, compared with € 6.804 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

	31/12/2014	31/12/2013
Loan writedowns	320,198	243,012
Provisions for risks and charges	16,007	17,125
Deferred charges	2,617	2,856
Securities and equity investments	270	2,193
Administrative expenses	11,506	5,367
Amortisation and depreciation	1,525	1,445
Total	**352,123**	**271,998**

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

	31/12/2014	31/12/2013
Owned buildings	5,718	5,718
Accelerated depreciation	2,042	2,175
Leased buildings	1,833	1,886
Revaluation of securities and gains	35,976	17,228
Administrative expenses	276	949
Loans	–	-
Total	**45,845**	**27,956**

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)

	31/12/2014	31/12/2013
1. **Opening balance**	**264,685**	**145,419**
2. **Increases**	**157,431**	**163,893**
2.1 Deferred tax assets arising during the year	157,431	163,848
a) relating to prior years	451	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	156,980	163,848
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	45
3. **Decreases**	**81,514**	**44,627**
3.1 Deferred tax assets eliminated during the year	74,733	44,625
a) reversals	74,733	44,625
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	6,781	2
a) transformation into tax credits as per Law 214/2011	–	–
b) other	6,781	2
4. **Closing balance**	**340,602**	**264,685**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist.

13.3.1 Change in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2014	31/12/2013
1. **Opening balance**	**243,012**	**126,943**
2. **Increases**	**150,615**	**154,283**
3. **Decreases**	**73,429**	**38,214**
3.1 Reversals	68,337	38,214
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	5,092	–
4. **Closing balance**	**320,198**	**243,012**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist.

13.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2014	31/12/2013
1. **Opening balance**	**10,311**	**11,797**
2. **Increases**	**4**	**4**
2.1 Deferred tax liabilities arising during the year	4	4
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	4	4
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**323**	**1,490**
3.1 Deferred tax liabilities eliminated during the year	318	450
a) reversals	318	450
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	5	1,040
4. **Closing balance**	**9,992**	**10,311**

13.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2014	31/12/2013
1. **Opening balance**	**7,312**	**11,877**
2. **Increases**	**6,827**	**1,453**
2.1 Deferred tax assets arising during the year	6,827	1,453
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	6,827	1,453
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**2,618**	**6,018**
3.1 Deferred tax assets eliminated during the year	2,618	4,978
a) reversals	2,618	4,978
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	–	1,040
4. **Closing balance**	**11,521**	**7,312**

This amount relates for € 0.270 million to losses on securities available for sale booked to equity, and for € 9.494 million to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised, as well as for € 1.757 million to expenses related to the increase in capital.

13.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2014	31/12/2013
1. **Opening balance**	**17,645**	**8,892**
2. **Increases**	**18,929**	**9,695**
2.1 Deferred tax liabilities arising during the year	18,929	9,695
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	18,929	9,695
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**720**	**942**
3.1 Deferred tax liabilities eliminated during the year	720	942
a) reversals	720	942
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**35,854**	**17,645**

This amount relates to the tax on the gains on securities available for sale booked to equity.

Section 15 Others assets – line item 150

15.1 Other assets: breakdown

	31/12/2014	31/12/2013
Advances paid to tax authorities	48,628	31,184
Withholdings on interest due to customers	3,491	6,360
Tax credits and related interest	22,868	15,333
Current account cheques drawn on third parties	31,165	26,208
Current account cheques drawn on Group banks	13,575	14,051
Transactions in customers' securities	4,383	1,488
Inventories	973	746
Costs pertaining to the subsequent year	1,262	1,559
Advances to suppliers	331	533
Advances to customers awaiting collections	17,927	17,371
Miscellaneous debits in transit	45,870	29,697
Liquidity of pension fund	33,283	16,924
Prepayments not allocated	29,880	26,335
Guarantee deposits for the purchase of property	3,884	3,498
Residual items	61,639	154,210
Total	**319,159**	**345,497**

Liabilities and equity

Section 1 *Due to banks - line item 10*

1.1 Due to banks: breakdown by type

Type of transaction/Amounts	**31/12/2014**	**31/12/2013**
1. **Due to central banks**	**1,107,248**	**1,851,122**
2. **Due to banks**	**1,198,106**	**1,841,512**
2.1 Current accounts and sight deposits	456,673	317,042
2.2 Time deposits	522,409	1,344,057
2.3 Loans	167,771	180,399
2.3.1 Repurchase agreements	–	–
2.3.2 Other	167,771	180,399
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	51,253	14
Total	**2,305,354**	**3,692,634**
Fair value - level 1	**–**	**–**
Fair value - level 2	**–**	**–**
Fair value - level 3	**2,305,354**	**3,692,634**
Total fair value	**2,305,354**	**3,692,634**

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO). The first, for € 350 million, was obtained in September 2014 and the second, for € 748 million, was granted in December 2014. Both are repayable in September 2018, subject to obligatory early repayment in September 2016 if the lending thresholds established by the ECB have not been met. These loans are secured by bonds, mainly Government bonds, securities issued in connection with the securitisation carried out by the Bank, and loans.

«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

	31/12/2014	**31/12/2013**
Payables for finance leases	1,114	1,977

Payables for finance leases at floating rates amount to € 4.294 million, of which € 1.114 million relating to banks and € 3.180 million relating to customers against a total of € 5.701 million in the previous year, -24.69%; they relate to buildings used as banking branches.

Total outstanding lease commitments, including interest, amount to € 4.369 million. These payables fall due as follows:

within 1 months	1,283	1,481
1 to 5 years	2,892	4,077
over 5 years	194	261

Section 2 *Due to customers - line item 20*

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2014	31/12/2013
1. **Current accounts and sight deposits**	**20,899,453**	**16,846,143**
2. **Time deposits**	**2,371,066**	**4,035,963**
3. **Loans**	**410,399**	**283,142**
3.1 Repurchase agreements	383,722	210,968
3.2 Other	26,677	72,174
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**
5. **Other payables**	**52,782**	**43,532**
Total	**23,733,700**	**21,208,780**
Fair value – Level 1	**–**	**–**
Fair value – Level 2	**–**	**–**
Fair value – Level 3	**23,733,700**	**21,208,780**
Total fair value	**23,733,700**	**21,208,780**

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

	31/12/2014	31/12/2013
Payables for finance leases	3,180	3,724

Section 3 *Securities issued - line item 30*

3.1 Securities issued: breakdown by sector

	31/12/2014				31/12/2013			
	Book	*Fair Value*			Book	*Fair Value*		
Type of security/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	3,212,469	518,968	2,764,251	–	2,766,991	–	2,787,310	–
1.1 structured	86,180	–	86,180	–	–	–	–	–
1.2 Others	3,126,289	518,968	2,678,071	–	2,766,991	–	2,787,310	–
2. Other securities	78,455	–	78,455	–	83,647	–	83,647	–
2.1 Structured	–	–	–	–	–	–	–	–
2.2 Other	78,455	–	78,455	–	83,647	–	83,647	–
Total	**3,290,924**	**518,968**	**2,842,706**	**–**	**2,850,638**	**–**	**2,870,957**	**–**

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.

Level 1 securities refer to covered bonds issued last year.

3.2 Details of line item 30 «securities issued»: subordinated securities

Subordinated securities amount to € 883.554 million and are made up of the loans indicated below:

- loan of € 217.988 million from 26/2/2010 and maturity on 26/2/2017 with an annual repayment of 20% from 26/2/2013. This was issued with an interest rate of 4% which will gradually rise to 5%; the coupon current at year end is 4.50%.
- loan of € 313.965 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. The interest rate commenced at 4.50% and will gradually rise to 6%; the coupon current at year end is 5%.
- loan of € 100.971 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2%.
- loan of € 100.609 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2%.
- loan of € 150.021 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 2.25%.

The entry into force of Regulation (EU) 575/2013 of 26 June 2013 changed the way subordinated loans are included in own funds for the determination of supervisory capital. Art. 63 of this regulation limits the inclusion of subordinated loans as class 2 capital within own funds, if they may be redeemed within five years of issue. This regulation has been interpreted in various ways. The bank specifically questioned the Supervisory Authority on this matter and received a restrictive interpretation. Accordingly, the subordinated loans issued in 2014 have not be included as part of own capital, while part of those issued earlier have been included in view of the related guarantee clauses.

Section 4 *Financial liabilities held for trading - line item 40*

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	31/12/2014					31/12/2013				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
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	–	–	98,099	–	–	–	29	60,280	–	–
1.1 for trading	–	–	98,099	–	–	–	29	60,280	–	–
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	**–**	**–**	**98,099**	**–**	**–**	**–**	**29**	**60,280**	**–**	**–**
Total A+B	**–**	**–**	**98,099**	**–**	**–**	**–**	**29**	**60,280**	**–**	**–**

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*

The balance of € 45.845 million relates entirely to deferred taxation. There is no current taxation due to the considerable increase in advances paid pursuant to the changes introduced by Decree 133 of 30 November 2013, which resulted in the excess payments reported in asset line item 130.

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, 2007 and 2008 the Bank received notices 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. They have assessed higher IRES of € 0.544 million for 2006, € 0.855 million for 2007 and € 0.978 million for 2008 and higher IRAP of € 0.086 million, € 0.136 million and € 0.171 million respectively, plus penalties and interest. The appeals relating to the assessments regarding the 2006, 2007 and 2008 tax years are currently pending before the Milan Provincial Tax Commission, for which the Tax Authorities proposed a court conciliation, accepted by the Bank.

For 2009, the Bank received a notice of assessment for VAT purposes for not applying VAT on the commissions received as a custodian bank for the amount of € 0.129 million. This matter was raised in prior years and a solution was found in Tax Authority Resolution 97/E of 17 December 2013, which formalised a compromise that subjects part of these commissions to VAT at a flat rate, with no penalties in relation to the prior years covered by assessments. The 2009 assessment therefore reflects the content of the above Resolution. The bank has decided to close the dispute under the terms of the Resolution, without penalties and with a reduction of the amount requested, consistent with the approach taken in relation to the prior years subjected to assessment.

An assessment was received during the year regarding the flat tax on a syndicated medium/long-term loan, the contract for which was signed abroad. Assessments regarding the same matters were also received in the prior year. By contrast with previous guidance, the Tax Authorities now state that such contracts were prepared in Italy, even if signed abroad, and are therefore subject to flat-rate taxation. In almost all cases, such contracts envisage recharge of the additional taxation to the financed counterparties. The Bank has filed the related appeals, through its lawyers after consultation with the other banks in the syndicate and the beneficiaries of the loans. The dispute is likely to be resolved largely in favour of the bank.

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2014	31/12/2013
Amounts at the disposal of third parties	243,285	309,605
Taxes to be paid on behalf of third parties	44,686	46,855
Taxes to be paid	5,275	9,268
Employee salaries and contributions	25,450	13,847
Suppliers	10,254	10,082
Transit accounts for sundry entities	1,430	10,663
Invoices to be received	10,689	9,082
Credits in transit for financial transactions	321	132
Value date differentials on portfolio transactions	141,607	135,442
Directors' and statutory auditors' emoluments	1,003	976
Loans disbursed to customers to be finalised	19,313	9,705
Miscellaneous credit items being settled	49,056	49,594
Accrued expenses not allocated	1,384	1,904
Deferred income not allocated	13,983	14,810
Allowance for risks on guarantees and commitments	18,177	18,000
Residual items	93,383	28,516
Total	**679,296**	**668,481**

This line item shows an increase of 1.62%.

Section 11 *Post-employment benefits - line item 110*

11.1 Post-employment benefits: change in the year

	31/12/2014	31/12/2013
A. **Opening balance**	**38,265**	**39,990**
B. **Additions**	**11,465**	**7,450**
B.1 Provisions	7,350	7,389
B.2 Other changes	4,115	61
C. **Decreases**	**7,288**	**9,175**
C.1 Payments made	955	778
C.2 Other changes	6,333	8,397
D. **Closing balance**	**42,442**	**38,265**

11.2 Other information

Other increases are linked to deferred remuneration and to an actuarial valuation of the liability of € 3.999 million.

Other decreases relate to payments to the Arca Previdenza Fund for a total of € 4.332 million, compared with € 4.304 million the previous year, payments to INPS of € 1.916 million and tax on the annual revaluation of € 0.085 million, compared with € 0.132 million the previous year. When deciding on the discount rate, we took into account the recommendation made by ESMA in its document 725/2012 of 12 November 2012. High-quality corporate securities with an AAA rating have been taken as a point of reference. We also used a yield curve that takes into account the expected average life of the Bank's obligation.

The provision for termination indemnities required under Italian regulations amounts to €40.330 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:

	31/12/2014	31/12/2013
Discount rate	1.88%	3.00%
Rate of inflation	1.50%	1.50%
Annual rate of increase in termination indemnities	1.50%	2.65%

The discount rate has been chosen according to the I-Boxx Corporates Eurozone AAA index with a duration of more than 10 years.

Section 12 Provisions for risks and charges - line item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2014	31/12/2013
1. **Pension and similar obligations**	**117,043**	**100,539**
2. **Other provisions for risks and charges**	**39,098**	**41,346**
2.1 legal disputes	22,980	26,436
2.2 personnel expenses	15,233	13,943
2.3 other	885	967
Total	**156,141**	**141,885**

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: change in the year

	Pension and similar obligations	Other provisions	Total
A. **Opening balance**	**100,539**	**41,346**	**141,885**
B. **Additions**	**20,537**	**17,986**	**38,523**
B.1 Provisions	2,351	14,883	17,234
B.2 Changes due to the passage of time	–	68	68
B.3 Changes due to variations in the discount rate	13,876	49	13,925
B.4 Other changes	4,310	2,986	7,296
C. **Decreases**	**4,033**	**20,234**	**24,267**
C.1 Utilisations during the year	3,530	13,280	16,810
C.2 Changes due to variations in the discount rate	–	12	12
C.3 Other changes	503	6,942	7,445
D. **Closing balance**	**117,043**	**39,098**	**156,141**

12.3 Defined-benefit pension plans

12.3.1. Characteristics of the plans and related risks

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 423 employees and 237 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. 2,040 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

	31/12/2014	31/12/2013
At 1 January	100,539	95,729
service cost	2,043	1,984
interest cost	3,024	3,358
actuarial gains/losses	13,876	2,990
payments	(3,530)	(3,522)
other provisions	1,091	–
At 31 December	**117,043**	**100,539**

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the pension plan are summarised in the following table:

	31/12/2014	31/12/2013
Fixed-yield securities	75,160	74,769
Variable-yield securities	1,142	515
Mutual funds invested in shares	7,017	7,890
Mutual funds invested in property	441	441
Other assets	33,283	16,924
Total	**117,043**	**100,539**

The amount of the fund increases by € 16.504 million, +16.42%.

Payments of benefits amount to € 3.530 million compared with € 3.522 million. The contributions paid by the employees totalled € 0.234 million (€ 0.231 million in the prior year).

12.3.4 Defined-benefit pension plans – Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	31/12/2014	31/12/2013
Discount rate	1.88%	3.00%
Expected increase in salaries	0.50%	2.00%
Rate of inflation	–	1.50%
Underlying rate of pension increases	1.00%	1.50%

The average discount rate was determined with reference to the I-Boxx Corporates Eurozone AAA index with a duration of over 10 years.

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. The situation reflected in the financial statements was used as the base scenario and the two most significant assumptions (average discount rate and inflation rate) were increased and decreased, obtaining the following results:

Sensitivity

+ 0.25% change in the discount rate, liability of € 111.366 million

- 0.25% change in the discount rate, liability of € 120.752 million

In addition, the liability in the coming years was also analysed; in substance, utilisations in the coming years were estimated, as shown in the following table:

Future payments (millions of euro)

Year	0-1	1-2	2-3	3-4	4-5
Cash flows	3,449	3,522	3,425	3,356	3,302

12.4 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2014	31/12/2013
Provision for legal disputes	22,980	26,436
Provision for personnel expenses	15,233	13,943
Provision for charitable donations	885	967
Total	**39,098**	**41,346**

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 for € 8.096 million, and other disputes that have arisen in the ordinary course of business for € 14.884 million. 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 31/12/2014 as the discount rate.

They decrease by € 3.456 million for the difference between the provisions for the year of € 4.091 million and the release of prior year provisions of € 7.547 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 € 1.290 million, + 9.25%.

The provision for charitable donations comprises an allocation from profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2013 profit, while the reduction of € 0.182 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

Issued and fully-paid share capital is represented by 453,385,777 ordinary shares, par value € 3 each, totalling € 1,360.157 million. This follows an increase of 145,237,792 shares, with a total nominal value of € 435.713 million, after full implementation of the mixed capital increase authorised at the Shareholders' Meeting held on 26 April 2014. Under a mandate granted at that Meeting, the basis and timing of the increase was approved at the Board Meeting held on 5 June 2014, and the increase was completed in early July 2014. Shares in circulation have dividend and voting rights from 1 January 2014.

At the period-end, the Bank held treasury shares with a carrying value of € 25.031 million.

14.2 Share capital – Number of shares: change in the year

Items/Type	Ordinary	Other
A. **Shares at the beginning of the year**	**308,147,985**	**–**
- fully paid	308,147,985	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,020,000)	–
A.2 **Shares in circulation: opening balance**	**305,127,985**	**–**
B. **Additions**	**145,237,792**	**–**
B.1 New issues	145,237,792	–
- for payment	114,422,994	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- others	114,422,994	–
- free of charge	30,814,798	–
- to employees	–	–
- to directors	–	–
- other	30,814,798	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**(530,000)**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	(202,323)	–
C.3 Business disposals	–	–
C.4 Other changes	(327,677)	–
D. **Shares in circulation: closing balance**	**449,835,777**	**–**
D.1 Treasury shares (+)	3,550,000	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

14.3 Share capital: other information

Share premium reserve

This line item amounts to € 79.005 million, down by 92.445 million, - 53.92%, compared with the previous year, following the allotment of bonus shares as part of the capital increase.

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 € 665.469 million, + 4.31% on the prior year figure 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 € 161.561 million, +13,07%, following the allocation of € 18.675 million from 2013 profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to € 392.417 million (+3.98%), following the allocation of € 14.650 million out of the 2013 profit, dividends on treasury shares of € 0.222 million and disposal of rights not taken up on the capital increase transaction and dividends in prescription of € 0.152 million.

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 € 93 million (it has been used for € 25.031 million), unchanged compared with the previous year.

Reserve pursuant to art. 13 of Decree 124/93, € 0.142 million.

Other Reserves amount to € 18.349 million, down by € 6.230 million, - 25.35%, compared with the previous year, following capitalisation of the cost of the capital increase, net of tax effect.

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 change in the year

No equity instruments have been issued.

Other information

1. Guarantees given and commitments

Operations	31/12/2014	31/12/2013
1) **Financial guarantees:**	**746,415**	**801,689**
a) Banks	173,725	245,838
b) Customers	572,690	555,851
2) **Commercial guarantees:**	**3,394,915**	**3,507,231**
a) Banks	78,182	79,039
b) Customers	3,316,733	3,428,192
3) **Irrevocable commitments to make loans**	**1,003,756**	**818,943**
a) Banks	71,556	46,583
i) certain to be called on	59,946	34,523
ii) not certain to be called on	11,610	12,060
b) Customers	932,200	772,360
i) certain to be called on	367,812	204,873
ii) not certain to be called on	564,388	567,487
4) **Commitments underlying credit derivatives: protection sold**	–	–
5) **Assets lodged to guarantee the commitments of third parties**	**494,768**	**45,195**
6) **Other commitments**	**9**	**4,296**
Total	**5,639,863**	**5,177,354**

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2014	31/12/2013
1. Financial assets held for trading	637,156	1,110,277
2. Financial assets fair value through profit or loss	–	–
3. Available-for-sale financial assets	1,270,938	1,139,554
4. Held-to-maturity investments	–	12,833
5. Loans and receivables with banks	–	–
6. Loans and receivables with customers	906,013	432,798
7. Property, equipment and investment property	–	–

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; assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances. These securities are not subject to structured repurchase agreements.

In addition, securities (senior tranche) of € 899.783 million deriving from the securitisation of performing residential mortgage loans sold to Centro delle Alpi RMBS srl, the vehicle company.

Loans and receivables with customers comprise the residential mortgages used to guarantee the loans obtained from the ECB.

4. Management and intermediation for third parties

Type of service	31/12/2014
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**	
a) Individual	1,452,517
b) Collective	–
3. **Custody and administration of securities**	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	971,147
1. securities issued by the reporting bank	–
2. other securities	971,147
b) other third-party securities on deposit (excluding portfolio management): other	17,790,411
1. securities issued by the reporting bank	3,504,276
2. other securities	14,286,135
c) Third-party securities on deposit with third parties	18,181,926
d) own securities on deposit with third parties	8,856,576
4. **Other transactions**	

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at 31/12/2014 (f = c-d-e)**	**Net amount at 31/12/2013**
1. Derivatives	71,691	–	71,691	16,084	50,936	4,671	7,361
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/14	**71,691**	**–**	**71,691**	**16,084**	**50,936**	**4,671**	**–**
Total 31/12/13	**7,414**	**–**	**7,414**	**–**	**53**	**–**	**7,361**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The net positive fair value at 31/12/2014 that is not correlated with deposits received in guarantee amounts to € 4.671 million. This amount principally derives from the fact that the margin calls on deposits given in guarantee are made weekly.

Given that fair value changes daily, there may be situations intraweek in which fair value is not fully covered or in which the deposits given in guarantee exceed the value of the related derivatives.

When the «third pillar» of the EMIR regulation (obligatory collateralisation of the Mark-to-Market adjustment of derivative products via a Central Counterparty) becomes operational (the exact date is not yet known), the amount of these differences will diminish considerably, tending to zero, since the CSA margin calls will be made daily.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

	Gross amount of financial assets (a)	Amount of financial assets netted in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits given in guarantee (e)	**Net amount at 31/12/2014 (f = c-d-e)**	**Net amount at 31/12/2013**
1. Derivatives	77,193	–	77,193	16,084	59,736	1,373	3,864
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–
Total 31/12/14	**77,193**	**–**	**77,193**	**16,084**	**59,736**	**1,373**	**–**
Total 31/12/13	**47,928**	**–**	**47,928**	**–**	**44,064**	**–**	**3,864**

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 31/12/2014**	**Total 31/12/2013**
1. Financial assets held for trading	30,245	–	–	30,245	42,263
2. Available-for-sale financial assets	72,177	–	–	72,177	71,570
3. Held-to-maturity investments	1,395	–	–	1,395	2,017
4. Loans and receivables with banks	–	6,980	–	6,980	8,108
5. Loans and receivables with customers	1,199	747,666	–	748,865	790,319
6. Financial assets measured at fair value	4	–	–	4	434
7. Hedging derivatives	–	–	–	–	–
8. Other assets	–	–	–	–	–
Total	**105,020**	**754,646**	**–**	**859,666**	**914,711**

1.3 Interest and similar income: other information

Interest income decreased significantly, -6.02%, from € 914.711 million to € 859.666 million because of the reduction in interest rates on loans to customers and of financial investments. The effect of the reduction in loans and receivables with customers and banks was offset by the considerable increase in the securities portfolio, despite the falling yields.

1.3.1 Interest and similar income on foreign currency assets

Items	**31/12/2014**	**31/12/2013**
Interest and similar income on foreign currency assets	33,733	41,373

1.4 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Others transactions	Total 31/12/2014	Total 31/12/2013
1. Due to central banks	(2,742)	–	–	(2,742)	(10,270)
2. Due to banks	(7,471)	–	–	(7,471)	(11,007)
3. Due to customers	(238,864)	–	–	(238,864)	(316,907)
4. Securities issued	–	(90,028)	–	(90,028)	(88,377)
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–
Total	**(249,077)**	**(90,028)**	**–**	**(339,105)**	**(426,561)**

1.6 Interest and similar expense: other information

Interest expense has decreased from € 426.561 million to € 339.105 million, – 20.50%. The reduction of € 87.456 million reflects the lower cost of funding from customers and in the interbank market.

1.6.1 Interest and similar expense on foreign currency liabilities

	31/12/2014	31/12/2013
Interest and similar expense on foreign currency liabilities	(2,753)	(4,995)

1.6.2 Interest expense on finance lease transactions

	31/12/2014	31/12/2013
Interest expense on finance lease transactions	(48)	(60)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2014	31/12/2013
a) **guarantees given**	**28,523**	**27,181**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**64,615**	**56,646**
1. trading in financial instruments	–	–
2. trading in foreign currencies	9,265	8,242
3. portfolio management	6,762	5,767
3.1. individual	6,762	5,767
3.2. collective	–	–
4. custody and administration of securities	1,720	1,788
5. custodian bank	1,374	1,137
6. placement of securities	20,112	14,553
7. order receipt and transmission	12,427	12,114
8. consultancy	59	65
8.1 investments	–	–
8.2 corporate finance	59	65
9. distribution of third-party services	12,896	12,980
9.1 portfolio management	–	–
9.1.1. Individual	–	–
9.1.2. Collective	–	–
9.2 insurance products	8,848	8,164
9.3 other products	4,048	4,816
d) **collection and payment services**	**64,996**	**61,279**
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**	**30,466**	**30,697**
j) **other services**	**69,385**	**64,908**
Total	**257,985**	**240,711**

«Other services» mainly consist of loan commissions of € 60.054 million and international/foreign exchange fees of € 6.281 million.

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts	31/12/2014	31/12/2013
a) **Bank branches:**		
1. Portfolio management	6,762	5,767
2. Placement of securities	20,112	14,553
3. Third-party products and services	12,896	12,980
b) **Door-to-door sales:**		
1. Portfolio management	–	–
2. Placement of securities	–	–
3. Third-party products and services	–	–
c) **Other distribution channels:**		
1. Portfolio management	–	–
2. Placement of securities	–	–
3. Third-party products and services	–	–

2.3 Fee and commission expense: breakdown

Services/Amounts	31/12/2014	31/12/2013
a) **guarantees received**	**(385)**	**(255)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(1,562)**	**(1,272)**
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	(1,562)	(1,272)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,632)**	**(9,255)**
e) **other services**	**(4,168)**	**(4,109)**
Total	**(15,747)**	**(14,891)**

«Other services» mainly include commissions on security and lending transactions.

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2014		31/12/2013	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	764	137	1,102	122
B. Available-for-sale financial assets	1,301	1,308	1,303	–
C. Financial assets at fair value through profit or loss	–	–	–	–
D. Equity investments	12,732	–	17,726	–
Total	**14,797**	**1,445**	**20,131**	**122**

Dividends from equity investments amounted to € 4.628 million paid by Factorit spa, € 7.829 million by Arca Vita spa, € 0.156 million by Unione Fiduciaria spa and € 0.119 million by Polis Fondi SGRpa.

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 result [(A+B)-(C+D)] **31/12/2014**
1. **Financial assets held for trading**	**25,532**	**58,882**	**(10,995)**	**(439)**	**72,980**
1.1 Fixed-yield securities	24,396	35,125	(158)	(94)	59,269
1.2 Variable-yield securities	75	6,536	(9,203)	(314)	(2,906)
1.3 Mutual funds	154	1,111	(529)	(31)	705
1.4 Loans	–	–	–	–	–
1.5 Others	907	16,110	(1,105)	–	15,912
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**	**–**	**–**	**–**	**–**	**12,598**
4. **Derivatives**	**25,422**	**31,332**	**(27,383)**	**(24,885)**	**4,536**
4.1 Financial derivatives:	25,422	31,332	(27,383)	(24,885)	4,536
- On debt securities and interest rates	25,122	23,597	(26,513)	(21,689)	517
- On equities and equity indices	–	6,494	(570)	(2,012)	3,912
- On currency and gold	–	–	–	–	50
- Other	300	1,241	(300)	(1,184)	57
4.2 Credit derivatives	–	–	–	–	–
Total	**50,954**	**90,214**	**(38,378)**	**(25,324)**	**90,114**

The net trading income amounted to € 90.114 million on € 102.437 million, – 12.03%. Trading profits were higher than in the prior year, when they totalled € 54.015 million, and net gains were also good but less than in 2013 due to the continued recovery of the financial markets. Trading income on other financial assets of € 15.912 million is mainly made up of exchange gains. Exchange differences of € 12.598 million consist almost entirely of fixed-yield securities in US dollars.

This table does not include the result of the securities in the pension fund, which is shown under another item.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

	31/12/2014			31/12/2013		
Items/income items	Profits	Losses	Profit	Profits	Losses	Profit
Financial assets						
1. **Loans and receivables with banks**	**-**	**-**	**-**	**-**	**-**	**-**
2. **Loans and receivables with customers**	**-**	**-**	**-**	**-**	**-**	**-**
3. **Available-for-sale financial assets**	**95,926**	**(421)**	**95,505**	**52,747**	**(229)**	**52,518**
3.1 Fixed-yield securities	95,023	(284)	94,739	48,152	-	48,152
3.2 Variable-yield securities	-	(137)	(137)	2,684	(87)	2,597
3.3 Mutual funds	903	-	903	1,911	(142)	1,769
3.4 Loans	-	-	-	-	-	-
4. **Held-to-maturity investments**	**-**	**-**	**-**	**55**	**-**	**55**
Total assets	**95,926**	**(421)**	**95,505**	**52,802**	**(229)**	**52,573**
Financial liabilities						
1. **Due to banks**	**-**	**-**	**-**	**-**	**-**	**-**
2. **Due to customers**	**-**	**-**	**-**	**-**	**-**	**-**
3. **Securities issued**	**271**	**(1,622)**	**(1,351)**	**537**	**(391)**	**146**
Total liabilities	**271**	**(1,622)**	**(1,351)**	**537**	**(391)**	**146**

Section 7 *Net gains on financial assets and liabilities at fair value through profit or loss - line item 110*

7.1 Net gains on financial assets/liabilities at fair value through profit or loss: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net result [(A+B)-(C+D)] **31/12/2014**
1. **Financial assets**	**2,174**	**751**	**(135)**	**-**	**2,790**
1.1 Fixed-yield securities	1	-	-	-	1
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	2,173	751	(135)	-	2,789
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**	**-**	**-**	**-**	**-**	**2,397**
4. **Credit and financial derivatives**	**-**	**-**	**-**	**-**	**-**
Total	**2,174**	**751**	**(135)**	**-**	**5,187**

Gains, losses, proceeds from disposals principally concern mutual fund units and Italian Government securities.

Section 8 *Net impairment losses - line item 130*

8.1 Net impairment losses on loans and receivables: breakdown

Transactions/ Income items	Adjustments (1) Specific Write-offs	Specific Other	Portfolio	Write-backs (2) Specific A	Specific B	Portfolio A	Portfolio B	Total 31/12/2014	Total 31/12/2013
A. **L&R banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
B. **L&R with customers**	**(86,026)**	**(483,140)**	**(22,067)**	**533**	**74,993**	**–**	**61,631**	**(454,076)**	**(446,094)**
Purchased impaired loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
Other receivables	**(86,026)**	**(483,140)**	**(22,067)**	**533**	**74,993**	**–**	**61,631**	**(454,076)**	**(446,094)**
- Loans	(86,026)	(478,386)	(21,468)	533	74,993	–	61,631	(448,723)	(446,094)
- Fixed-yield securities	–	(4,754)	(599)	–	–	–	–	(5,353)	–
C. **Total**	**(86,026)**	**(483,140)**	**(22,067)**	**533**	**74,993**	**–**	**61,631**	**(454,076)**	**(446,094)**

Key:
A = interest
B = Other write-backs

8.2 Net impairment losses on available-for-sale financial assets: breakdown

Transactions/Income items	Adjustments (1) Specific Write-offs	Specific Other	Write-backs (2) Specific A	Specific B	Total 31/12/2014	Total 31/12/2013
A. Debt securities	–	–	–	–	–	–
B. Variable-yield securities	–	(18,473)	–	–	(18,473)	(11,419)
C. Mutual funds	–	(835)	–	–	(835)	(1,462)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**–**	**(19,308)**	**–**	**–**	**(19,308)**	**(12,881)**

Key:
A = interest
B = Other write-backs

Adjustments principally relate to the writedown of the investments in Release spa by € 12.184 million and in Prelios spa by € 2.850 million, as well as to the impairment of listed and unlisted shares and mutual funds whose equity value has fallen below their original cost.

8.4 Net impairment losses on other financial transactions: breakdown

Transactions/ Income items	Adjustments (1) Specific Write-offs	Specific Other	Portfolio	Write-backs (2) Specific A	Specific B	Portfolio A	Portfolio B	Total 31/12/2014	Total 31/12/2013
A. Guarantees given	–	(179)	–	–	–	–	2	(177)	(9,900)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to make loans	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	(3,892)
E. Total	**–**	**(179)**	**–**	**–**	**–**	**–**	**2**	**(177)**	**(13,792)**

Key:
A = interest
B = Other write-backs

The adjustments represent net provisions for guarantees given.

Section 9 *Administrative expenses - line item 150*

9.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2014	31/12/2013
1) **Employees**	**(171,104)**	**(165,147)**
a) Wages and salaries	(105,843)	(103,462)
b) Social security contributions	(29,352)	(28,227)
c) Termination indemnities	–	–
d) Pension expenses	–	–
e) Provision for employee termination indemnities	(7,351)	(7,389)
f) Provision for pension and similar obligations:	(6,286)	(5,606)
- defined contribution	–	–
- defined benefits	(6,286)	(5,606)
g) Payments to external supplementary pension funds:	(2,437)	(2,377)
- defined contribution	(2,437)	(2,377)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(19,835)	(18,086)
2) **Other working personnel**	**(3,034)**	**(3,037)**
3) **Directors and Statutory auditors**	**(1,374)**	**(2,143)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**81**	**84**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(110)**	**(74)**
Total	**(175,541)**	**(170,317)**

9.2 Average number of employees by category

	31/12/2014	31/12/2013
1) **Employees**	**2,582**	**2,578**
a) Managers	21	22
b) Officials	522	509
c) Other employees	2,039	2,047
2) **Other personnel**	**77**	**77**

	31/12/2014	31/12/2013
- Number of employees at year-end	2,596	2,582
- Other personnel	77	81

9.3 Defined-benefit pension plans: total costs

Income items/Amounts	31/12/2014	31/12/2013
Service cost	2,043	1,984
Interest	3,025	3,358
Contributions from employees	(234)	(231)
Reductions and payments	1,452	495
Total charge to income statement (A)	**6,286**	**5,606**
Portion of yield from assets servicing the fund (B)	4,310	3,681
Total charge (A-B)	1,976	1,925

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 principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. These contributions amounted to € 1.976 million. An additional provision of € 4.310 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». A provision of € 13.876 million to cover the actuarial loss has not been charged to the income statement, but instead it has been deducted from equity in accordance with IAS 19, as reported in the statement of comprehensive income.

9.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

9.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2014	31/12/2013
Telephone, post and data transmission	(12,244)	(12,657)
Maintenance of property, equipment and investment property	(7,662)	(8,135)
Rent of buildings	(25,387)	(25,409)
Security	(5,814)	(5,966)
Transportation	(1,947)	(1,923)
Professional fees	(20,796)	(14,823)
Office materials	(2,014)	(2,193)
Electricity, heating and water	(5,666)	(5,760)
Advertising and entertainment	(3,049)	(3,122)
Legal	(10,345)	(8,995)
Insurance	(1,327)	(1,329)
Company searches and information	(5,506)	(4,896)
Indirect taxes and dues	(50,201)	(46,168)
Software and hardware rental and maintenance	(9,751)	(8,856)
Data entry by third parties	(1,526)	(1,391)
Cleaning	(5,013)	(4,864)
Membership fees	(1,853)	(1,873)
Services received from third parties	(2,913)	(3,139)
Outsourced activities	(18,857)	(17,964)
Deferred charges	(3,794)	(4,326)
Goods and services for employees	(1,024)	(1,105)
Other	(9,635)	(10,408)
Total	**(206,324)**	**(195,302)**

Section 10 *Net accruals to provisions for risks and charges - line item 160*

10.1 Net accruals to provisions for risks and charges: breakdown

This line item amounts to € 3.455 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 4.092 million and the use or release of provisions set aside in previous years of € 7.547 million.

Section 11 *Depreciation and net impairment losses on property, equipment and investment property - line item 170*

11.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2014**
A. **Property, equipment and investment property**				
A.1 Owned	(11,731)	–	–	(11,731)
- For business purposes	(11,731)	–	–	(11,731)
- For investment purposes	–	–	–	-
A.2 Acquired under finance leases	(1,020)	–	–	(1,020)
- For business purposes	(1,020)	–	–	(1,020)
- For investment purposes	–	–	–	-
Total	**(12,751)**	**–**	**–**	**(12,751)**

The finance lease charges paid during the year amounted to € 0.940 million, compared with € 1.164 million in the prior year.

Section 12 *Amortisation and net impairment losses on intangible assets - line item 180*

12.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Armotisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2014**
A. **Intangible assets**				
A.1 Owned	(11,913)	–	–	(11,913)
- Internally generated	–	–	–	-
- Other	(11,913)	–	–	(11,913)
A.2 Acquired under finance leases	–	–	–	-
Total	**(11,913)**	**–**	**–**	**(11,913)**

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 - Line item 190*

This caption amounts to € 70.782 million and comprises other operating income of € 73.577 million, net of other operating expenses of € 2.795 million.

13.1 Other operating expenses: breakdown

	31/12/2014	31/12/2013
Out-of-period expense	(2,247)	(3,503)
Other	(548)	(401)
Total	**(2,795)**	**(3,904)**

13.2 Other operating income: breakdown

	31/12/2014	31/12/2013
Recovery of charges on deposits and overdrafts	96	48
Rental income from buildings	924	948
Recovery of taxes	44,263	40,991
Financial income of pension and similar obligations plan	4,310	5,889
Out-of-period income - other	1,761	1,588
Other	22,223	23,615
Total	**73,577**	**73,079**

The sub-item «other» includes € 13.322 million for the rapid enquiry fee, which has been allocated to this item in accordance with the Supervisory Authority's interpretation as it is merely a recovery of the costs incurred.

Section 14 Net losses on equity investments - line item 210

14.1 Net losses on equity investments: breakdown

Income item/amount	31/12/2014	31/12/2013
A. **Income**	**–**	**–**
1. Revaluations	–	–
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**(648)**	**(6,570)**
1. Write-downs	(485)	(466)
2. Impairment writedowns	(163)	(6,104)
3. Loss from disposals	–	–
4. Other charges	–	–
Profit	**(648)**	**(6,570)**

The charges concern Pirovano Stelvio spa for € 0.485 million and Banca della Nuova Terra for € 0.163 million.

Section 17 Net gains on sales of investments - line item 240

17.1 Net gains on sales of investments: breakdown

Income item/amount	31/12/2014	31/12/2013
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**11**	**5**
- Gains on disposal	17	15
- Losses on disposal	(6)	(10)
Profit	**11**	**5**

Section 18 *Income taxes - line item 260*

18.1 Income taxes: breakdown

Income items/Amounts	31/12/2014	31/12/2013
1. Current taxes (-)	(143,000)	(170,000)
2. Change in prior period income taxes (+/-)	2,312	–
3. Reduction in current taxes (+)	–	–
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4. Change in deferred tax assets (+/-)	75,916	119,267
5. Change in deferred tax liabilities (+/-)	320	1,486
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(64,452)	(49,247)

The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 39.78%. An additional 8.5 percentage points of IRES taxation applied in the prior year, as introduced by art. 2, para. 2, of the Decree dated 30 November 2013 that was converted, with amendments, in Law 5 of 29 January 2014.

18.2 Reconciliation between the theoretical and current tax burden

INCOME TAXES	Tax base	Tax
Theoretical tax burden	162,005	(44,551)
Increases	287,367	(79,026)
Decreases	(43,917)	12,077
Effective tax burden	**405,455**	**(111,500)**

IRAP (Regional business tax)	Tax base	Tax
Theoretical tax burden	162,005	(9,024)
Increases	615,159	(34,264)
Decreases	(211,634)	11,788
Effective tax burden	**565,530**	**(31,500)**
Total effective tax burden	**–**	**(143,000)**

Income taxes are calculated at 27.50% for IRES and 5.57% for IRAP.

The total tax charge for the year is reconciled with the profit for the year as indicated in the table below.

IRES (corporate income taxes)

The main add-backs relate to deductible loan adjustments and non-deductible provisions for risks and charges, interest expense and losses and writedowns of equity investments classified as PEX.

The principal deductions relate to the non-taxable portion of dividends received, the deductible portion of IRAP, the use of taxed provisions and the portion of loan writedowns that is deductible in the year.

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, as well as to part of the loan writedowns, one-fifth of which are deductible every year.

Section 21 *Earnings per share*

21.1 Average number of ordinary shares (fully diluted)

The mixed capital increase authorised at the shareholders' meeting held on 26 April 2014 took place during the period 9 June - 4 July, following approval of the basis and timing for the increase at the Board Meeting held on 5 June 2014. This involved the issue of 30,814,798 bonus shares on 9 June and 114,422,994 shares for payment on 4 July. The number of shares shown in the table below is the weighted average for the year.

	31/12/2014	31/12/2013
number of shares	381,569,217	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 earnings per share (EPS) be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the 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.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2014	31/12/2013
earnings per share - €	0,256	0,158
diluted eps - €	0,250	0,158

PART D Comprehensive income

Statement of comprehensive income

Items/Amounts	Gross amount	Income taxes	Net amount
10. **Profit for the year**	**–**	**–**	**97,552**
Other items of comprehensive income that will not be reclassified to profit or loss			
20. **Property, equipment and investment property**	**–**	**–**	**–**
30. **Intangible assets**	**–**	**–**	**–**
40. **Defined-benefit plans**	**(17,770)**	**4,887**	**(12,883)**
50. **Non-current assets held for sale and discontinued operations**	**–**	**–**	**–**
60. **Share of valuation reserves of equity investments valued at net equity**	**–**	**–**	**–**
Other items of comprehensive income that may be reclassified subsequently to profit or loss			
70. **Hedges of foreign investments:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) Other changes	–	–	–
80. **Exchange differences:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) Other changes	–	–	–
90. **Cash-flow hedges:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) Other changes	–	–	–
100. **Available-for-sale financial asset:**	**62,436**	**(20,644)**	**41,792**
a) changes in fair value	40,695	(16,398)	24,297
b) transfer to income statement	21,741	(4,246)	17,495
- adjustments for impairment	2	(25)	(23)
- gains/losses on disposals	21,739	(4,221)	17,518
c) Other changes	–	–	–
110. **Non-current assets held for sale and discontinued operations:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) Other changes	–	–	–
120. **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	–	–	–
130. **Total other income items**	**44,666**	**(15,757)**	**28,909**
140. **Comprehensive income (item 10+130)**	**–**	**–**	**126,461**

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 Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

Introduction

The purpose of managing and controlling risks is to ensure the reliable and sustainable generation of value, safeguard the financial solidity and reputation of the Bank, and provide transparent disclosure about the risks accepted. In particular, this activity seeks to verify compliance with the limits placed on the acceptance of risk, to identify criteria and methodologies for the measurement/assessment of risk, to check the consistency of the work performed in each operational area with the risk objectives assigned, if any, and to monitor current and future capital adequacy.

The Board of Directors is responsible for establishing guidelines, the strategic direction and policies for the governance of business risks, in order to ensure that the principal risks to which the Bank is exposed are correctly identified and managed. Consistent with this, the Board establishes the propensity to accept risk and obtains information about the actual exposures recorded, checking that the risk profiles are monitored appropriately by the units made responsible for internal control. In addition, with support from senior management, the Board promotes the development and spread at all levels of a «risk culture», capable of recognising the importance of healthy and prudent business management and facilitating a consistent, integrated and complete understanding of the types of risk that are important for the Bank.

Based on their specific responsibilities, the managing director and the members of general management supervise implementation of the guidance, direction and instructions provided by the Board, translating them into a system of exposure limits, procedures and operations designed to ensure the moderate acceptance of risk; the practical application of significant risk policies is delegated to the central services, offices and branches, depending on how they are organised.

The Board of Statutory Auditors monitors the adequacy of the risk management processes and their consistency with regulatory requirements.

The measurement and control of risks are performed by separate functions that are organisationally independent of the units authorised to accept them. The Planning and Control Department plays a primary role by constantly supervising operations via the Risk Control Office, which makes use of systems, instruments, procedures and methodologies for the identification, assessment and monitoring of risk. The department manager reports to senior management, in an objective and impartial manner, on the outcome of these control activities.

The high-level information describing the risks accepted, prepared by the above department, is organised so that senior management – having regard for the duties and responsibilities of each person – can make an informed, complete and documented assessment of the various types of risk and the related management, control and mitigation mechanisms, as well as of the adequacy of the capital held to cover such risks. The changes in the risk profiles are also communicated to the operational areas, via operational reports designed to make personnel aware of the need to intensify efforts to prevent and attenuate risk.

Commencing from January 2015, as part of changes resulting from adoption of the requirements of Title V, Chapter 7, of Circular 263 of 27 December 2006, 15th amendment dated 2 July 2013, on the system of internal controls of banks, the Planning and Control Department will be reorganised to broaden its scope in response to the need to apply a greater range of skills in the performance of risk control activities, while also recognising the value of the specialists who work within the department.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General matters

In line with its mission as a cooperative, the Bank's lending policy aims to provide 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.
- *Managing Director. The Managing Director supervises implementation of the decisions taken by the Board of Directors with regard to the management of lending and the related risks. In addition, exercises the powers to make loans granted under the Bank's regulations.*
- *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.
- *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, at the end of December 2014, the sub-portfolios subject to these rating systems account for 80.3% of lending to customers (94.3% in terms of number of counterparties).

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, watchlist, restructured and past due loans, including those significantly overdrawn for more than 90 consecutive days. As an exception to the regulatory guidelines, for prudence sake and out of choice of the Bank, the definition of insolvency has also been extended to the external concept of «adjusted non-performing loan». The new Corporate models and the recalibrated Retail models will be released during 2015, resulting in full alignment of the definition of insolvency used with that included in the regulations. At the same time, the operational segmentation will be revised to increase the volumes subjected to internal rating, in terms of both the number of counterparts and the exposure. New LGD models will also be introduced, consistent with the changes described above.

Together with the assessments made using internal models, the ratings granted by independent agencies are gathered automatically. These are used in determining the 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 firm (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS and 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.

Risk analyses are carried out periodically on the loan portfolio. These address various dimensions, including the trends in the distribution of counterparties by rating class and by economic and productive sector.

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 due 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.

Within the Planning and Control Department, a separate unit supports the Loans Department by identifying «performing» customers that show initial anomalies and signs of difficulty, as well as those counterparts that are persistently overdrawn. In order to deal promptly with deteriorating relationships and supervise effectively the overall quality of the loans portfolio, the bank has adopted monitoring processes and supporting tools that, over time, are assigning predetermined target values to branches for the key risk parameters associated with their specific loan portfolios.

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.

As in the previous financial statements, the following tables provide information on financial restructuring and credit rescheduling agreements that reflect the recommendations of ESMA (European Securities and Markets Authority) in the document issued in December 2012 «Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions».

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, «subjective» watchlist and restructured loans, the Bank carries out a detailed analysis of each position that takes into account the effect of discounting expected recoveries. Overall assessments are made solely with regard to smaller individual loans, being not more than € 10,000 for non-performing loans and € 15,000 for subjective watchlist loans. The objective is to adopt a prudent approach to the control of these impaired assets that, given their intrinsic characteristics (large number of not significant amounts), can be processed rapidly and at low cost on primarily an automated basis, thus ensuring the uniformity of the assessments made.

The impairment adjustments for «objective» watchlist loans and past due amounts are determined with reference to the historical experience of losses on loans with that type of anomaly.

The Bank has never acquired impaired loans from third parties.

On 9 January 2015, the European Commission approved the Implementing Technical Standard (ITS), issued by the European Banking Authority (EBA) in October 2013, that contains new definitions for Non-Performing Exposures (NPE) and for Forbearance in relation to exposures to debtors in financial difficulties. On 20 January 2015, the Bank of Italy updated the Circulars that amend the definitions of impaired financial assets, in order to align them with the new notions of Non-Performing Exposures and of Forbearance, both for statutory and for supervisory reporting.

Under the new approach, impaired financial assets are analysed into «non-performing loans», «likely default» and «past due exposures and/or impaired overdrawn accounts»; the sum of these three categories corresponds to the total Non-Performing Exposures in the ITS. These definitions are applicable from January 2015; a parallel reporting system will apply until June 2015, with intermediaries reporting their impaired exposures under both the old and the new definitions. Solely the new definitions will be used from July 2015.

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, impaired	Past due exposures, not impaired	Other assets	**Total 31/12/2014**
1. Financial assets held for trading	77	222	–	12	–	2,250,199	2,250,510
2. Available-for-sale financial assets	–	–	220	–	–	6,042,302	6,042,522
3. Held-to-maturity investments	–	–	–	–	–	148,620	148,620
4. Loans and receivables with banks	–	–	–	–	–	1,591,501	1,591,501
5. Loans and receivables with customers	608,499	948,641	81,229	375,043	957,137	17,565,277	20,535,826
6. Financial assets at fair value through profit or loss	–	–	–	–	–	494	494
7. Financial assets being sold	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	–	–
Total 31/12/2014	**608,576**	**948,863**	**81,449**	**375,055**	**957,137**	**27,598,393**	**30,569,473**
Total 31/12/2013	**450,436**	**844,676**	**34,776**	**433,392**	**909,977**	**26,173,196**	**28,846,453**

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			
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	**Total (net exposure)**
1. Financial assets held for trading	356	45	311	2,250,199	–	2,250,199	2,250,510
2. Available-for-sale financial assets	220	–	220	6,042,302	–	6,042,302	6,042,522
3. Held-to-maturity investments	–	–	–	148,620	–	148,620	148,620
4. Loans and receivables with banks	–	–	–	1,591,501	–	1,591,501	1,591,501
5. Loans and receivables with customers	3,501,451	1,488,039	2,013,412	18,644,088	121,674	18,522,414	20,535,826
6. Financial assets at fair value through profit or loss	–	–	–	494	–	494	494
7. Financial assets being sold	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	–	–
Total 31/12/2014	**3,502,027**	**1,488,084**	**2,013,943**	**28,677,204**	**121,674**	**28,555,530**	**30,569,473**
Total 31/12/2013	**2,862,121**	**1,098,840**	**1,763,281**	**27,204,133**	**120,961**	**27,083,172**	**28,846,453**

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.

Partial writeoffs recorded over the years in relation to the above portfolios total € 86.147 million, reflecting the non-performing loans still held on the books.

In relation to the portfolio of «performing loans», a distinction is made below between exposures to customers «in financial difficulties» (an approximation of «forborne», a new situation about to be introduced that is discussed in section 2.4) that are subject to renegotiation under collective agreements (e.g. the «2013 loan accord» signed between ABI and the business associations) or other renegotiations allowed by the bank, and other exposures.

A.1.2.1 Distribution of renegotiated and unrenegotiated performing loans by portfolio

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	Not past due
Forborne subject to renegotiation under collective agreements	194,514	15,940	4,726	1,256	2,852	169,740
Forborne subject to renegotiation by the bank	61,397	5,985	8,817	972	–	45,623
Other receivables	18,266,503	572,922	246,199	84,971	12,497	17,349,914

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) Impaired past due exposures	–	–	–	–
e) Other assets	1,802,532	–	–	1,802,532
Total A	**1,802,532**	**–**	**–**	**1,802,532**
B. **Off-balance sheet exposures**				
a) Impaired	–	–	–	–
b) Other	823,825	–	35	823,790
Total B	**823,825**	**–**	**35**	**823,790**
Total A+B	**2,626,357**	**–**	**35**	**2,626,322**

Cash exposures include the loans and receivables with 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 (except those relating to variable-yield securities).

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	1,516,862	908,286	–	608,576
b) Watchlist loans	1,459,948	511,306	–	948,642
c) Restructured exposures	96,679	15,230	–	81,449
d) Impaired past due exposures	428,260	53,217	–	375,043
e) Other assets	26,772,262	–	121,674	26,650,588
Total A	**30,274,011**	**1,488,039**	**121,674**	**28,664,298**
B. **Off-balance sheet exposures**				
a) Impaired	115,458	12,824	–	102,634
b) other	4,821,542	–	5,363	4,816,179
Total B	**4,937,000**	**12,824**	**5,363**	**4,918,813**
Total A+B	**35,211,011**	**1,500,863**	**127,037**	**33,583,111**

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 (except those relating to variable-yield securities and mutual funds).

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**	**1,108,984**	**1,225,496**	**41,350**	**485,863**
- of which: sold but not eliminated from the balance sheet	3,750	14,799	–	22,693
B. **Increases**	**600,057**	**733,636**	**69,540**	**395,891**
B.1 transfers from performing loans	170,462	393,841	42,293	364,714
B.2 transfers from other categories of impaired exposure	356,041	254,834	24,989	9,146
B.3 other increases	73,554	84,961	2,258	22,031
- of which: business combinations	–	–	–	–
C. **Decreases**	**192,179**	**499,184**	**14,211**	**453,494**
C.1 transfers to performing loans	12	32,267	299	97,800
C.2 write-offs	91,419	–	–	–
C.3 collections	100,745	124,272	5,154	62,090
C.4 proceeds from disposals	–	–	–	–
C.4 bis loss from disposals	–	–	–	–
C.5 transfers to other categories of impaired exposure	3	342,645	8,758	293,604
C.6 other decreases	–	–	–	–
- of which: business combinations	–	–	–	–
D. **Closing gross exposure**	**1,516,862**	**1,459,948**	**96,679**	**428,260**
- of which: sold but not eliminated from the balance sheet	9,965	26,108	–	20,501

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**	**658,548**	**381,159**	**6,575**	**52,495**
- of which: sold but not eliminated from the balance sheet	1,073	2,612	–	1,818
B. **Increases**	**380,800**	**257,313**	**13,368**	**32,823**
B.1 Adjustments	283,142	228,927	2,683	31,310
B.1 bis Loss from disposals	–	–	–	–
B.2 transfers from other categories of impaired exposure	97,658	28,386	10,685	1,513
B.3 other increases	–	–	–	–
C. **Decreases**	**131,062**	**127,166**	**4,713**	**32,101**
C.1 write-backs on valuation	28,915	17,760	3,108	537
C.2 write-backs due to collections	10,725	4,158	–	178
C.2 bis Profit from disposals	–	–	–	–
C.3 write-offs	91,419	–	–	–
C.4 transfers to other categories of impaired exposure	3	105,248	1,605	31,386
C.5 other decreases	–	–	–	–
D. **Total closing adjustments**	**908,286**	**511,306**	**15,230**	**53,217**
- of which: sold but not eliminated from the balance sheet	3,126	5,339	–	2,629

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

	External rating classes							Total
Exposure	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	31/12/2014
A. **Cash exposure**	**8,026,199**	**216,074**	**592,079**	**399,291**	**41,314**	**5,168**	**21,707,872**	**30,987,997**
B. **Derivatives**	**–**	**21,575**	**1,397**	**617**	**–**	**–**	**79,052**	**102,641**
B.1 Financial derivatives	–	21,575	1,397	617	–	–	79,052	102,641
B.2 Credit derivatives	–	–	–	–	–	–	–	–
C. **Guarantees given**	**1,308**	**42,693**	**165,176**	**59,186**	**31,772**	**18**	**4,335,946**	**4,636,099**
D. **Commitments to make loans**	**51,272**	**–**	**18,994**	**10,000**	**–**	**–**	**923,504**	**1,003,770**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**93**	**93**
Total	**8,078,779**	**280,342**	**777,646**	**469,094**	**73,086**	**5,186**	**27,046,467**	**36,730,600**

The distribution of exposures other than those in variable-yield securities 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. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	From AAA to AAL	From AH to AL	From BBBH to BBBL	From BBH to BBL	From BH to BL	CCC
Standard &Poor's Rating Services	From AAA to AA-	From A+ to A-	From BBB+ a BBB-	From BB+ to BB	From B+ to B-	from CCC+ down
FitchRatings	From AAA to AA-	From A+ to A-	From BBB+ a BBB-	From BB+ to BB-	From B+ to B-	from CCC+ down

A.2.2 Distribution of cash and off-balance sheet items by internal rating class

PRIVATE CUSTOMERS – Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. **Cash exposures**	**528,542**	**108,436**	**131,894**	**445,333**	**698,837**	**436,499**	**192,621**
B. **Derivatives**	**14**	**–**	**–**	**234**	**40**	**336**	**1**
B.1 Financial derivatives	14	–	–	234	40	336	1
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**3,620**	**8**	**46**	**15,662**	**19,369**	**8,017**	**1,143**
D. **Commitments to make loans**	**316**	**1,769**	**428**	**3,036**	**2,406**	**1,751**	**1,079**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**532,492**	**110,213**	**132,368**	**464,265**	**720,652**	**446,603**	**194,844**

SMALL BUSINESS – Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. **Cash exposures**	**2,701**	**409,675**	**113,274**	**173,129**	**918,721**	**293,358**	**157,241**
B. **Derivatives**	**–**	**28**	**–**	**26**	**473**	**26**	**19**
B.1 Financial derivatives	–	28	–	26	473	26	19
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**98**	**3,682**	**3,073**	**7,300**	**75,093**	**12,485**	**4,092**
D. **Commitments to make loans**	**14**	**521**	**1,136**	**809**	**4,000**	**1,051**	**1,659**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,813**	**413,906**	**117,483**	**181,264**	**998,287**	**306,920**	**163,011**

MICRO-ENTERPRISES – Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. **Cash exposures**	**26,495**	**41,965**	**75,018**	**230,652**	**831,078**	**845,008**	**687,783**
B. **Derivatives**	**–**	**–**	**71**	**4**	**1,382**	**23**	**45**
B.1 Financial derivatives	–	–	71	4	1,382	23	45
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**3,371**	**2,986**	**8,590**	**88,523**	**99,937**	**88,546**	**62,142**
D. **Commitments to make loans**	**–**	**445**	**60**	**10,233**	**45,086**	**23,852**	**20,785**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**29,866**	**45,396**	**83,739**	**329,412**	**977,483**	**957,429**	**770,755**

08	09	10	11	12	13	Insolvent	Total 31/12/2014
110,990	**70,655**	**68,671**	**34,179**	**22,752**	**156,441**	**321,358**	**3,327,208**
895	**–**	**–**	**–**	**–**	**–**	**93**	**1,613**
895	–	–	–	–	–	93	1,613
–	–	–	–	–	–	–	–
915	**389**	**310**	**158**	**200**	**287**	**2,460**	**52,584**
1,358	**136**	**143**	**9**	**16**	**31**	**241**	**12,719**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
114,158	**71,180**	**69,124**	**34,346**	**22,968**	**156,759**	**324,152**	**3,394,124**

08	09	10	11	12	13	Insolvent	Total 31/12/2014
142,408	**77,020**	**40,256**	**35,744**	**30,085**	**79,722**	**252,104**	**2,725,438**
–	**–**	**–**	**17**	**–**	**–**	**10**	**599**
–	–	–	17	–	–	10	599
–	–	–	–	–	–	–	–
3,390	**1,592**	**984**	**843**	**902**	**1,839**	**3,698**	**119,071**
884	**669**	**128**	**146**	**82**	**373**	**1,721**	**13,193**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
146,682	**79,281**	**41,368**	**36,750**	**31,069**	**81,934**	**257,533**	**2,858,301**

08	09	10	11	12	13	Insolvent	Total 31/12/2014
531,865	**159,612**	**98,564**	**39,916**	**74,226**	**104,464**	**899,213**	**4,645,859**
–	**–**	**–**	**–**	**–**	**–**	**47**	**1,572**
–	–	–	–	–	–	47	1,572
–	–	–	–	–	–	–	–
21,806	**10,073**	**2,381**	**802**	**8,835**	**4,158**	**29,259**	**431,409**
9,064	**1,109**	**1,760**	**403**	**1,875**	**1,826**	**3,822**	**120,320**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
562,735	**170,794**	**102,705**	**41,121**	**84,936**	**110,448**	**932,341**	**5,199,160**

SMEs – Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**9,125**	**12,343**	**34,237**	**146,332**	**809,920**	**866,518**	**523,427**
B. **Derivatives**	**–**	**–**	**–**	**536**	**571**	**532**	**253**
B.1 Financial derivatives	–	–	–	536	571	532	253
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**10,304**	**6,606**	**12,169**	**70,436**	**199,250**	**144,939**	**62,571**
D. **Commitments to make loans**	**–**	**–**	**800**	**2,122**	**11,786**	**32,583**	**15,885**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**19,429**	**18,949**	**47,206**	**219,426**	**1,021,527**	**1,044,572**	**602,136**

LARGE AND PUBLIC ENTERPRISES – Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**29,351**	**50,516**	**101,678**	**449,278**	**476,356**	**175,983**	**93,789**
B. **Derivatives**	**38**	**2,751**	**41**	**133**	**10,578**	**349**	**171**
B.1 Financial derivatives	38	2,751	41	133	10,578	349	171
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**53,288**	**243,172**	**90,775**	**478,038**	**178,465**	**501,632**	**75,363**
D. **Commitments to make loans**	**677**	**1,050**	**751**	**35,894**	**25,908**	**22,658**	**10,395**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**83,354**	**297,489**	**193,245**	**963,343**	**691,307**	**700,622**	**179,718**

BANKS – Exposure	01	02	03	04
A. **Cash exposures**	**–**	**–**	**678,677**	**12,972**
B. **Derivatives**	**–**	**–**	**50,643**	**11**
B.1 Financial derivatives	–	–	50,643	11
B.2 Credit derivatives	–	–	–	–
C. **Guarantees given**	**–**	**–**	**636,714**	**325**
D. **Commitments to make loans**	**–**	**–**	**4**	**618**
E. **Other**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**1,366,038**	**13,926**

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 indicates the maximum risk; situations of insolvency go into the tenth class; 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 31/12/2014
346,983	**279,082**	**141,879**	**67,799**	**45,379**	**63,065**	**413,748**	**3,759,837**
111	**51**	**22**	**–**	**16**	**–**	**84**	**2,176**
111	51	22	–	16	–	84	2,176
–	–	–	–	–	–	–	–
26,087	**28,225**	**17,159**	**4,383**	**1,245**	**4,057**	**18,029**	**605,460**
681	**5,098**	**16**	**985**	**507**	**1,500**	**3,084**	**75,047**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
373,862	**312,456**	**159,076**	**73,167**	**47,147**	**68,622**	**434,945**	**4,442,520**

08	09	10	11	12	13	Insolvent	Total 31/12/2014
84,197	**54,486**	**9,477**	**932**	**4,269**	**47,896**	**100,309**	**1,678,517**
453	**–**	**–**	**–**	**–**	**–**	**–**	**14,514**
453	–	–	–	–	–	–	14,514
–	–	–	–	–	–	–	–
29,509	**32,046**	**1,573**	**1,398**	**9,492**	**25,059**	**38,962**	**1,758,772**
1,717	**175**	**63**	**50**	**–**	**–**	**395**	**99,733**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
115,876	**86,707**	**11,113**	**2,380**	**13,761**	**72,955**	**139,666**	**3,551,536**

Internal rating classes						
05	06	07	08	09	Insolvent	Total 31/12/2014
4,491	**70,218**	**16,779**	**12,338**	**–**	**–**	**795,475**
20	**–**	**–**	**–**	**2**	**–**	**50,676**
20	–	–	–	2	–	50,676
–	–	–	–	–	–	–
1,218	**305**	**2,762**	**–**	**337**	**–**	**641,661**
–	**–**	**668**	**–**	**–**	**–**	**1,290**
–	**–**	**–**	**–**	**–**	**–**	**–**
5,729	**70,523**	**20,209**	**12,338**	**339**	**–**	**1,489,102**

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net 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. This is especially true for the guarantees represented by properties, for which the value of the assets pledged can significantly exceed the balance of the loan still outstanding, as can the value of the mortgage originally registered.

A.3.1 Guaranteed exposures to banks

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**168,197**	**–**	**–**	**1,327**	**46,950**
1.1 fully guaranteed	75,916	–	–	1,133	19,562
- of which: impaired	–	–	–	–	–
1.2 partially guaranteed	92,281	–	–	194	27,388
- of which: impaired	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**12,358**	**–**	**–**	**–**	**–**
2.1 fully guaranteed	12,139	–	–	–	–
- of which: impaired	–	–	–	–	–
2.2 partially guaranteed	219	–	–	–	–
- of which: impaired	–	–	–	–	–

A.3.2 Guaranteed exposures to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**13,452,144**	**29,841,697**	**–**	**1,037,248**	**307,547**
1.1 fully guaranteed	12,647,600	29,832,919	–	915,204	287,470
- of which: impaired	1,621,883	4,926,587	–	19,813	29,383
1.2 partially guaranteed	804,544	8,778	–	122,044	20,077
- of which: impaired	117,956	5,427	–	14,138	1,831
2. **Guaranteed off-balance sheet exposures:**	**1,485,580**	**631,131**	**–**	**62,249**	**47,283**
2.1 fully guaranteed	1,338,971	631,131	–	50,765	40,234
- of which: impaired	31,598	16,182	–	805	1,292
2.2 partially guaranteed	146,609	–	–	11,484	7,049
- of which: impaired	3,696	–	–	895	31

Personal guarantees (2)										
Credit derivatives					Guarantees given					
	Other derivatives									
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2014**
–	**–**	**–**	**–**	**–**	**5,553**	**–**	**81,459**	**–**	**135,289**
–	–	–	–	–	5,553	–	59,999	–	86,247
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	21,460	–	49,042
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**11,377**	**–**	**944**	**–**	**12,321**
–	–	–	–	–	11,328	–	811	–	12,139
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	49	–	133	–	182
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives					Guarantees given				
	Other derivatives								
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2014**
–	**–**	**–**	**–**	**–**	**16,244**	**28,178**	**39,376**	**9,522,103**	**40,792,393**
–	–	–	–	–	1,979	25,384	24,200	9,107,655	40,194,811
–	–	–	–	–	64	4,276	2,012	1,991,813	6,973,948
–	–	–	–	–	14,265	2,794	15,176	414,448	597,582
–	–	–	–	–	552	870	396	106,381	129,595
–	**–**	**–**	**–**	**–**	**47,920**	**7,681**	**4,997**	**1,492,399**	**2,293,660**
–	–	–	–	–	1,798	7,438	2,198	1,461,580	2,195,144
–	–	–	–	–	307	–	–	67,062	85,648
–	–	–	–	–	46,122	243	2,799	30,819	98,516
–	–	–	–	–	103	243	–	1,347	2,619

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.3. and A.1.6., exposures to counterpart risk relating to loans of securities or goods, granted or received.

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	Government			Other public entities		
Exposures/Counterparties	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. **Cash exposures**						
A.1 Non-performing loans	76	–	–	–	–	–
A.2 Watchlist loans	–	–	–	–	–	–
A.3 Restructured exposures	–	–	–	–	–	–
A.4 Past due exposures	–	–	–	6	1	–
A.5 Other exposures	7,990,063	–	–	132,149	–	–
Total A	**7,990,139**	**–**	**–**	**132,155**	**1**	**–**
B. **Off-balance sheet exposures**						
B.1 Non-performing loans	–	–	–	–	–	–
B.2 Watchlist loans	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–
B.4 Other exposures	51,274	–	–	28,696	–	–
Total B	**51,274**	**–**	**–**	**28,696**	**–**	**–**
Total (A+B) 31/12/2014	**8,041,413**	**–**	**–**	**160,851**	**1**	**–**
Total (A+B) 31/12/2013	**6,033,515**	**–**	**–**	**116,781**	**–**	**–**

B.2 Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	593,992	900,375	14,499	7,794
A.2 Watchlist loans	937,685	497,067	9,930	11,839
A.3 Restructured exposures	81,449	15,230	–	–
A.4 Past due exposures	372,254	52,813	2,673	391
A.5 Other exposures	25,946,718	120,188	198,443	1,319
Total A	**27,932,098**	**1,585,673**	**225,545**	**21,343**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	26,600	9,412	–	–
B.2 Watchlist loans	26,170	3,347	30	–
B.3 Other impaired assets	49,834	65	–	–
B.4 Other exposures	4,479,088	4,981	336,817	382
Total B	**4,581,692**	**17,805**	**336,847**	**382**
Total A+B 31/12/2014	**32,513,790**	**1,603,478**	**562,392**	**21,725**
Total A+B 31/12/2013	**31,103,762**	**1,215,888**	**664,748**	**21,689**

As regards the geographical distribution of exposures to customers resident in Italy, amounts «loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (77.7%) and Centre (14.3%), followed by the North East (6.7%) and the South and Islands (1.3%).

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
7,347	22,123	–	–	–	–	490,691	778,204	–	110,462	107,959	–
23,924	18,189	–	–	–	–	755,303	434,626	–	169,415	58,491	–
–	–	–	–	–	–	81,449	15,230	–	–	–	–
1,802	286	–	–	–	–	275,724	39,313	–	97,511	13,617	–
3,511,282	–	17,060	23,252	–	10	11,283,671	–	78,648	3,710,171	–	25,956
3,544,355	**40,598**	**17,060**	**23,252**	**–**	**10**	**12,886,838**	**1,267,373**	**78,648**	**4,087,559**	**180,067**	**25,956**
–	53	–	–	17	–	26,388	9,065	–	212	277	–
1,174	2	–	–	–	–	23,538	3,200	–	1,488	145	–
27	–	–	–	–	–	41,961	54	–	7,846	11	–
517,670	–	107	3,764	–	6	3,881,628	–	4,926	333,054	–	324
518,871	**55**	**107**	**3,764**	**17**	**6**	**3,973,515**	**12,319**	**4,926**	**342,600**	**433**	**324**
4,063,226	**40,653**	**17,167**	**27,016**	**17**	**16**	**16,860,353**	**1,279,692**	**83,574**	**4,430,159**	**180,500**	**26,280**
3,301,838	**34,116**	**7,351**	**35,676**	**17**	**39**	**17,911,602**	**948,466**	**91,638**	**4,437,336**	**128,841**	**27,333**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
85	14	–	80	–	23
–	–	1,027	2,400	–	–
–	–	–	–	–	–
86	9	13	2	17	2
496,681	106	6,426	45	2,320	16
496,852	**129**	**7,466**	**2,527**	**2,337**	**41**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
14	–	2	–	165	–
14	**–**	**2**	**–**	**165**	**–**
496,866	**129**	**7,468**	**2,527**	**2,502**	**41**
56,076	**122**	**10,241**	**89**	**1,921**	**14**

B.3 Territorial distribution of the cash and off-balance sheet exposures to banks (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	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	939,562	–	749,847	–
Total A	**939,562**	**–**	**749,847**	**–**
B. **Off-balance sheet exposures**	**–**	**–**	**–**	**–**
B.1 Non-performing loans	–	–	–	–
B.2 Watchlist loans	–	–	–	–
B.3 Other impaired assets	–	–	–	–
B.4 Other exposures	95,209	35	718,130	–
Total B	**95,209**	**35**	**718,130**	**–**
Total A+B 31/12/2014	**1,034,771**	**35**	**1,467,977**	**–**
Total A+B 31/12/2013	**928,456**	**–**	**1,176,306**	**–**

B.4 Significant risks

	31/12/2014	**31/12/2013**
Amount (book value - nominal exposure)	13,921,731	13,787,724
Amount (weighted value - risk position)	3,300,002	3,024,162
Number	14	14

The exposure limit of 10% of own funds – 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
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
61,937	–	32,807	–	18,379	–
61,937	**–**	**32,807**	**–**	**18,379**	**–**
–	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
506	–	7,730	–	2,215	–
506	**–**	**7,730**	**–**	**2,215**	**–**
62,443	**–**	**40,537**	**–**	**20,594**	**–**
26,508	**–**	**35,462**	**–**	**6,327**	**–**

C. Securitisation transactions

QUANTITATIVE INFORMATION

C.1 Exposure deriving from securitisation transactions broken down by the quality of underlying assets

	Cash exposure					
	Senior		Mezzanine		Junior	
Underlying asset quality/Exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. **with own underlying assets:**						
a) Impaired	–	–	–	–	–	–
b) Other	–	–	–	–	–	–
B. **with underlying assets of third parties:**	**171,572**	**166,219**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–
b) Other	171,572	166,219	–	–	–	–

C.3 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	Cash exposure					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgage loans	80,611	4,754	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045		–	–	–	–	–
Lease contracts	85,608	599	–	–	–	–

C.4 Exposure deriving from securitisation transactions broken down by portfolio and type

Exposure/portfolio	Financial assets held for trading	Financial assets fair value option	Financial assets available for sale
1. **Cash exposure**	**–**	**–**	**–**
- senior	–	–	–
- mezzanine	–	–	–
- junior	–	–	–
2. **Off-balance sheet exposures**	**–**	**–**	**–**
- senior	–	–	–
- mezzanine	–	–	–
- junior	–	–	–

C.6 Special purpose vehicle for securitisation

Names	Registered offices of the company	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	no	116,098
Bnt Portfolio Spv Srl	Conegliano (TV)	no	356,697

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Financial assets held to maturity	Loans	Guarantees given and commitments	**31/12/2014**	**31/12/2013**
–	**166,219**	**–**	**166,219**	**–**
–	166,219	–	166,219	–
–	–	–	–	–
–	–	–	–	–
–	**–**	**–**	**–**	**–**
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	8,001	86,210	–	21,863
16,798	7,694	379,054	–	–

C.7 Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv Srl and BNT Porfolio Spv Srl have not been consolidated as there are not the requirements of IFRS 10.

E. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

E.1 Financial assets sold and not eliminated from the balance sheet: book value and full value

	Financial assets held for trading			Financial assets carried at fair value			Financial assets available for sale		
Technical forms/Portfolio	A	B	C	A	B	C	A	B	C
A. **Cash assets**	**95,634**	**–**	**–**	**–**	**–**	**–**	**288,539**	**–**	**–**
1. Fixed-yield securities	95,634	–	–	–	–	–	288,539	–	–
2. Variable-yield securities	–	–	–	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total 31/12/2014	**95,634**	**–**	**–**	**–**	**–**	**–**	**288,539**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–
Total 31/12/2013	**27,120**	**–**	**–**	**–**	**–**	**–**	**184,074**	**–**	**–**
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.

E.2 Financial liabilities associated with assets sold and not eliminated from the balance sheet: book value

Liabilities/Portfolio of assets	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Financial assets held to maturity	Loans and receivables with banks	Loans and receivables with customers	**Total 31/12/2014**
1. **Due to customers**	**95,621**	**–**	**288,101**	**–**	**–**	**–**	**383,722**
a) for assets recognised in full	95,621	–	288,101	–	–	–	383,722
b) for assets recognised in part	–	–	–	–	–	–	–
2. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
3. **Securities issued**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
Total 31/12/2014	**95,621**	**–**	**288,101**	**–**	**–**	**–**	**383,722**
Total 31/12/2013	**27,120**	**–**	**183,848**	**–**	**–**	**–**	**210,968**

Financial assets held to maturity			Loans and receivables with banks			Loans and receivables with customers			**Total**	**Total**
A	B	C	A	B	C	A	B	C	**31/12/2014**	**31/12/2013**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**384,173**	**211,194**
–	–	–	–	–	–	–	–	–	384,173	211,194
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**384,173**	**–**
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**211,194**
–	–	–	–	–	–	–	–	–	–	–

E.3 Banking group - Disposals with recourse limited solely to the assets sold:

Technical forms/Portfolio	Financial assets held for trading		Financial assets carried at fair value		Financial assets available for sale	
	A	B	A	B	A	B
A. **Cash assets**	**95,634**	**–**	**–**	**–**	**288,539**	**–**
1. Fixed-yield securities	95,634	–	–	–	288,539	–
2. Variable-yield securities	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**95,634**	**–**	**–**	**–**	**288,539**	**–**
C. **Associated liabilities**	**95,621**	**–**	**–**	**–**	**288,101**	**–**
1. Due to customers	95,621	–	–	–	288,101	–
2. Due to banks	–	–	–	–	–	–
Total liabilities	**95,621**	**–**	**–**	**–**	**288,101**	**–**
Net value 31/12/2014	**13**	**–**	**–**	**–**	**438**	**–**
Net value 31/12/2013	**–**	**–**	**–**	**–**	**226**	**–**

E.4 Covered bond operations

On 6 November 2013, the Board of Directors of the parent bank authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the parent bank. On 30 May, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

The principal strategic objectives for this issue including equipping the parent bank with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- planning in good time the replacement of amounts received from the ECB via «LTRO - Long-Term Refinancing Operations»;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, Mazars Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests and preparing an annual report that describes the checks performed and the related results.

The operation is proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

Held-to-maturity investments (fair value)		Loans and receivables with banks (fair value)		Loans and receivables with customers (fair value)		**Total**	
A	B	A	B	A	B	**31/12/2014**	**31/12/2013**
–	**–**	**–**	**–**	**–**	**–**	**384,173**	**211,194**
–	–	–	–	–	–	384,173	211,194
–	–	–	–	–	–	–	-
–	–	–	–	–	–	–	-
–	–	–	–	–	–	–	-
–	**–**	**–**	**–**	**–**	**–**	**–**	**-**
–	**–**	**–**	**–**	**–**	**–**	**384,173**	**211,194**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**383,722**	**210,968**
–	**–**	**–**	**–**	**–**	**–**	**451**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**226**

The following information is provided about the bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, POPSO Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 1
Code ISIN	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1,375%
Annual	Coupon
Applicable law	Italian

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' pension and similar obligations.

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 pension and similar obligations of employees), which represent just 3.69% of the overall total of 82.367 million.

Furthermore, variable-yield securities comprise holdings in leading companies with a liquid market.

Once again, trading activity concentrates on benefiting from short-term opportunities while, with regard to derivatives, 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 Department, 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, options on variable-yield securities and forward contracts on exchange rates (excluding those on gold and the Qatari riyal), 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); as regards price risk, variable-yield securities, options on variable-yield securities and 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.

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.

The internal policies and procedures for stress testing include, with reference to the standard methodology used for ICAAP (Internal Capital Adequacy Assessment Process) purposes, the tests described below.

General risk on fixed-yield securities: change in market rates

With regard to the risk position in fixed-yield securities, consideration is given to greater adverse changes in interest rates than those implicit in the weightings of the regulatory algorithm.

Specific risk on fixed-yield securities: downgrading of issuers

The effect on internal capital of a downgrade in the rating of counterpart issuers is estimated by applying the next worse weighting factor.

With regard to the general risk on fixed-yield securities, different intensities of shock were applied to the various maturity bands: the increase in rates by 200 basis points is in line with that suggested in the regulations for stress tests carried out using the simplified model for the interest-rate risk on the bank book.

Further stress tests applied the same intensity of shock (100 basis points) to all maturity/repricing bands, or acted separately on a single maturity band, leaving other bands subject to the normal weighting. These analyses indicate over time the sensitivity of the portfolio to changes affecting different maturities along the rate curve.

As for the changes in risk exposure, measured in terms of VaR, compared with the previous year, based on interest rate risk the overall VaR has gone down from 1.454 million to 0.790 mainly because of fixed-yield securities (from 1.459 million to 0.782); based on the price risk, the overall VaR at period end has increased from 1.922 million to 3.586; based on the interest rate and price risk, the overall VaR at period end has increased from 2.315 million to 4.166.

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 18.890 million to one of 10.060 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 22.261 million to one of 15.964 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 6.765 million to 1.751 million.

Note that all of the figures indicated above are net of repurchase agreements with underlying fixed-yield securities held in the bank book.

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**	**21**	**1,576,556**	**462,858**	**387,004**	**259,901**	**26,486**	**5,005**	**–**
1.1 Fixed-yield securities	–	989,072	462,858	387,004	259,901	26,486	5,005	–
- with early repayment option	–	38,062	–	–	91	–	–	–
- other	–	951,010	462,858	387,004	259,810	26,486	5,005	–
1.2 Other assets	21	587,484	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**95,620**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	95,620	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,567,672**	**741,379**	**285,207**	**1,130,356**	**187,698**	**15,174**	**–**
3.1 With underlying security	–	53,286	51,948	–	–	–	–	–
- Options	–	2,014	658	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	2,014	658	–	–	–	–	–
- Other derivatives	–	51,272	51,290	–	–	–	–	–
+ Long positions	–	–	51,290	–	–	–	–	–
+ Short positions	–	51,272	–	–	–	–	–	–
3.2 Without underlying security	–	3,514,386	689,431	285,207	1,130,356	187,698	15,174	–
- Options	–	20,316	14,220	56,976	202,881	179,332	9,798	–
+ Long positions	–	10,163	7,116	28,509	101,446	89,666	4,899	–
+ Short positions	–	10,153	7,104	28,467	101,435	89,666	4,899	–
- Other derivati	–	3,494,070	675,211	228,231	927,475	8,366	5,376	–
+ Long positions	–	1,758,200	337,869	121,214	463,738	4,183	2,688	–
+ Short positions	–	1,735,870	337,342	107,017	463,737	4,183	2,688	–

Currency: US DOLLAR

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**	**-**	**1,249,128**	**83,497**	**105,350**	**39,908**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,249,128	83,497	105,350	39,908	–	–	–
- Options	–	12,677	5,418	27,979	6,798	–	–	–
+ Long positions	–	6,338	2,709	13,993	3,399	–	–	–
+ Short positions	–	6,339	2,709	13,986	3,399	–	–	–
- Other derivatives	-	1,236,451	78,079	77,371	33,110	–	–	–
+ Long positions	–	604,694	38,734	31,450	16,555	–	–	–
+ Short positions	–	631,757	39,345	45,921	16,555	–	–	–

Currency: SWISS FRANC

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**	**–**	**1,648,590**	**1,269,304**	**161,892**	**1,404,527**	**489,688**	**5,988**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	-	1,648,590	1,269,304	161,892	1,404,527	489,688	5,988	–
- Options	–	7,002	634	–	–	–	–	–
+ Long positions	–	3,501	317	–	–	–	–	–
+ Short positions	–	3,501	317	–	–	–	–	–
- Other derivatives	-	1,641,588	1,268,670	161,892	1,404,527	489,688	5,988	–
+ Long positions	–	821,988	634,022	80,567	702,264	244,844	2,994	–
+ Short positions	–	819,600	634,648	81,325	702,263	244,844	2,994	–

Currency: JAPANESE 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**	**–**	**74,320**	**12,347**	**5,508**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	74,320	12,347	5,508	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	74,320	12,347	5,508	–	–	–	–
+ Long positions	–	37,306	6,363	2,754	–	–	–	–
+ Short positions	–	37,014	5,984	2,754	–	–	–	–

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**	**–**	**333,958**	**38,071**	**91,923**	**20,434**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	333,958	38,071	91,923	20,434	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	333,958	38,071	91,923	20,434	–	–	–
+ Long positions	–	167,778	19,136	45,964	10,217	–	–	–
+ Short positions	–	166,180	18,935	45,959	10,217	–	–	–

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. **Variable-yield securities**							
- long positions	41,135	–	469	–	4,085	9,021	2,132
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							
- long positions	2,541	–	–	–	–	130	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	516	–	–	–	–	–	–
- 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; the figures are therefore comparable with those published in the same table last year.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. **Cash assets**	**782.6**
1.1 Fixed-yield securities	781.8
1.2 Other assets	2.6
2. **Cash liabilities**	**0.2**
2.1 Repurchase agreements	0.2
2.2 Other liabilities	–
3. **Financial derivatives**	**16.8**
3.1 With underlying security	0,9
- Options	–
+ Long positions	–
+ Short positions	–
- Other derivatives	0.9
+ Long positions	1.0
+ Short positions	0.2
3.2 Without underlying security	16.7
- Options	16.8
- Other derivatives	6.1
+ Long positions	1,700.3
+ Short positions	1,695.5
Total interest rate risk	**790.2**
A. **Variable-yield securities**	**2,694.1**
- long positions	2,694.1
- short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**
- long positions	–
- short positions	–
C. **Other derivatives on variable-yield securities**	**125.8**
- long positions	125.8
- short positions	–
D. **Derivatives on stock indices**	**14.7**
- long positions	14.7
- short positions	–
Total Price risk transactions table 2	**2,808.3**
Mutual funds.	**892.4**
Forward contracts on other instruments (goods)	**–**
- long positions	115.2
- short positions	115.2
Options on other instruments (goods)	**–**
- long positions	–
- short positions	–
Total Price risk	**3,585.9**
Total Interest rate risk and price risk	**4,166.1**

Interest rate risk

Information on average, minimum and maximum VaR is provided below.

Note that in the following two tables, the figures do not include repurchase agreements with underlying fixed-yield securities held in the bank book; therefore the figures are not comparable with those published in the same tables last year.

Total Value at Risk (VaR)

	(in thousands of euro)
average	1,009.5
minimum	583.3
maximum	1,906.3

With regard to the distribution of VaR during the year, the average VaR for each month in 2014 is presented below.

January	1,258.3
February	1,005.5
March	844.1
April	750.7
May	711.0
June	1,205.7
July	1,074.1
August	928.9
September	1,038.3
October	1,288.9
November	1,165.8
December	827.8

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 51 out of 251 observations, the number of days on which theoretical losses exceeded VaR was 48 out of 251 observations.

Price risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	2,421.8
minimum	1,318.1
maximum	4,132.8

With regard to the distribution of VaR during the year, the average VaR for each month in 2014 is presented below.

January	1,649.9
February	1,910.4
March	2,047.8
April	2,159.1
May	2,145.2
June	1,907.6
July	2,238.3
August	2,636.1
September	2,312.3
October	3,202.8
November	3,441.1
December	3,322.8

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 4 out of 251 observations, the number of days on which theoretical losses exceeded VaR was 1 out of 251 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 do not include repurchase agreements with underlying fixed-yield securities held in the bank book; therefore the figures are not comparable with those published in the same tables last year.

Total Value at Risk (VaR)

	(in thousands of euro)
average	2,842.3
minimum	1,727.6
maximum	5,060.8

With regard to the distribution of VaR during the year, the average VaR for each month in 2014 is presented below.

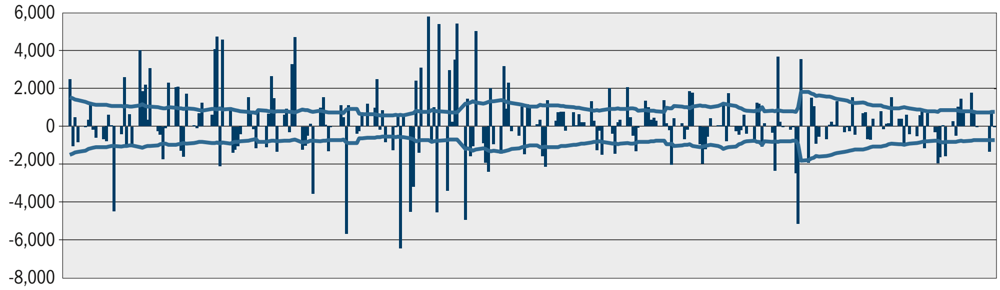
January	2,119.7
February	2,143.3
March	2,267.8
April	2,370.6
May	2,198.7
June	2,578.0
July	2,530.8
August	3,021.3
September	2,963.0
October	3,909.5
November	4,008.6
December	3,872.6

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 19 out of 251 observations, the number of days on which theoretical losses exceeded VaR was 17 out of 251 observations.

The following graphs compare VaR with the daily results.

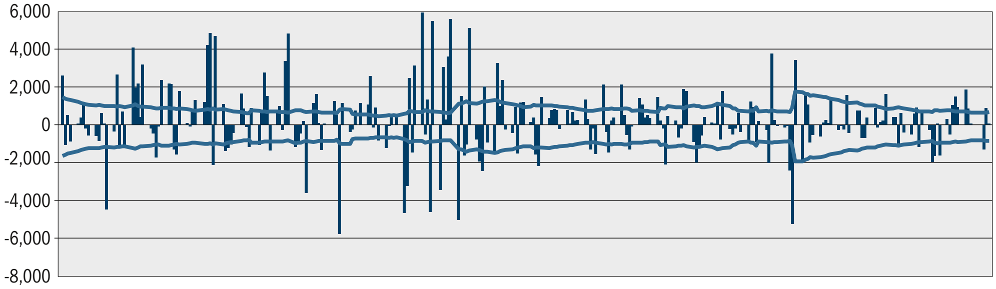
Fixed-yield securities: VaR and actual profits/losses

(in thousands of euro)



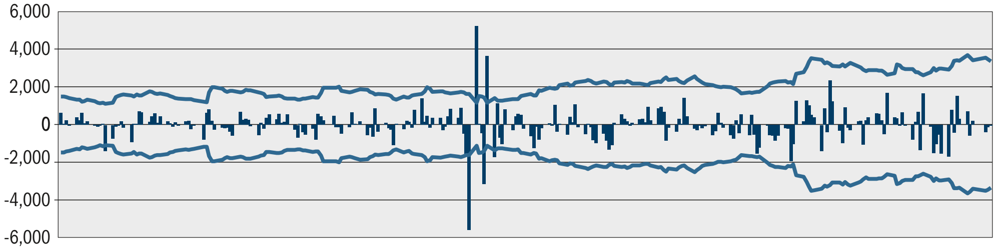
Fixed-yield securities: VaR and theoretical profits/losses

(in thousands of euro)



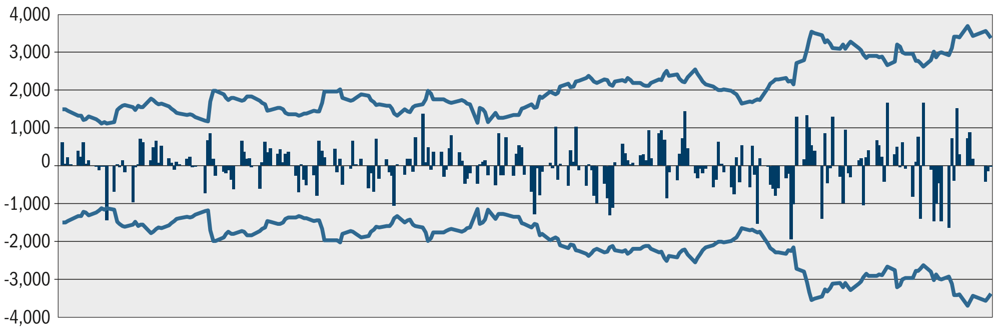
Variable-yield securities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



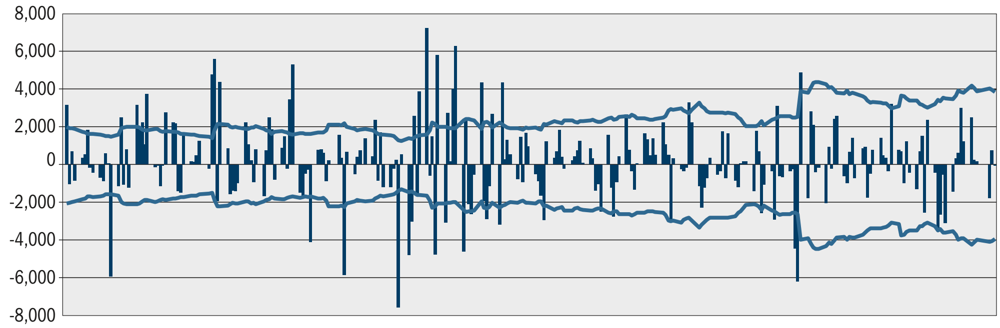
Variable-yield securities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



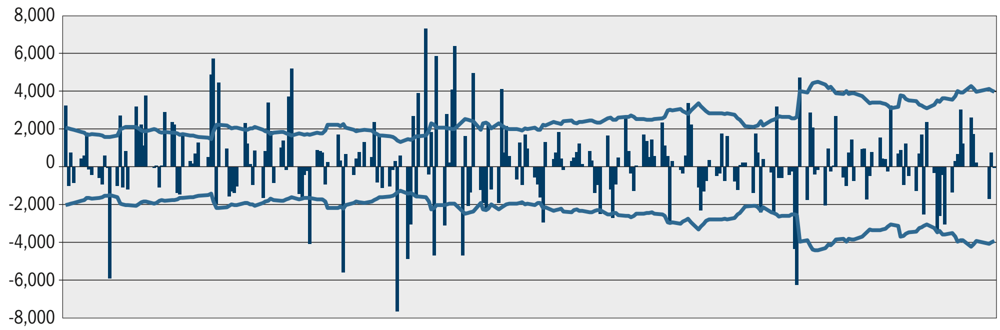
Fixed-yield securities, equities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



Fixed-yield securities, equities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), the following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to 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 the trading portfolio for supervisory purposes and lending repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes) calculated only on the transactions outstanding at the reference date.

Exposure to risk

	(in thousands of euro)
at period end	10,060
average	14,622
minimum	10,038
maximum	18,896

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 (with underlying fixed-yield securities in the trading portfolio for supervisory purposes).

Exposure to risk

	(in thousands of euro)
at period end	-15,964
average	-18,752
minimum	-15,714
maximum	-22,487

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)
at period end	-1,751
average	-6,901
minimum	-1,186
maximum	-15,214

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

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 and fixed-yield securities) 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 methods for the measurement and control of interest-rate risk on the bank book essentially apply a model consistent with the methodology defined by the Bank of Italy in Attachment C – Section III, Chapter 1 of the «New Supervisory instructions for banks» (Circular 263 of 27 December 2006, now Circular 285 of 17 December 2013 «Supervisory rules for banks», part I), and 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; otherwise, the transactions are considered with reference to their contractual characteristics, without any form of optional behaviour. T-LTRO operations are modelled over 4 years at a fixed rate.

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 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), but including loans awaiting to be reclassified as non-performing loans. 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 (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), as the information on these is disclosed in section 2.1 above on the trading portfolio for supervisory purposes.

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 «available-for-sale financial assets» or «Financial assets at fair value through profit or loss».

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. The following subsidiaries do not strictly adhere to these principles: Banca Popolare di Sondrio (Suisse) SA, a wholly owned Swiss bank that is part of the banking group; Factorit spa, a factoring company that manages and makes advances against domestic and international trade receivables, for the benefit of partner and other banks; Popso Covered Bond srl, a SPV involved in the issue of covered bonds; Sinergia Seconda srl, a property company that principally supports the operational needs of the Group; Pirovano Stelvio spa, a company outside the banking group that is active in hotel management. The Bank understands these companies well, not least by participating in the management of the subsidiaries and certain non-controlled companies; accordingly, the strategic and market risks are therefore well monitored.

We would reiterate that «available-for-sale financial assets» include non derivative financial assets not classified as «loans», «financial assets held for trading» or «held-to-maturity investments», while the portfolio of «Financial assets at fair value through profit or loss» 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.

Any early redemption options purchased and granted are treated as if not exercised.

The stress tests used as part of the strategies to govern the interest-rate risk (but not the price risk) on the bank book include, with reference to the standard methodology used for ICAAP (Internal Capital Adequacy Assessment Process) purposes, those described below.

Parallel shift in rates by more than that indicated in the prudential regulations

With regard to the risk position, consideration is given to parallel adverse interest-rate shifts by more than those envisaged in the regulatory model proposed by the Supervisory Authorities. In particular, the impact of shift of 300 basis points in assessed.

Non-parallel change in rates

With regard to the risk position, consideration is given to different adverse changes in interest rates for each currency and for each maturity band. Shifts of +200 basis points are considered when the net position of the Bank for the individual currency and maturity band is positive (excess of interest-earning assets over interest-paying liabilities), while the shifts of –200 basis points are considered in the case of net liabilities.

With specific regard to the «*Non-parallel change in rates*», the size of the additional capital requirement derives from the inability to net the weighted net positions of the different maturity bands, while such netting is implicit in the regulatory model adopted.

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**	**453**	**69,825**	**1,254**	**2,883**	**46,673**	**59,032**	**75,168**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	453	69,825	1,254	2,883	46,673	59,032	75,168	–
Options	453	69,825	1,254	2,883	46,673	59,032	75,168	–
+ Long positions	–	1,798	362	1,735	30,168	39,563	51,603	–
+ Short positions	453	68,027	892	1,148	16,505	19,469	23,565	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. **Other off-balance sheet transactions**	**615,524**	**262,487**	**–**	**14,922**	**94,103**	**–**	**270**	**–**
+ Long positions	121,601	262,487	–	14,922	94,103	–	270	–
+ Short positions	493,923	–	–	–	–	–	–	–

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 (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), 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.

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 with underlying fixed-yield securities in the trading portfolio for supervisory purposes), based solely on transactions outstanding at the reference date.

Exposure to risk

	(in thousands of euro)
at period end	-11,129
average	-4,176
minimum	-735
maximum	-11,901

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)
at period end	-2,388
average	-39,698
minimum	-2,388
maximum	-51,912

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 with underlying fixed-yield securities in the trading portfolio for supervisory purposes).

Exposure to risk

	(in thousands of euro)
at period end	-89,928
average	-87,506
minimum	-64,974
maximum	-106,370

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)
at period end	-5,373
average	-10,550
minimum	-4,807
maximum	-25,284

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	14,993.4
- of which equity investments	12,704.3
Mutual funds	4,199.9
Total	**18,357.8**

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	12,751.5
minimum	8,953.0
maximum	20,322.6

With regard to the distribution of VaR during the year, the average VaR for each month in 2014 is presented below.

January	10,265.2
February	10,817.3
March	12,549.7
April	12,165.7
May	12,243.4
June	11,001.5
July	11,358.8
August	11,726.2
September	10,868.4
October	15,163.1
November	17,288.3
December	17,476.7

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 Oman real, the Peruvian new sol, the Ukrainian hryvnia, the Lithuanian litas, the Kenyan shilling, the new Bulgarian lev, the Bahraini dinar, Jordanian dinar and the Qatari 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 writedowns. In addition to those shown in table 1 above (options on exchange rates), the financial derivatives (in the strict sense, excluding forward exchange-rate agreements) 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 Bank does not envisage the use of stress tests as part of the strategies to govern exchange-rate risk.

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

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**1,422,560**	**30,287**	**25,008**	**721,527**	**4,316**	**13,543**
A.1 Fixed-yield securities	452,192	–	–	–	–	–
A.2 Variable-yield securities	256,603	469	–	113,070	–	–
A.3 Loans to banks	246,812	28,886	18,410	27,397	4,303	13,006
A.4 Loans to customers	466,953	932	6,598	581,060	13	537
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**3,462**	**1,094**	**195**	**4,343**	**126**	**973**
C. **Financial liabilities**	**677,183**	**30,745**	**26,306**	**624,246**	**4,561**	**14,759**
C.1 Due to banks	325,947	3,534	7,138	333,124	1,105	4,033
C.2 Due to customers	351,236	27,211	19,168	291,122	3,456	10,726
C.3 Fixed-yield securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**6,476**	**707**	**–**	**1,434**	**34**	**518**
E. **Financial derivatives**	**1,477,883**	**144,047**	**92,177**	**387,506**	**513**	**339,825**
- Options	52,871	–	–	7,636	–	–
+ long positions	26,439	–	–	3,818	–	–
+ short positions	26,432	–	–	3,818	–	–
- Other derivatives	1,425,012	144,047	92,177	379,870	513	339,825
+ long positions	691,433	72,221	46,424	190,437	342	170,531
+ short positions	733,579	71,826	45,753	189,433	171	169,294
Total assets	**2,143,894**	**103,602**	**71,627**	**920,125**	**4,784**	**185,047**
Total liabilities	**1,443,670**	**103,278**	**72,059**	**818,931**	**4,766**	**184,571**
Net balance (+/-)	**(700,224)**	**(324)**	**432**	**(101,194)**	**(18)**	**(476)**

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	5,783.2
Variable-yield securities	212.8
Net balance between other assets and liabilities	548.3
Financial derivatives	522.9
- Options	0.1
+ Long positions	333.8
+ Short positions	333.7
- Other derivatives	523.0
+ Long positions	11,090.9
+ Short positions	11,601.4
Total transactions table 1	**5,717.9**
- Interest Rate Swap	9.5
+ Long positions	4,572.9
+ Short positions	4,563.4
Total	**5,713.9**

Details of the principal currencies

US Dollars	5,802.6
Sterling	3.2
Japanese Yen	5.7
Swiss Francs	219.4
Canadian Dollars	0.3
Other currencies	4.5
Total	**5,713.9**

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	851.4
minimum	31.4
maximum	6,804.6

With regard to the distribution of VaR during the year, the average VaR for each month in 2014 is presented belows.

January	423.5
February	436.3
March	422.2
April	374.8
May	344.1
June	233.8
July	191.5
August	182.9
September	304.7
October	1,063.6
November	1,956.4
December	4,344.3

2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

	Total 31/12/2014		Total 31/12/2013	
Underlying assets /Type of derivative	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**3,898,057**	**–**	**3,246,949**	**–**
a) Options	24,964	–	46,023	–
b) Swaps	3,873,093	–	3,200,926	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**11**	**62,842**	**–**	**67,865**
a) Options	11	62,842	–	67,865
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**2,142,130**	**–**	**2,228,659**	**–**
a) Options	123,390	–	77,558	–
b) Swaps	–	–	–	–
c) Forwards	2,018,740	–	2,151,101	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**9,087**	**–**	**14,003**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**6,049,285**	**62,842**	**5,489,611**	**67,865**
Averages	**5,769,448**	**65,353**	**5,712,418**	**64,923**

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

	POSITIVE FAIR VALUE			
	Total 31/12/2014		Total 31/12/2013	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**102,365**	**277**	**67,878**	**877**
a) Options	2,213	277	1,235	877
b) Interest rate swap	72,822	–	47,276	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	27,186	–	18,925	–
f) Futures	–	–	–	–
g) Other	144	–	442	–
B. **Bank book - for hedging purposes**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
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	**102,365**	**277**	**67,878**	**877**

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

	NEGATIVE FAIR VALUE			
	Total 31/12/2014		**Total 31/12/2013**	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**98,098**	**–**	**60,279**	**29**
a) Options	2,118	–	1,176	29
b) Interest rate swap	67,681	–	40,659	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	28,179	–	18,026	–
f) Futures	–	–	–	–
g) Other	120	–	418	–
B. **Bank book - for hedging purposes**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
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	**98,098**	**–**	**60,279**	**29**

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	–	–	3,672,149	12,041	–	202,447	11,420
- positive fair value	–	–	57,276	69	–	15,131	455
- negative fair value	–	–	67,730	1	–	54	–
- future exposure	–	–	18,894	1	–	221	24
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	11	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	1	–	–	–
3. **Currency and gold**							
- notional value	12,355	–	1,082,810	79,530	–	609,991	357,444
- positive fair value	393	–	16,698	3,768	–	6,634	1,797
- negative fair value	–	–	14,594	151	–	12,557	2,892
- future exposure	124	–	11,675	1,204	–	6,654	3,584
4. **Other assets**							
- notional value	–	–	4,872	–	–	4,216	–
- positive fair value	–	–	102	–	–	42	–
- negative fair value	–	–	67	–	–	53	–
- future exposure	–	–	498	–	–	432	–

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**	**2,625,098**	**2,785,750**	**638,437**	**6,049,285**
A.1 Financial derivatives on fixed-yield securities and interest rates	542,715	2,716,916	638,426	3,898,057
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	11	11
A.3 Financial derivatives on exchange rates and gold	2,074,345	67,785	–	2,142,130
A.4 Financial derivatives on other instruments	8,038	1,049	–	9,087
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 31/12/2014	**2,625,098**	**2,785,750**	**638,437**	**6,049,285**
Total 31/12/2013	**2,778,447**	**1,934,801**	**776,364**	**5,489,612**

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 liquidity objectives rather than profitability, always taking a prudent approach.

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 the Bank has never had problems raising money at market conditions, given its high reputation.

The potential liquidity risk deriving from difficulties in unwinding positions is contained by the decision of the Bank to maintain a portfolio of high quality securities, that was expanded considerably during the year. 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.

Another element that contributes positively to the reserve availability known as the «counterbalancing capacity» is represented by the loans granted to the European Central Bank, in addition to eligible fixed-yield securities, in the form of collateral, so-called ABACO loans (A.BA. CO stands for Attivi BAncari COllateralizzati or collateralised bank assets).

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 weekly basis. The long-term liquidity position is also monitored, with no time limits.

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 duration
Cash assets	**6,195,773**	**530,149**	**1,718,891**	**1,094,824**	**1,280,712**	**784,063**	**1,958,402**	**9,228,306**	**6,221,291**	**267,866**
A.1 Government securities	1,310	–	101,433	69,992	184,191	71,441	1,077,122	4,351,909	1,663,000	66
A.2 Other fixed-yield securities	4,597	–	3,991	1,443	13,712	4,597	35,226	197,288	299,020	1
A.3 Mutual funds	260,219	–	–	–	–	–	–	–	–	–
A.4 Loans	5,929,647	530,149	1,613,467	1,023,389	1,082,809	708,025	846,054	4,679,109	4,259,271	267,799
- Banks	141,870	12,628	4,444	254,175	475,311	90,625	6,590	36	–	267,799
- Customers	5,787,777	517,521	1,609,023	769,214	607,498	617,400	839,464	4,679,073	4,259,271	–
Cash liabilities	**20,794,672**	**490,653**	**90,221**	**209,675**	**859,142**	**889,887**	**744,513**	**3,460,652**	**457,263**	**-**
B.1 Deposits and current accounts	20,611,042	122,081	87,408	201,936	615,061	714,004	445,785	93,539	–	-
- Banks	159,951	72,000	562	7,298	18,609	56,743	1,104	–	–	-
- Customers	20,451,091	50,081	86,846	194,638	596,452	657,261	444,681	93,539	–	-
B.2 Fixed-yield securities	79,083	688	280	3,208	223,761	170,609	281,563	2,168,127	400,443	-
B.3 Other liabilities	104,547	367,884	2,533	4,531	20,320	5,274	17,165	1,198,986	56,820	-
Off-balance sheet transactions	**539,656**	**352,656**	**254,986**	**652,408**	**759,586**	**246,074**	**310,828**	**194,617**	**77,091**	**-**
C.1 Financial derivatives with exchange of capital	–	351,587	254,986	469,597	758,001	226,419	230,834	56,326	–	-
- Long positions	–	161,381	126,529	238,941	374,762	138,825	122,536	28,169	–	-
- Short positions	–	190,206	128,457	230,656	383,239	87,594	108,298	28,157	–	-
C.2 Financial derivatives without exchange of capital	44,950	–	–	–	–	–	–	–	–	-
- Long positions	22,607	–	–	–	–	–	–	–	–	-
- Short positions	22,343	–	–	–	–	–	–	–	–	-
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	-
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-
C.4 Irrevocable commitments to make loans	493,959	999	–	182,811	1,408	18,525	78,681	135,022	75,901	-
- Long positions	36	999	–	182,811	1,408	18,525	78,681	135,022	75,901	-
- Short positions	493,923	–	–	–	–	–	–	–	–	-
C.5 Financial guarantees issued	747	70	–	–	177	1,130	1,313	3,269	1,190	-
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	-
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	-
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	-
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-

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 loans and receivables with 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: US DOLLAR

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	**396,650**	**37,771**	**91,013**	**147,201**	**247,315**	**23,411**	**17,568**	**462,192**	**8,158**	**10**
A.1 Government securities	–	–	–	–	309	669	978	453,010	–	10
A.2 Other fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	257,938	–	–	–	–	–	–	–	–	–
A.4 Loans	138,712	37,771	91,013	147,201	247,006	22,742	16,590	9,182	8,158	–
- Banks	135,228	10,916	8,509	7,649	74,704	2,060	1,189	–	6,628	–
- Customers	3,484	26,855	82,504	139,552	172,302	20,682	15,401	9,182	1,530	–
Cash liabilities	**562,825**	**92,251**	**11,134**	**380**	**9,145**	**1,026**	**416**	**–**	**–**	**–**
B.1 Deposits and current accounts	562,822	92,251	11,071	–	6,527	1,026	416	–	–	–
- Banks	219,588	92,251	10,873	–	165	–	–	–	–	–
- Customers	343,234	–	198	–	6,362	1,026	416	–	–	–
B.2 Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	3	–	63	380	2,618	–	–	–	–	–
Off-balance sheet transactions	**13,824**	**228,266**	**164,760**	**405,924**	**459,531**	**87,968**	**105,349**	**39,908**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	227,648	164,385	404,943	452,151	83,497	105,349	39,908	–	–
- Long positions	–	106,500	82,192	196,978	225,361	41,443	45,443	19,954	–	–
- Short positions	–	121,148	82,193	207,965	226,790	42,054	59,906	19,954	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	1,235	–	–	–	1,235	–	–	–	–	–
- Long positions	1,235	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	1,235	–	–	–	–	–
C.4 Irrevocable commitments to make loans	12,589	618	375	981	6,145	4,471	–	–	–	–
- Long positions	–	618	375	981	6,145	4,471	–	–	–	–
- Short positions	12,589	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Currency: SWISS FRANC

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	**44,100**	**8,108**	**9,408**	**19,388**	**96,518**	**11,152**	**33,543**	**137,099**	**266,138**	**-**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	3,011	–	–	–	–	–	–	–	–	–
A.4 Loans	41,089	8,108	9,408	19,388	96,518	11,152	33,543	137,099	266,138	–
- Banks	6,702	4,840	3,161	208	–	–	12,526	–	–	–
- Customers	34,387	3,268	6,247	19,180	96,518	11,152	21,017	137,099	266,138	–
Cash liabilities	**67,340**	**117,634**	**163,002**	**155,200**	**51,268**	**26,979**	**42,672**	**142**	**–**	**–**
B.1 Deposits and current accounts	67,340	117,634	163,002	155,200	51,268	26,979	42,672	142	–	–
- Banks	3,603	70,194	152,330	94,481	–	–	12,514	–	–	–
- Customers	63,737	47,440	10,672	60,719	51,268	26,979	30,158	142	–	–
B.2 Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**104,080**	**28,850**	**27,440**	**37,615**	**169,246**	**68,850**	**63,090**	**501**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	28,850	27,149	37,615	161,595	68,705	63,090	501	–	–
- Long positions	–	11,058	14,015	18,906	84,820	34,039	31,166	251	–	–
- Short positions	–	17,792	13,134	18,709	76,775	34,666	31,924	250	–	–
C.2 Financial derivatives without exchange of capital	96,048	–	–	–	–	–	–	–	–	–
- Long positions	50,486	–	–	–	–	–	–	–	–	–
- Short positions	45,562	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	7,651	–	–	–	7,651	–	–	–	–	–
- Long positions	7,651	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	7,651	–	–	–	–	–
C.4 Irrevocable commitments to make loans	381	–	291	–	–	90	–	–	–	–
- Long positions	–	–	291	–	–	90	–	–	–	–
- Short positions	381	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	55	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Currency: JAPANESE YEN

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	**14,805**	**4,478**	**995**	**1,670**	**3,050**	**2**	**5**	**33**	**47**	**-**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	14,805	4,478	995	1,670	3,050	2	5	33	47	–
- Banks	14,725	3,236	207	–	243	–	–	–	–	–
- Customers	80	1,242	788	1,670	2,807	2	5	33	47	–
Cash liabilities	**19,194**	**7,113**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	19,194	7,113	–	–	–	–	–	–	–	–
- Banks	26	7,113	–	–	–	–	–	–	–	–
- Customers	19,168	–	–	–	–	–	–	–	–	–
B.2 Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**564**	**56,493**	**5,240**	**6,761**	**6,054**	**12,684**	**5,508**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	–	56,493	5,240	6,761	5,827	12,347	5,508	–	–	–
- Long positions	–	27,673	2,620	4,189	2,825	6,363	2,754	–	–	–
- Short positions	–	28,820	2,620	2,572	3,002	5,984	2,754	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	227	–	–	–	227	–	–	–	–	–
- Long positions	227	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	227	–	–	–	–	–
C.4 Irrevocable commitments to make loans	337	–	–	–	–	337	–	–	–	–
- Long positions	–	–	–	–	–	337	–	–	–	–
- Short positions	337	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

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	**34,822**	**9,296**	**939**	**347**	**1,256**	**608**	**312**	**165**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	34,822	9,296	939	347	1,256	608	312	165	–	–
- Banks	34,654	9,159	899	103	473	608	312	–	–	–
- Customers	168	137	40	244	783	–	–	165	–	–
Cash liabilities	**35,752**	**2,750**	**406**	**2,229**	**2,281**	**2,423**	**4,218**	**–**	**–**	**–**
B.1 Deposits and current accounts	35,752	2,750	406	2,229	2,281	2,423	4,218	–	–	–
- Banks	1,506	2,750	385	873	2,234	607	310	–	–	–
- Customers	34,246	–	21	1,356	47	1,816	3,908	–	–	–
B.2 Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**2,053**	**23,537**	**62,272**	**55,910**	**194,291**	**38,071**	**91,923**	**20,434**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	23,104	62,272	55,910	192,671	38,071	91,923	20,434	–	–
- Long positions	–	11,435	31,599	28,140	96,604	19,136	45,964	10,217	–	–
- Short positions	–	11,669	30,673	27,770	96,067	18,935	45,959	10,217	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	2,053	433	–	–	1,620	–	–	–	–	–
- Long positions	2,053	–	–	–	–	–	–	–	–	–
- Short positions	–	433	–	–	1.620	–	–	–	–	–
C.4 Irrevocable commitments to make loans	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

2 Information about committed assets recognised in the balance sheet

Technical forms	Committed BV	Committed FV	Not committed BV	Not committed FV	Total 31/12/2014	Total 31/12/2013
1. Cash and cash equivalents	–	–	108,352	–	108,352	109,512
2. Fixed-yield securities	2,475,345	2,487,950	6,030,377	6,023,075	8,505,722	6,452,405
3. Variable-yield securities	1,142	1,142	110,844	110,844	111,986	107,036
4. Loans	2,343,331	–	19,617,777	–	21,961,108	22,325,292
5. Other financial assets	–	–	1,035,375	–	1,035,375	655,051
6. Non-financial assets	–	–	850,676	–	850,676	813,419
Total 31/12/2014	**4,819,818**	**2,489,092**	**27,753,401**	**6,133,919**	**32,573,219**	**–**
Total 31/12/2013	**4,021,368**	**2,262,161**	**26,441,347**	**4,296,321**	**–**	**30,462,715**

The 2013 figures have been adjusted for comparison purposes.

Key:
BV = book value
FV = fair value

3 Information about committed assets not recognised in the balance sheet

Technical forms	Committed	Not committed	Total 31/12/2014	Total 31/12/2013
1. **Financial assets**	**900,308**	**1,768,337**	**2,668,645**	**1,466,176**
- Securities	900,308	964,142	1,864,450	1,466,176
- Others	–	804,195	804,195	–
2. **Non-financial assets**	**–**	**–**	**–**	**–**
Total 31/12/2014	**900,308**	**1,768,337**	**2,668,645**	**–**
Total 31/12/2013	**1,071,994**	**394,182**	**–**	**1,466,176**

These are securities associated with repurchase agreements, securitisations and covered bonds.

Securitisation transactions and disposal of assets

Securitisation transactions

A securitisation was carried out by the Bank in April 2012 as part of its funding policies. The transaction consisted of the sale without recourse under Law 130/1999 of € 1,630 million of performing residential mortgage loans to Centro delle Alpi RMBS srl, an SPV specifically set up for this purpose. The SPV issued securities for € 1,678 million, made up of € 1,385 million of «Senior» securities and € 293 million of «Junior» securities, all of which were purchased by the Parent Bank. The Senior securities are listed on the Luxembourg Stock Exchange and are considered «eligible» for the European Central Bank. These securities were pledged as collateral for refinancing granted by the ECB. In accordance with IAS 39, given that the conditions for derecognition do not exist because the Bank has retained all of the risks and rewards, the securitised loans have been maintained in balance sheet item 70 «Loans to customers», whereas the Junior and Senior securities and the loan to the SPV do not feature. The asset-backed securities have been assigned credit ratings by Standard & Poor's and Moody's; these ratings will be monitored throughout the operation. The Bank acts as servicer on behalf of Centro delle Alpi RMBS srl, which means that it handles the management, administration and collection of the loans; it acts on behalf of the SPV, but is the only counterparty of the customers. It receives a fee for performing this service. Quarterly reports are prepared, highlighting the various flows of the operation, which are sent to the offices and corporate bodies involved so that they can constantly assess its results.

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 to make observations and internal estimates in terms of potential risk in the future.

Work continued throughout the year to analyse, expand and supplement the information obtained from multiple sources, in order to assess the exposure to the above risk. This assessment seeks to respond as closely as possible to our operational needs, which are increasingly subject to technological and/or regulatory changes, while also being readily understood by the various operating units involved, thereby improving the risk profile.

Particular attention has been dedicated to IT risk, which is an integral part of operational risk, by establishing rules and processes for identifying, recording and containing events that originate, or might originate, from IT equipment and/or procedural malfunctions, such as the failure of the optical fibre network, inability to access the home banking system operated by ScrignoBps, and inaccuracies in the applications that support branch operations.

The weak statistical significance of the losses identified internally has suggested expanding the available databases to include information from the Italian Database of Operating Losses (DIPO); the identification of a methodology for including losses from an external source will allow periodic comparison, using an analytical dashboard, with equivalent information drawn from the banking system.

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. Recoveries are about 46%.

Sources of losses from 01/01/2012 to 31/12/2014

	No. of events	% of events	Gross loss	% of total	Net loss	% of total	% recovered
Fraud	177	22.81%	1,529,900	9.53%	854,934	9.87%	44.12%
Settlements and legal disputes	138	17.78%	4,647,886	28.95%	4,610,588	53.30%	0.80%
Damage to fixed assets	101	13.02%	316,434	1.97%	69,107	0.80%	78.16%
Errors in carrying out transactions	342	44.07%	9,383,524	58.44%	2,988,662	34.55%	68.15%
Other	18	2.32%	178,580	1.11%	127,645	1.48%	28.52%
Total	**776**	**100.00%**	**16,056,324**	**100.00%**	**8,650,936**	**100.00%**	**46.12%**

(Amounts in euro)

Key:

Fraud = bank robberies, theft, false instructions, cloning of debit and credit cards, alteration of 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, the overall exposure of the bank at 31/12/2014 amounted to € 8,556 million and was structured as follows:

a) Italian government securities: € 7,538 million;

b) Securities of other issuers: € 468 million;

c) Loans to government departments: € 57 million;

d) Loans to state-owned or local government-owned enterprises: € 419 million;

e) Loans to other public administrations and miscellaneous entities: € 74 million.

PART F *Information on equity*

Section 1 *Capital*

QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects their reputation.

The need for capital adequacy has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery.

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 have always been taken up en masse.

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 crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit Spa with a view to providing specialist tools in support of the real economy. The Bank therefore decided to prepare for a capital increase given the lowering of market tensions and the need to strengthen the level of capitalisation that might derive from the ECB's assessment of the banking system, as well as from the subsequent stress tests that all banks supervised by the ECB had to carry out during the year. The Extraordinary Shareholders' Meeting held on 26 April 2014 approved the proposed capital increase in mixed form, to be implemented by the Board of Directors during 2014, acting on a mandate granted at that meeting.

At a meeting held on 5 June 2014, the Board of Directors established that basis and timing for the transaction, which was to be implemented between 9 June and 5 July by the issue of 30,814,798 bonus shares and 114,422,994 shares at € 3 each. The operation ended in July, with the collection of € 343.269 million.

The offer was fully underwritten by a syndicate of leading institutions, that would have taken up any unexercised options outstanding at the end of the offer for payment period.

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	31/12/2014	31/12/2013
1. **Share Capital**	**1,360,157**	**924,444**
2. **Share premium reserve**	**79,005**	**171,450**
3. **Reserves**	**665,469**	**638,001**
- retained earnings	665,469	638,001
a) legal	161,561	142,886
b) statutory	392,417	377,395
c) treasury shares	93,000	93,000
d) other	18,491	24,720
- other	–	–
4. **Equity instruments**	**–**	**–**
5. **(Treasury shares)**	**(25,031)**	**(24,316)**
6. **Valuation reserves**	**44,267**	**15,358**
- Available-for-sale financial assets	74,105	32,313
- Property, equipment and investment property	–	–
- Intangible assets	–	–
- Hedges of foreign investments	–	–
- Cash-flow hedges	–	–
- Exchange differences	–	–
- Non-current assets and disposal groups held for sale	–	–
- Actuarial profits (losses) related to defined-benefit pension plans	(29,838)	(16,955)
- Portions of valuation reserves related to subsidiaries carried at equity	–	–
- Special revaluation regulations	–	–
7. **Profit**	**97,552**	**48,832**
Total	**2,221,419**	**1,773,769**

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

	Total 31/12/2014		**Total 31/12/2013**	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	57,568	(382)	33,277	(4,225)
2. Variable-yield securities	2,454	–	2,654	(202)
3. Mutual funds	14,630	(165)	912	(103)
4. Loans	–	–	–	–
Total	**74,652**	**(547)**	**36,843**	**(4,530)**

B.3 Valuation reserves for available-for-sale financial assets: change in the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. **Opening balance**	**29,052**	**2,452**	**809**	**–**
2. **Positive changes**	**32,899**	**336**	**13,947**	**–**
2.1 Increases in fair value	11,065	133	13,844	–
2.2 Release to the income statement of negative reserves	21,834	203	103	–
- from impairment	–	203	103	–
- from disposals	21,834	–	–	–
2.3 Other changes	–	–	–	–
3. **Negative changes**	**4,765**	**334**	**291**	**–**
3.1 Reductions in fair value	540	40	165	–
3.2 Impairment writedowns	–	294	33	–
3.3 Transfer to income statement from positive reserves: from disposals	4,225	–	93	–
3.4 Other changes	–	–	–	–
4. **Closing balance**	**57,186**	**2,454**	**14,465**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by € 29.838 million.
This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 *Capital and capital adequacy ratios*

2.1 Own funds

QUALITATIVE INFORMATION

Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

The CRR applies directly at national level, while the CRD IV must be adopted at that level: these measures were implemented via the issue of Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to own funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the related EU instructions.

Own funds

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds (previously, capital for supervisory purposes being the sum of «core capital» and «supplementary capital») comprise:
- Tier 1 Capital;
- Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:
- Common Equity Tier 1 - CET1;

– Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:
- Share capital;
- Share premium reserve;
- Retained earnings;
- Negative valuation reserves - OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional instructions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:
- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional instructions (grandfathering);
- Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:
- Equity instruments, subordinated loans and related premiums;
- Positive measurement reserves - OCI;
- Previous T2 instruments subject to transitional instructions (grandfathering);
- Deductions.

The new supervisory regulations envisage a transition period from 2014 to 2017, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

A recent interpretation circulated by the Supervisory Authorities of art. 63 of Regulation (EU) 575/13, on the requirements for including subordinated loans in Tier 2 capital, excluded all subordinated loans whose contractual redemption schedules commence before five years have elapsed from their issue dates. Implementing the indications received, the bank has not treated as own funds those subordinated loans with the above characteristics, being 3 subordinated loans issued in 2014; a further two instruments issued prior to 1 January 2012 have been retained at 80% in Tier 2 capital, since they are covered by the safeguard clauses mentioned above.

The «Transitional instructions regarding own funds» section of the Bank of Italy's Circular 285 allows banks an option to exclude from their own funds any unrealised gains or losses on exposures to central administrations classified as «Available-for-sale financial assets» pursuant to IAS 39. This option had to be exercised by 31 January 2014. The Bank has opted not to include in its own funds the positive and negative reserves arising on exposures to central administrations that are classified as «Available-for-sale financial assets», consistent with the approach settled pursuant to the Bank of Italy instruction dated 18 May 2010. This decision has resulted in not recognising as part of own funds capital gains of about 58 million, net of tax effect.

QUANTITATIVE INFORMATION

	31/12/2014
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,134,438**
Of which: CET1 instruments subject to transitional instructions	–
B. **Prudential filters of CET1 (+/-)**	**–**
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,134,438**
D. **Elements to be deducted from CET1**	**41,849**
E. **Transitional instructions - Impact on CET1 (+/-)**	**305**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,092,894**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**–**
Of which: AT1 instruments subject to transitional instructions	
H. **Elements to be deducted from AT1**	**–**
I. **Transitional instructions - impact on AT1 (+/-)**	**–**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**–**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**8,459**
Of which: T2 instruments subject to transitional instructions	8,459
N. **Elements to be deducted from T2**	**223**
O. **Transitional instructions - Impact on T2 (+/-)**	**353,659**
P. **Total Tier 2 - T2 (M - N +/- O)**	**361,895**
Q. **Total Own funds (F + L + P)**	**2,454,789**

The composition of own funds takes account of the profit for the period to 30 September 2014, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

The individual capital for supervisory purposes reported at 31 December 2013, calculated under the previous rules (Basel II), is presented below:

Total TIER 1	**1,658,789**
Total TIER 2	**628,972**
Capital for supervisory purposes	**2,287,761**

2.2 Capital adequacy

QUALITATIVE INFORMATION

The capital ratios are calculated under the new Basel 3 rules. The regulation introduced by the Bank of Italy in Circular 285/2013 establishes the following minimum ratios for banking groups:

- CET 1 of 4.50%;
- Tier 1 of 5.5% (6% from 1 January 2015);
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions have been introduced:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; this is currently not implemented but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside

capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;

- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which is indicated below for 2014:

- CET 1 of 7%;
- Tier 1 of 8%;
- Total Capital Ratio of 10.5%.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

For larger EU banks, which includes the Banca Popolare di Sondrio Group, the European Central Bank has imposed (with a note of 23 October 2013) a 1% add-on to the CET1 ratio, the minimum value of which is therefore 8%, a stricter limit compared with the previous values.

At 31 December 2014, the parameters of the bank under the new regulations are as follows:

- CET 1 Capital ratio 9.81%;
- Tier 1 Capital ratio 9.81%;
- Total Capital ratio 11.50%.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	31/12/2014	**31/12/2013**	**31/12/2014**	**31/12/2013**
A. **Assets at risk**				
A.1 Credit and counterparty risk	–	–	–	–
1. Standardised approach	33,025,961	29,733,423	18,330,087	19,031,537
2. Approach based on internal ratings				
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	170,600	–	162,835	–
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk	–	–	1,479,434	1,522,523
B.2 Loan adjustment risk	–	–	976	–
B.3 Regulation risks	–	–	–	–
B.4 Market risks				
1. Standard methodology	–	–	94,762	38,380
2. Internal models	–	–	–	–
3. Concentration risk	–	–	–	–
B.5 Operational risk				
1. Basic method	–	–	131,890	117,957
2. Standardised approach	–	–	–	–
3. Advanced method	–	–	–	–
B.6 Other calculation requirements	–	–	–	(419,715)
B.7 Total precautionary requirements	–	–	1,707,062	1,259,145
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets	–	–	21,338,275	15,739,313
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)	–	–	9.81	–
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	9.81	–
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)	–	–	11.50	–

The capital ratios at 31 December 2013, calculated in accordance with the previous (Basel II) regulations, are indicated below:

Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	**10.54**
Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)	**14.54**

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

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 Poplare di Sondrio	Non-monetary benefits	Bonuses and e other incentives	Other emoluments
FRANCESCO VENOSTA	Chairman	1/1/2014-31/12/2014	31/12/2015	202	–	–	18
MILES EMILIO NEGRI	Deputy Chairman	1/1/2014-26/04/2014	26/04/2014	14	–	–	-
LINO ENRICO STOPPANI	Deputy Chairman	1/1/2014-31/12/2014	31/12/2016	109	–	–	12
MARIO ALBERTO PEDRANZINI (*)	Director	1/1/2014-31/12/2014	31/12/2016	153	–	–	111
PIERO MELAZZINI	Director	1/1/2014-31/12/2014	31/12/2016	53	–	–	82
CLAUDIO BENEDETTI	Director	1/1/2014-31/12/2014	31/12/2014	41	–	–	-
PAOLO BIGLIOLI	Director	1/1/2014-31/12/2014	31/12/2016	41	–	–	-
FEDERICO FALCK	Director	1/1/2014-31/12/2014	31/12/2015	41	–	–	-
ATTILIO PIERO FERRARI	Director	1/1/2014-31/12/2014	31/12/2014	40	–	–	-
GIUSEPPE FONTANA	Director	1/1/2014-31/12/2014	31/12/2014	40	–	–	-
CRISTINA GALBUSERA	Director	1/1/2014-31/12/2014	31/12/2015	46	–	–	-
CUSANO NICOLÒ DI MELZI	Director	1/1/2014-31/12/2014	31/12/2015	40	–	–	-
ADRIANO PROPERSI	Director	1/1/2014-31/12/2014	31/12/2014	40	–	–	-
ANNALISA RAINOLDI	Director	26/04/2014-31/12/2014	31/12/2016	27	–	–	-
RENATO SOZZANI	Director	1/1/2014-31/12/2014	31/12/2014	70	–	–	3
DOMENICO TRIACCA	Director	1/1/2014-31/12/2014	31/12/2015	60	–	–	-
PIERGIUSEPPE FORNI	Chairman of the Board of Statutory Auditors	1/1/2014-31/12/2014	31/12/2014	84	–	–	11
PIO BERSANI	Auditor	1/1/2014-31/12/2014	31/12/2014	61	–	–	20
MARIO VITALI	Auditor	1/1/2014-31/12/2014	31/12/2014	66	–	–	27
MARIO ALBERTO PEDRANZINI (*)	General Manager	1/1/2014-31/12/2014		–	106	60	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2014-31/12/2014		–	55	130	1,018

(*) also Managing Director.

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 € 2,719 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.105 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.

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, managing director 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.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	81	9,811	3	186	–	–
Statutory auditors	812	162	28	4	–	–
Management	2	813	–	13	15	–
Family members	1,745	21,210	64	394	41	6,879
Subsidiaries	1,751,934	473,881	47,714	3,732	839,482	13,179
Associated companies	542,582	182,316	6,505	3,724	106,010	2,176
Other related parties	266,598	82,566	4,084	1,935	24,822	20,409

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 € 425 million to Alba Leasing SpA and for € 81 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 183 million granted to the affiliate Release spa.

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 revalued assets still owned by the Bank (article 10, Law 72 of 19/3/1983);
- 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 REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in euro)

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 19/3/83	Revaluation Law 413 of 30/12/91	Total as of 31/12/2014	Accumulated depreciation as of 31/12/2014	Net book value as of 31/12/2014
ABBIATEGRASSO - Via S, Maria - Ang, P, Garibaldi	2,002,818	0	0	0	2,002,818	76,455	1,926,363
APRICA - Corso Roma, 140	450,765	0	356,355	146,929	954,049	586,061	367,988
BERBENNO DI VALTELLINA - Via Raneè, 542	13,899,575	0	0	99,417	13,998,992	5,353,855	8,645,137
BERGAMO - Via Broseta, 64/B	3,794,328	0	0	0	3,794,328	844,550	2,949,778
BERGAMO - Via G, D'alzano, 5	2,290,059	0	0	0	2,290,059	201,830	2,088,229
BERGAMO - Via Ghislandi Vittore, 4	1,288,525	0	0	0	1,288,525	19,328	1,269,197
BORMIO - Via Roma, 64	439,238	46,481	573,267	136,524	1,195,510	271,355	924,155
BORMIO - Via Roma Angolo Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,472,238	2,157,389
BRENO - Piazza Ronchi, 4	1,529,470	0	0	87,467	1,616,937	703,404	913,533
CHIAVENNA - Via Dolzino, 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,207,867	1,254,422
CHIESA VALMALENCO - Via Roma, 138	800,868	17,560	664,795	133,250	1,616,473	636,305	980,168
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	242,548	31,689
DELEBIO - Piazza S, Carpoforo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,374,371	827,621
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	890,942	708,553
DOMASO - Via Statale Regina, 71	311,875	0	0	53,817	365,692	138,887	226,805
DONGO - Piazza V, Matteri, 14	2,273,353	0	0	415,551	2,688,904	1,132,584	1,556,320
EDOLO - Piazza Martiri della Libertà, 16	1,058,736	0	0	509,161	1,567,897	1,316,813	251,084
GENOA - Via XXV Aprile, 7	7,559,724	0	0	0	7,559,724	1,682,264	5,877,460
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	353,945	298,132
GRAVEDONA - Piazza Garibaldi, 10/12	3,400,645	0	0	223,957	3,624,602	789,470	2,835,132
GRAVEDONA - Via Tagliaferri, 5	309,900	0	0	0	309,900	23,242	286,658
GROSIO - Via Roma, 67	26,372	7,230	229,791	51,484	314,877	242,557	72,320
GROSOTTO - Via Statale, 73	452,238	12,911	147,146	42,099	654,394	272,996	381,398
ISOLACCIA VALDIDENTRO - Via Nazionale, 31	403,788	0	290,229	272,602	966,619	620,751	345,868
LECCO - Corso Martiri della Liberazione, 63/65	9,574,332	0	351,191	2,124,557	12,050,080	6,787,511	5,262,569
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	145,302	65,280
LIVIGNO - Via S, Antoni, 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	1,647,787	5,003,157
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	601,228	96,047
MARCHIROLO - Via Cav, Emilio Busetti, 7/A	1,089,019	0	0	0	1,089,019	413,353	675,666
MAZZO VALTELLINA - Via S, Stefano, 18	641,635	16,010	163,550	48,833	870,028	212,230	657,798
MELEGNANO - Piazza Garibaldi, 1	2,274,058	0	0	0	2,274,058	102,333	2,171,725
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	174,985	76,954
MILAN - Via A, Messina, 22	150,000	0	0	0	150,000	20,250	129,750
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	57,403	580
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	55,049	556
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	165,917	31,603
MILAN - Via Porpora, 104	5,318,962	0	0	165,381	5,484,343	1,582,605	3,901,738
MILAN - Via S, Maria Fulcorina, 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	5,477,519	11,072,331
MILAN - Via S, Maria Fulcorina, 11	493,165	0	0	0	493,165	399,463	93,702
MILAN - Via Sangallo, 16	4,752	0	0	11,915	16,667	14,000	2,667
MILAN - Via Solari, 15	422,156	0	0	0	422,156	151,976	270,180
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	731,095	467,421

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 19/3/83	Revaluation Law 413 of 30/12/91	Total as of 31/12/2014	Accumulated depreciation as of 31/12/2014	Net book value as of 31/12/2014
MORBEGNO - Piazza Caduti della Libertà, 6	2,101,004	0	1,088,606	704,283	3,893,893	2,185,839	1,708,054
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	65,203	7,245
MORBEGNO - Via Garibaldi, 81	435,688	25,823	0	56,050	517,561	384,456	133,105
MOZZO - Via G, D'annunzio, 4	26,424	0	0	14,259	40,683	29,292	11,391
NOVATE MEZZOLA - Via Roma, 13	173,840	0	251,282	89,219	514,341	267,965	246,376
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	790,215	136,377
PONTE VALTELLINA - Piazza della Vittoria, 1	51,496	12,911	258,098	86,540	409,045	258,771	150,274
REGOLEDO DI COSIO VALTELLINO - Via Roma, 7	134,617	0	0	78,405	213,022	150,235	62,787
ROME - Piazza Filippo il Macedone, 75	2,400,000	0	0	0	2,400,000	756,000	1,644,000
ROME - Via della Farnesina, 154	928,169	0	0	0	928,169	180,993	747,176
ROME - Via di Propaganda Fide, 27	155,625	0	350,503	88,926	595,054	595,054	0
S, CASSIANO VALCHIAVENNA - Via Spluga, 108	397,672	0	0	103,093	500,765	316,494	184,271
S, SIRO - Via Statale Regina	467,692	0	0	0	467,692	208,709	258,983
S, PIETRO BERBENNO - Via Nazionale Ovest, 110	1,286,403	22,208	328,181	122,795	1,759,587	516,082	1,243,505
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	111,158	26,074
SESTO CALENDE - Piazza Mazzini, 10	443,111	0	0	0	443,111	19,940	423,171
SONDALO - Via Zubiani, 2/4/6/8/10	21,757	25,823	312,456	158,005	518,041	397,036	121,005
SONDRIO - Corso V, Veneto, 7	858,944	0	0	1,190,813	2,049,757	741,117	1,308,640
SONDRIO - Largo Pedrini, 8	363,862	0	0	22,527	386,389	191,408	194,981
SONDRIO - Lungo Mallero Cadorna, 24	2,878,573	0	196,254	451,249	3,526,076	1,089,236	2,436,840
SONDRIO - Piazzale Tocalli - Via Delle Prese	348,608	0	0	0	348,608	256,227	92,381
SONDRIO - Piazza Garibaldi, 1	16,056,897	0	0	0	16,056,897	371,976	15,684,921
SONDRIO - Piazza Garibaldi, 16	1,563,597	351,191	7,810,125	3,142,651	12,867,564	7,046,145	5,821,419
SONDRIO - Via Bernina, 1	181,930	0	82,385	45,795	310,110	165,110	145,000
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	386,312	17,945
SONDRIO - Via Cesura, 4	156,991	0	0	64,149	221,140	125,704	95,436
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	170,779	76,727
SONDRIO - Via Tonale, 6	56,297	0	243,248	54,643	354,188	354,188	0
SONDRIO - Via Pio Rajna, 1	16,195	0	0	40,221	56,416	44,004	12,412
TALAMONA - Via Cusini, 29	223,475	0	313,640	203,691	740,806	586,576	154,230
TEGLIO - Piazza S, Eufemia, 2	40,150	13,944	546,700	148,165	748,959	483,152	265,807
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	88,685	50,667
TIRANO - Piazza Cavour, 20	392,571	0	1,736,322	718,576	2,847,469	1,873,111	974,358
TURIN - Via XX Settembre, 37	6,473,624	0	0	0	6,473,624	485,350	5,988,274
TRESCORE BALNEARIO - Piazza Cavour, 6	1,292,789	0	0	0	1,292,789	58,176	1,234,613
TRESENDA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	394,203	59,588
VALMADRERA - Via S, Rocco, 31/33	1,348,914	0	0	0	1,348,914	20,234	1,328,680
VERCELLI - Piazza Mazzucchelli, 12	1,773,241	0	0	0	1,773,241	26,598	1,746,643
VILLA DI CHIAVENNA - Via Roma, 39	197,712	0	0	7,639	205,351	201,646	3,705
VILLA DI TIRANO - Traversa Foppa, 25	440.817	0	0	7.651	448.468	239.618	208.850
GRAND TOTAL	**132,626,036**	**781,632**	**22,496,863**	**19,084,124**	**174,988,655**	**62,827,621**	**112,161,034**

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 (thousands of euro)
Audit of the financial statements	KPMG spa	Banca Popolare di Sondrio	404
Other emoluments	KPMG spa	Banca Popolare di Sondrio	410
Audit of the financial statements	KPMG SA	Banca Popolare di Sondrio (SUISSE) SA	385
Audit of the financial statements	KPMG spa	Factorit spa	60
Audit of the financial statements	KPMG spa	Popso Covered Bond srl	30
Audit of the financial statements	KPMG spa	Sinergia Seconda srl	20
Audit of the financial statements	KPMG spa	Pirovano Stelvio spa	11
Consultancy services	KPMG Advisory spa*	Banca Popolare di Sondrio	854

* Company belonging to the same network as the independent auditors.

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 2014

(in Swiss francs)

ASSETS	31/12/2014	31/12/2013
Liquid assets	187,724,344	106,803,295
Loans and receivables with banks	505,156,554	916,030,391
Loans and receivables customers	604,034,613	592,460,287
Mortgage loans	2,901,826,632	2,717,640,641
Financial investments	58,204,440	33,413,364
Equity investments	611,356	603,138
Fixed assets	28,961,929	26,099,335
Accrued income and prepayments	7,166,609	9,072,722
Other assets	74,823,365	42,437,973
Total assets	**4,368,509,842**	**4,444,561,146**
Total amounts due from Group companies and holders of qualifying equity investments	455,076,537	867,192,687

LIABILITIES	31/12/2014	31/12/2013
Debt securities issued - money market	74,250	118,120
Due to banks	769,953,172	1,078,120,701
Due to customers - savings and investments	829,812,886	823,346,060
Due to customers - other	2,161,920,471	2,006,848,386
Treasury liabilities	149,344,000	151,212,000
Due to issuers of construction bonds and loans	32,200,000	–
Accrued liabilities and deferred income	12,757,675	14,544,124
Other liabilities	75,842,090	46,621,105
Adjustments and provisions	45,689,954	42,276,531
Reserve for general banking risks	15,000,000	13,724,000
Share capital	150,000,000	150,000,000
General legal reserve	117,750,119	116,040,680
Profit for the year	8,165,225	1,709,439
Total liabilities	**4,368,509,842**	**4,444,561,146**
Total amounts due to Group companies and holders of qualifying equity investments	669,984,129	975,187,912

OFF-BALANCE SHEET TRANSACTIONS	31/12/2014	31/12/2013
Contingent liabilities	355,124,788	257,522,303
Irrevocable commitments	14,948,000	14,498,000
Derivative products	3,134,154,403	3,048,312,692
- Gross positive replacement value	11,354,743	3,335,250
- Gross negative replacement value	63,334,543	38,021,959
Fiduciary transactions	101,173,976	240,323,881

INCOME STATEMENT
(in Swiss francs)

	31/12/2014	31/12/2013
Interest income:		
- Interest income and discounts	77,225,529	77,243,686
- Interest income and dividends from equity investments	535,095	425,348
Interest expense	(39,804,338)	(42,667,795)
Net interest income	**37,956,286**	**35,001,239**
Fee and commission income:		
- on lending transactions	1,816,949	2,080,400
- on trading in securities and investments	30,844,165	32,974,836
- on services	7,910,018	7,090,075
Fee and commission expense	(2,841,545)	(5,537,438)
Net fee and commission income and income from services	**37,729,587**	**36,607,873**
Profits from financial transactions	**13,338,100**	**11,057,675**
Profit (loss) on disposal of financial investments	167,369	216,094
Income from equity investments	-	-
Net proceeds from properties	184,223	218,703
Other ordinary income	622,812	273,130
Other ordinary charges	(936,833)	(169,572)
Total other ordinary income	**37,571**	**538,355**
Net income from ordinary banking operations	**89,061,544**	**83,205,142**
Operating expenses		
Personnel costs	42,268,830	43,768,538
Other operating expenses	22,138,070	21,683,059
Operating expenses	**64,406,900**	**65,451,597**
Gross profit	**24,654,644**	**17,753,545**

	31/12/2014	31/12/2013
Depreciation and amortisation	(5,477,444)	(6,314,996)
Adjustments, provisions and losses	(7,806,812)	(8,241,769)
Interim results	**11,370,388**	**3,196,780**
Extraordinary income	1,152,649	136,659
Extraordinary charges	(1,334,812)	–
Income taxes	(3,023,000)	(1,624,000)
Profit for the year	**8,165,225**	**1,709,439**
ALLOCATION OF PROFIT		
Profit for the year	8,165,225	1,709,439
Retained earnings	–	–
Earnings available for allocation	**8,165,225**	**1,709,439**
Proposal of the Board of Directors for the allocation of 2014 profit of CHF 8,165,225 to general legal reserve	–	–
Balance carried forward	**–**	**–**

FACTORIT SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2014

(in euro)

ASSET ITEMS	31/12/2014	31/12/2013
10. Cash and cash equivalents	3,856	2,987
40. Available-for-sale financial assets	1,750,000	2,250,000
60. Receivables	1,705,343,435	1,782,753,543
100. Property, equipment and investment property	418,577	502,312
110. Intangible assets	149,618	1,248,218
120. Tax assets	42,528,672	50,004,777
a) current	14,257,046	20,565,145
b) deferred	28,271,626	29,439,632
of which as per Law 214/2011	26,251,658	26,845,768
140. Other assets	7,527,213	5,199,500
TOTAL ASSETS	**1,757,721,371**	**1,841,961,337**

EQUITY AND LIABILITY ITEMS	31/12/2014	31/12/2013
10. Payables	1,506,022,548	1,592,715,217
70. Tax liabilities	13,717,898	18,753,557
a) current	11,674,467	16,329,761
b) deferred	2,043,431	2,423,796
90. Other liabilities	20,509,424	30,258,197
100. Post-employment benefits	2,324,262	2,123,354
110. Provisions for risks and charges:	6,422,740	7,128,307
b) other provisions	6,422,740	7,128,307
120. Share capital	85,000,002	85,000,002
150. Share premium reserve	11,030,364	11,030,364
160. Reserves	87,355,759	75,654,185
170. Valuation reserves	(176,743)	(53,420)
180. Profit for the year	25,515,117	19,351,574
TOTAL LIABILITIES AND EQUITY	**1,757,721,371**	**1,841,961,337**

The amount of «Other liabilities» at 31/12/2013 has been modified as a result of a reclassification made for supervisory reporting purposes. In particular, the amount «due to customers on demand», euro 4,784,926, has been reclassified in full to «Payables».

INCOME STATEMENT	31/12/2014	31/12/2013
10. Interest and similar income	49,949,202	59,681,575
20. Interest and similar expense	(12,089,104)	(18,019,957)
NET INTEREST INCOME	**37,860,098**	**41,661,618**
30. Fee and commission income	31,981,482	33,164,237
40. Fee and commission expense	(5,233,824)	(5,811,440)
NET FEE AND COMMISSION INCOME	**26,747,658**	**27,352,797**
60. Net trading income	29,021	(27,528)
TOTAL INCOME	**64,636,777**	**68,986,887**
100. Net impairment losses on:	(5,449,783)	(14,062,270)
a) financial assets	(7,173,687)	(14,321,765)
b) other financial operations	1,723,904	259,495
110. Administrative expenses:	(23,055,605)	(22,905,741)
a) personnel expenses	(12,060,178)	(12,345,370)
b) other administrative expenses	(10,995,427)	(10,560,371)
120. Depreciation and net impairment losses on property, equipment and investment property	(157,033)	(138,769)
130. Amortisation and net impairment losses on intangible assets	(1,172,688)	(50,964)
150. Net accruals to provisions for risks and charges	378,454	(1,835,500)
160. Other operating income and expenses	2,827,463	3,108,966
OPERATING PROFIT (LOSS)	**38,007,585**	**33,102,609**
180. Net gains on sales of investments	16,418	4,508
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	**38,024,003**	**33,107,117**
190. Income taxes	(12,508,886)	(13,755,543)
POST-TAX PROFIT FROM CONTINUING OPERATIONS	**25,515,117**	**19,351,574**
PROFIT FOR THE YEAR	**25,515,117**	**19,351,574**

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2014

(in euro)

ASSETS	31/12/2014	31/12/2013
B) **NON-CURRENT ASSETS**		
I Intangible assets		
03 Industrial patent rights and intellectual property rights	2,280	10,283
Total I	***2,280***	***10,283***
II Property, equipment and investment property		
01 Land and buildings	2,836,848	2,907,503
02 Equipment and machinery	120,665	139,899
03 Industrial and commercial equipment	35,391	42,402
04 Other assets	9,073	13,943
05 Assets under construction and advances	7,676	7,676
Total II	***3,009,653***	***3,111,423***
III FINANCIAL ASSETS		
01 Equity investments		
b) in associated companies	333,983	333,042
d) in other companies	2,199	2,199
Total 01	*336,182*	*335,241*
Total III	***336,182***	***335,241***
TOTAL NON-CURRENT ASSETS	**3,348,115**	**3,456,947**
C) **CURRENT ASSETS**		
I INVENTORIES		
04 Finished products and merchandise	24,877	28,791
Total I	***24,877***	***28,791***
II RECEIVABLES		
01 Loans and receivables with customers		
a) due within 12 months	36,882	40,841
Total 01	*36,882*	*40,841*
04 Due from parent companies		
a) due within 12 months	175,058	169,394
Total 04	*175,058*	*169,394*
04-bis Due from tax authorities		
a) due within 12 months	33,824	6,356
Total 04-bis	*33,824*	*6,356*
05 Due from others		
a) due within 12 months	8,980	8,478
Total 05	*8,980*	*8,478*
Total II	***254,744***	***225,069***
IV Cash and banks		
01 Bank and post office deposits	212	384
03 Cash and cash equivalents on hand	523	109
Total IV	***735***	***493***
TOTAL CURRENT ASSETS	**280,356**	**254,353**
D) **ACCRUED INCOME AND PREPAYMENTS**		
02 Accrued income and prepayments	6,572	5,479
TOTAL ACCRUED INCOME AND PREPAYMENTS	**6,572**	**5,479**
TOTAL ASSETS	**3,635,043**	**3,716,779**

LIABILITIES AND EQUITY	31/12/2014	31/12/2013
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		
01 Voluntary reserve	232,397	232,397
08 Rounding reserves	2	(0)
Total VII	***232,399***	***232,397***
IX Loss for the year	(485,086)	(465,573)
TOTAL EQUITY	**2,009,376**	**2,028,887**
C) **POST-EMPLOYMENT BENEFITS**	**148,907**	**139,120**
D) **PAYABLES**		
06 Advance payments		
a) due within 12 months	(0)	945
Total 06	***(0)***	***945***
07 Trade payables		
a) due within 12 months	66,032	81,535
Total 07	***66,032***	***81,535***
010 Due to associated companies		
a) due within 12 months	7,800	6,042
Total 10	***7,800***	***6,042***
011 Due to parent companies		
a) due within 12 months	1,355,153	1,409,130
Total 11	***1,355,153***	***1,409,130***
012 Taxes payable		
a) due within 12 months	8,375	10,290
Total 12	***8,375***	***10,290***
013 Due to social security institutions		
a) due within 12 months	8,155	7,594
Total 13	***8,155***	***7,594***
014 Other payables		
a) due within 12 months	27,245	23,249
Total 14	***27,245***	***23,249***
TOTAL PAYABLES	**1,472,760**	**1,538,785**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
02 Accrued expenses and deferred income	4,000	9,987
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**4,000**	**9,987**
TOTAL LIABILITIES	**3,635,043**	**3,716,779**

MEMORANDUM ACCOUNTS	31/12/2014	31/12/2013
05 RISKS AND COMMITMENTS		
C) Commitments taken by third parties	6,733	6,733
Total 05	**6,733**	**6,733**
TOTAL MEMORANDUM ACCOUNTS	**6,733**	**6,733**

INCOME STATEMENT	31/12/2014	31/12/2013
A) **PRODUCTION VALUE**		
01 Revenues from sales and services	1,134,743	1,148,798
05 Other revenues and income		
a) other revenues and income	184,552	72,929
Total 05	***184,552***	***72,929***
TOTAL PRODUCTION VALUE	**1,319,295**	**1,221,727**
B) **PRODUCTION COSTS**		
06 Raw materials, consumables and goods	(287,058)	(280,025)
07 Services	(817,853)	(703,234)
09 Personnel costs		
a) wages and salaries	(488,633)	(478,472)
b) social security contributions	(151,106)	(153,061)
c) termination indemnities	(26,529)	(26,775)
e) other costs	(637)	(637)
Total 09	***(666,905)***	***(658,945)***
10 Depreciation, amortisation and writedowns		
a) amortisation of intangible assets	(10,513)	(9,674)
b) depreciation of property, equipment and investment property	(140,808)	(152,898)
Total 10	***(151,321)***	***(162,572)***
011 Change in raw materials, consumables and goods	(3,914)	(13,168)
014 sundry operating costs	(57,518)	(52,212)
TOTAL PRODUCTION COSTS	**(1,984,569)**	**(1,870,156)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**(665,274)**	**(648,429)**
C) **FINANCIAL INCOME AND CHARGESCOSTS**		
15 Income from equity investments		
b) in associated companies	10,942	12,968
Total 15	***10,942***	***12,968***
17 Interest and other financial charges		
c) versus parent companies	(1,758)	(5,743)
d) versus others	(756)	(633)
Total 17	***(2,514)***	***(6,376)***
TOTAL FINANCIAL INCOME AND CHARGES	**8,428**	**6,592**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
18 Revaluations		
a) of equity investments	940	7,129
Total 18	***940***	***7,129***
TOTAL ADJUSTMENTS	**940**	**7,129**
E) **EXTRAORDINARY ITEMS**		
20 Income		
c) rounding differences	1	1
Total 20	***1***	***1***
21 Charges		
c) rounding differences	(4,239)	(260)
Total 21	***(4,239)***	***(260)***
TOTAL EXTRAORDINARY ITEMS	**(4,238)**	**(259)**
PRE-TAX PROFIT (LOSS)	**(660,144)**	**(634,967)**
22 current income taxes and change in deferred tax assets and liabilities		
a) Current taxes	175,058	169,394
Total 22	***175,058***	***169,394***
23 **PROFIT**	**(485,086)**	**(465,573)**

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2014

(in euro)

ASSETS	31/12/2014	31/12/2013
A) **AMOUNTS RECEIVABLE FROM SHAREHOLDERS**	**-**	**-**
Of which already called €		
B) **NON-CURRENT ASSETS**		
I - Intangible assets	-	-
II - Property, equipment and investment property		
1) Land and buildings		
1 - owned	65,632,968	67,235,432
2) Equipment and machinery		
1 - owned	114,550	-
5) Assets under construction and advances		
1 - owned	17,481	110,400
Total property, equipment and investment property	***65,764,999***	***67,345,832***
III - Financial assets		
1) equity investments in		
a) subsidiary companies	6,808,857	8,654,405
Total financial assets	***6,808,857***	***8,654,405***
TOTAL NON-CURRENT ASSETS	**72,573,856**	**76,000,237**
C) **CURRENT ASSETS**		
I - Inventories	-	-
II - Receivables		
1) Loans and receivables with customers		
a) due within 12 months	13,772	130,391
2) due from subsidiary companies		
a) due within 12 months	58,962	58,352
4 bis) due from tax authorities		
a) due within 12 months	19,499	653,052
Total receivables	***92,233***	***841,795***
III - Financial assets not held as non-current assets	-	-
IV - Cash and banks		
3) cash and cash equivalents on hand	33	33
Total cash and banks	***33***	***33***
TOTAL CURRENT ASSETS	**92,266**	**841,828**
D) **ACCRUED INCOME AND PREPAYMENTS**		
1) accrued income and prepayments	-	5,365
TOTAL ACCRUED INCOME AND PREPAYMENTS	**-**	**5,365**
TOTAL ASSETS	**72,666,122**	**76,847,430**

LIABILITIES AND EQUITY	31/12/2014	31/12/2013
A) **EQUITY**		
I - Share capital	60,000,000	60,000,000
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	5,319,831	5,011,264
IX - Profit/Loss for the year	-1,340,243	308,567
TOTAL EQUITY	**66,019,589**	**67,359,831**
B) **RESERVES FOR RISKS AND CHARGES**		
TOTAL RESERVES FOR RISKS AND CHARGES	**–**	**–**
C) **POST-EMPLOYMENT BENEFITS**	**–**	**–**
D) **PAYABLES**		
07) due to suppliers		
a) due within 12 months	136,535	231,359
09) due to subsidiary companies		
a) due within 12 months	215,281	131,855
11) due to parent companies		
a) due within 12 months	6,258,768	8,981,940
12) taxes payable		
a) due within 12 months	6,916	17,354
14) other payables		
a) due within 12 months	3,735	100,941
TOTAL PAYABLES	**6,621,235**	**9,463,449**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
01) Accrued expenses and deferred income	25,298	24,150
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**25,298**	**24,150**
TOTAL LIABILITIES AND EQUITY	**72,666,122**	**76,847,430**

INCOME STATEMENT	31/12/2014	31/12/2013
A) **PRODUCTION VALUE**		
01) revenues from sales and services		
e) office rents	3,416,920	3,401,213
g) office expense reimbursements	17,012	18,230
05) Other revenues and income		
c) other revenues	5,001	185
TOTAL PRODUCTION VALUE	**3,438,933**	**3,419,628**
B) **PRODUCTION COSTS**		
07) for services	411,328	723,815
10) depreciation, amortisation and writedowns		
b) depreciation of property, equipment and investment property	1,632,959	1,623,017
14) sundry operating costs		
a) other operating costs and charges	107,605	96,503
b) non-deductible charges	308,363	288,976
TOTAL PRODUCTION COSTS	**2,460,255**	**2,732,311**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**978,678**	**687,317**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
b) parent banks	173,595	–
c) third parties	–	215,017
TOTAL FINANCIAL INCOME AND CHARGES	**-173,595**	**-215,017**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
19) Write-downs		
a) of equity investments	1,845,548	–
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	**-1,845,548**	**–**
E) **EXTRAORDINARY ITEMS**		
20) income		
b) other extraordinary income	62,566	4,287
21) charges		
b) other charges	3,541	–
c) taxes relating to prior years	49,818	–
d) rounding differences on conversion to euro	1	–
TOTAL EXTRAORDINARY ITEMS	**9,206**	**4,287**
PRE-TAX PROFIT (LOSS)	**-1,031,259**	**476,587**
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	258,021	129,031
b) IRAP (regional business tax)	50,963	38,989
23) **LOSS OF THE YEAR**	**-1,340,243**	**308,567**

The 2013 figures have been adjusted for comparison purposes.

Attestation pursuant to art. 154-bis of Decree 5/58 on the separate financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director 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 2014 and 31 December 2014.

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 2014:
– 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, 16 March 2015

The Managing Director
Mario Alberto Pedranzini

The Financial Reporting Officer
Maurizio Bertoletti

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Banca Popolare di Sondrio S.C.p.A.

1 We have audited the separate financial statements of Banca Popolare di Sondrio S.C.p.A. as at and for the year ended 31 December 2014, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 4 April 2014 for our opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the separate financial statements of Banca Popolare di Sondrio S.C.p.A. as at and for the year ended 31 December 2014 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Banca Popolare di Sondrio S.C.p.A. as at 31 December 2014, the results of its operations and its cash flows for the year then ended.

4 The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of a directors' report on the financial statements and a report on the corporate governance and shareholding structure, published in the "_informativa societaria_" section of Banca Popolare di Sondrio S.C.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and shareholding structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and shareholding structure are consistent with the separate financial statements of Banca Popolare di Sondrio S.C.p.A. as at and for the year ended 31 December 2014.

Milan, 27 March 2015

KPMG S.p.A.

(signed on the original)

Paolo Valsecchi
Director of Audit

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, 150,000,000 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.

Popso Covered Bond srl - Conegliano
The Parent bank holds 60% of the capital of Popso Covered Bond srl, 10,000 euro.

Equity investments are consolidated as follows:

FULLY CONSOLIDATED SHAREHOLDINGS:

Name	Head office	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 150,000	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
Popso Covered Bond srl	Conegliano	10	60

* equity investments not included in the banking group.

SHAREHOLDINGS MEASURED USING THE EQUITY METHOD:

Name	Head office	Share capital (in thousands)	% held
Alba Leasing spa	Milan	357,953	19.021
Arca Vita spa	Verona	208,279	14.837
Banca della Nuova Terra spa	Milan	50,000	19.609
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	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 2014.

TERRITORIAL EXPANSION

The policy of expanding and developing in established territories continued throughout the year, in accordance with the guidelines set for the Group. Banca Popolare di Sondrio opened 9 branches, raising the total to 327.

Banca Popolare di Sondrio (SUISSE) SA has opened a branch in Neuchâtel, raising the total to 21.

At the end of 2014, the Group had a total of 348 branches.

GROUP PERFORMANCE

FUNDING

Despite continuation of the difficulties and the steady decline in yields, the Group has maintained and strengthened the traditional fiduciary relationship with customers. This is demonstrated by direct funding from customers, which rose to 29,717 million, an increase of 11.40%.

Indirect funding from customers amounted to 28,553 million, +4.43%.

Direct funding from insurance premiums income came to 897 million, +24.86%.

Total customer deposits therefore amounted to 59,168 million (+8.10%).

Amounts due to banks amounted to 2,314 million, -24.57%, whereas indirect deposits from banks came to 1,716 million, +32.53%.

Total deposits from customers and banks therefore came to 63,198 million (+6.94%). The table «Direct funding from customers» shows the various components in more detail with respect to the Notes.

Considering the individual components, euro and currency accounts have increased to 23,260 million, +21.76%, in part due to a reduction in deposit accounts to 2,116 million, -45.06%, given the cost-containment policy adopted in relation to funding. Euro and currency accounts represent 78.28% of total direct deposits. Bonds have increased from 2,881 to 3,328 million (+15.50%), partly due to the issue of 500 million of covered bonds and 350 million of subordinated debt by the Parent Bank. Repo agreements have recovered, rising to 384 million, +81.89%, and savings deposits also increased by 1.34% to 551 million. Certificates of deposit did not change at 9 million, -0.52%, and remain entirely marginal. Bank drafts also fell to 70 million, -6.93%.

DIRECT FUNDING FROM CUSTOMER

(in thousands of euro)	2014	%	2013	%	% change
Savings deposits	551,236	1.85	543,921	2.04	1.34
Certificates of deposit	8,991	0.03	9,038	0.03	-0.52
Bonds	3,327,681	11.20	2,881,231	10.80	15.50
Repo transactions	383,722	1.29	210,968	0.79	81.89
Bank drafts and similar	69,526	0.23	74,705	0.28	-6.93
Current accounts	20,829,606	70.10	16,839,397	63.13	23.70
Time deposit accounts	2,116,369	7.12	3,852,033	14.44	-45.06
Foreign currency accounts	2,429,909	8.18	2,264,033	8.49	7.33
TOTAL	**29,717,040**	**100.00**	**26,675,326**	**100.00**	**11.40**

TOTAL DEPOSITS

(in thousands of euro)	2014	%	2013	%	% change
Total direct funding from customers	29,717,040	47.02	26,675,326	45.14	11.40
Total indirect funding from customers	28,553,277	45.18	27,341,054	46.26	4.43
Total insurance-related deposits	897,468	1.42	718,808	1.22	24.86
Total	**59,167,785**	**93.62**	**54,735,188**	**92.62**	**8.10**
Due to banks	2,314,035	3.66	3,067,978	5.19	-24.57
Indirect deposits from banks	1,716,455	2.72	1,295,125	2.19	32.53
Grand total	**63,198,275**	**100.00**	**59,098,291**	**100.00**	**6.94**

LENDING

Continuation of the recessionary economic conditions has affected the general level of lending by the banking system, particularly in view of the documented deterioration in the quality of loans.

Against this challenging background, the Group has balanced a desire to assure customers of adequate financial support with the need to safeguard the fundamental basis on which loans are made. The critical economic conditions have resulted in a need for additional, substantial impairment adjustments, made by applying prudent criteria.

The loans and receivables with customers have slightly risen from 23,905 to 24,012 million, +0.45%. The ratio of loans to deposits is 80.80% compared with 89.61% last year.

Impaired loans amount to 2,069 million, +12.56%, and represent 8.62% of total lending compared with 7.69% at the end of the prior year. The table gives an overview of impaired loans.

As regards credit quality, net non-performing loans, i.e. after writedowns, amount to 615 million, +33.39%, equal to 2.56% of total loans to customers, versus 1.93% at the end of the previous year.

The dynamics of non-performing loans, despite the size of the adjustments made, is symptomatic of the ongoing difficulties faced by businesses and households. Adjustments totalled 967 million, +34.50%, and raised coverage from 60.94% last year to 61.14% now. Considering the amounts written off in prior years against non-performing loans that are still tracked,

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2014	31/12/2013	(+/-)	% change
Impaired loans	Gross exposure	3,644,290	3,024,910	619,380	20.48
	Adjustments	1,574,856	1,186,438	388,418	32.74
	Net exposure	**2,069,434**	**1,838,472**	**230,962**	**12.56**
– Non-performing loans	Gross exposure	1,581,305	1,179,504	401,801	34.07
	Adjustments	966,792	718,823	247,969	34.50
	Net exposure	**614,513**	**460,681**	**153,832**	**33.39**
– Watchlist loans	Gross exposure	1,524,521	1,305,665	218,856	16.76
	Adjustments	531,128	406,531	124,597	30.65
	Net exposure	**993,393**	**899,134**	**94,259**	**10.48**
– Restructured loans	Gross exposure	109,533	51,163	58,370	114.09
	Adjustments	23,659	8,344	15,315	183.55
	Net exposure	**85,874**	**42,819**	**43,055**	**100.55**
– Past due loans	Gross exposure	428,931	488,578	-59,647	-12.21
	Adjustments	53,277	52,740	537	1.02
	Net exposure	**375,654**	**435,838**	**-60,184**	**-13.81**
Performing loans	Gross exposure	22,088,057	22,210,705	-122,648	-0.55
	Adjustments	145,566	144,618	948	0.66
	Net exposure	**21,942,491**	**22,066,087**	**-123,596**	**-0.56**
Total loans and receivables with customers	Gross exposure	25,732,347	25,235,615	496,732	1.97
	Adjustments	1,720,422	1,331,056	389,366	29.25
	Net exposure	**24,011,925**	**23,904,559**	**107,366**	**0.45**

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	2014	%	2013	%	% Change
Current accounts	5,946,569	24.76	6,415,216	26.84	-7.31
Foreign currency loans	1,407,998	5.86	1,497,522	6.26	-5.98
Advances	417,065	1.74	438,528	1.83	-4.89
Advances subject to collection	237,070	0.99	254,092	1.06	-6.70
Discounted portfolio	9,066	0.04	11,626	0.05	-22.02
Artisan loans	25,647	0.11	17,173	0.07	49.34
Agricultural loans	31,614	0.13	32,363	0.14	-2.31
Personal loans	179,206	0.75	166,907	0.70	7.37
Other unsecured loans	3,767,919	15.69	4,031,078	16.86	-6.53
Mortgage loans	8,972,075	37.36	8,880,310	37.15	1.03
Non-performing loans	614,513	2.56	460,681	1.93	33.39
Repo transactions	587,505	2.45	49,412	0.21	1088.99
Fixed-yield securities	166,219	0.69	–	–	–
Factoring	1,649,459	6.87	1,649,651	6.90	-0.01
Total	**24,011,925**	**100.00**	**23,904,559**	**100.00**	**0.45**

in view of possible future recoveries, the coverage of such loans amounts to 72.26%. In any case, the magnitude of our non-performing loans remains below the average for the system.

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, rose to 993 million, +10.48%, or 4.14% of total loans to customers compared with 3.76% the previous year.

Restructured loans amount to 86 million, +100.55%. This increase reflects increased recourse by customers to the procedures governed by arts. 67 and 182 of the Bankruptcy Law.

Past due loans total 376 million, -13.81%, representing 1.56% of the total loans and receivables with customers, compared with 1.82% in the previous year.

Total adjustments of impaired loans have risen from 1,186 to 1,575 million, +32.74%, which represents 43.21% of the gross amount outstanding (compared with 39.22%).

Performing loans amount to 21,942 million; the related adjustments, 146 million, represent 0.66% of the total.

Adjustments totalled 1,720 million overall, +29.25%.

There are various different types of loans involved in the total.

These items are shown in greater detail in the table «loans and receivables with customers» and are based on other criteria compared with the notes.

Mortgage loans amount to 8,972 million, +1.03%, and represent the largest percentage (37.36%) of the total loans and receivables with customers. This balance includes loans sold but not derecognised of 1,165 million in relation to a securitisation arranged by the Parent Bank and 751 million relating to a covered bond issue. These loans were not derecognised because the requirements of IAS 39 were not met. Current account overdrafts have decreased to 5,947 million, -7.31%; other unsecured loans, 3,768 million, are

6.53% lower. Foreign currency loans also decreased to 1,408 million, -5.98%; advances of 417 million, -4.89%; advances subject to collection, 237 million, -6.70%. Repo transactions, representing the temporary employment of liquidity, increased from 49 to 588 million, as personal loans, 179 million, +7.37%. No debt securities were held as at the comparative balance sheet date, while at the end of 2014 the balance amounted to 166 million as a result of customer loan securitisation transactions executed by the investees Banca della Nuova Terra spa and Alba Leasing spa.

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 66 million, local or state-owned enterprises for 424 million and to various other entities for 82 million.

TREASURY AND TRADING OPERATIONS

The performance of the financial markets is discussed in the report on operations presented by the parent bank.

The net interbank position at the end of 2014 reflected borrowing of 1,226 million, which was down by 1,108 million from 2,334 million at 31 December 2013. The change was essentially due to the excellent liquidity position, assisted by the performance of customer deposits, which enabled the bank to repay early ECB LTRO loans of 1,800 million that were originally due in 2015, as well as to further increase the size of the securities portfolio, which is discussed later.

With regard to the new T-LTRO programme promoted by the ECB in order to provide financial support to households and firms, thereby stimulating the real economy, the parent bank has been assigned funds totalling 1,098 million, of which 350 million was received in September and the balance in December 2014. Excluding these T-LTRO operations, the net interbank position would have reflected borrowing of 128 million.

The liquidity position is monitored daily with a three-month time horizon. The situation remained optimal throughout the entire year, as evidenced by the relevant Basel 3 indicators: the short-term Liquidity Coverage Ratio and structural Net Stable Funding Ratio, which were well above the established minimums. The stock of high-quality financial assets acceptable to the ECB was substantial in the period.

Examination of the treasury activities highlights the prevalence of lending transactions, up substantially compared with 2013, with volumes concentrated on very short-term maturities in both the Interbank Deposits Market (e-MID) and the Collateralised Interbank Market (MIC), in which transactions are backed by guarantees. Business was lively in repo transactions for generally less than one week with institutional counterparts (Money Market Facility), arranged via the Clearing House. The portfolios of financial assets at the end of 2014 total

9,071 million, +33.49%. The following schedule analyses these assets and indicates the change between years:

FINANCIAL ASSETS

(in thousands of euro)	2014	2013	% change
Financial assets held for trading (HFT)	2,338,630	3,154,594	-25.87
of which, derivatives	*59,908*	*37,687*	*58.96*
Financial assets at fair value through profit or loss (CFV - Carried at Fair Value)	84,702	79,226	6.91
Available-for-sale financial assets (AFS - Available For Sale)	6,498,605	3,375,500	92.52
Held-to-maturity investments (HTM)	148,620	182,621	-18.62
Hedging derivatives	–	2,923	-100.00
Total	**9,070,557**	**6,794,864**	**33.49**

As in the past, the portfolio mainly comprises domestic government securities. Holdings have increased considerably, despite the much lower yields, given the greater liquidity available and the sluggishness of lending to customers. Government securities are preferable to the interbank market, where yields are practically zero if not negative. The risk is contained by the improved market interest in securities issued by peripheral countries, as well as by the limited duration (less than two years) of the securities held.

As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2014 these portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 8,034 million. The portfolios did not include any securities issued by peripheral countries within the Eurozone.

Financial assets held for trading

Financial assets held for trading (HFT), as shown in the following table, amount to 2,339 million and have decreased by 25.87%.

(in thousands of euro)	2014	2013	% change
Floating-rate Italian government securities	1,039,213	1,791,494	-41.99
Fixed-rate Italian government securities	892,521	1,037,321	-13.96
Bank bonds	164,745	161,114	2.25
Bonds of other issuers	52,175	24,830	110.13
Securitisations	37,406	33,804	10.66
Variable-yield securities and mutual funds	92,662	68,344	35.58
Net book value of derivative contracts	59,908	37,687	58.96
Total	**2,338,630**	**3,154,594**	**-25.87**

The composition of the HFT portfolio remains dominated by CCTs. Even after a drop of 41.99% following the sale of securities about to mature, they still represent 44.44% of the portfolio.

The positive performance of the financial markets enabled significant returns to be made, both in terms of price appreciation and trading profits.

The overall net profit from HFT portfolio transactions was 57.050 million, compared with 81.616 million in 2013. «Net trading income», which refers to total fixed-yield securities, includes net trading profits of 34.356 million, unrealised gains of 25.143 million and unrealised losses of 0.392 million. Then we have to add profits of 7.438 million and net losses of 9.495 million on variable-yield securities and mutual funds. In 2013, on the entire portfolio, we booked: net profits of 39.940 million; gains of 45.108 million; losses of 3.432 million.

As mentioned, the HFT portfolio continues to largely comprise CCTs, 1,039 million representing 44.44% of the total. Corporate bonds amount to 217 million, up by 31 million, of which 165 million relate to bank issues. Securities that are part of securitisations are all senior and have been increased to 37 million. Fixed-rate Government securities has declined to 893 million, following the sale of BTPs and BOTs. Variable-yield securities and mutual funds, which are still marginal, have increased to 93 million, +35.58%. Derivatives have risen by 58.96% to 60 million and is made up of: derivatives on debt securities and interest rates, 22 million; derivatives on variable-yield securities, stock indices, currency, gold and precious metals, 38 million.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss (CFV) amount to 85 million, +6.91%, and almost entirely relate to various types of funds and sicavs.

Available-for-sale financial assets

Available-for-sale financial assets (AFS) total 6,499 million, +92.52%. The increase reflects purchases of government securities, which total 6,036 million at year end, including 5,584 million in the form of Italian government securities. These are held to employ liquidity and to replace securities of the same type eliminated from the HFT portfolio. This approach confirms the objective to contain, at least in part, the impact on the income statement of the volatility seen in the financial markets in recent years. With a view to currency diversification, the bank has subscribed for units in UCITS denominated in US dollars, as well as for substantial amounts of US treasury bonds. The portfolio also includes fixed-yield securities of banks and other issuers amounting to 459 million, of which 452 million in US dollars, as well as variable-yield securities of 57 million and units in UCITS of 399 million. The available-for-sale financial assets were subjected to careful appraisal in order to identify any impairment that might require the recognition of writedowns in the income statement. The measurement reserves reported in equity include the net change in unrealised gains of 41.792 million, after tax effect, which increased the year-end balance from 32.313 to 74.105 million.

Impairment tests were performed on those equity investments with negative valuation reserves resulting, in some cases, in the recognition of writedowns based on the criteria used to identify permanent losses explained in Part A «Accounting policies» of the Notes.

The changes included: purchases of debt securities of 5,764 million, relating to government securities and bonds; increase on mutual funds of 410 million; increase in equities of 2 million; increase in fair value of 103 million, while other changes of 191 million comprise coupons, discounts and positive effects of accounting at amortised cost. Decreases included the disposal of fixed-yield securities of 2,610 million and UCITS of 103 million. Additionally, redemptions of fixed-yield and variable-yield securities amounted to 515 million and 0.6 million respectively; impairment adjustments amounted to 19 million, of which 12.184 million relates to the investment in Release spa and 2.850 million to Prelios spa, while the remainder relates to listed equities and mutual funds; decrease in fair value of 2 million. Other decreases of 96 million related to the collection of coupons, 47 million; reclassifications from equity from disposals, 33 million; amortised costs, 2 million; corporate conversions, 6 million; elimination of shares following special transactions and the expiry of profit-sharing agreements, 4 million, as well as the redemption of quotas and reclassifications from equity in relation to UCITS, 4 million.

The principal minority interests held for long-term operational reasons, essentially in companies providing products and services that complement the commercial range, are described in the report on operations presented by the parent bank.

Held-to-maturity investments

The portfolio of held-to-maturity investments (HTM) amounts to 149 million, a decrease of 18.62% that was largely a consequence of redemptions. Investments comprise prime bonds and government securities, about half of which relate to the employee pension fund of the Parent Bank.

With regard to the contents of this portfolio, readers are reminded that the anomalous performance of the equity and bond markets in 2008 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 2014, the above securities amount to 73 million, following redemptions, with a fair value of 71 million, compared with 108 million in the prior year, -31.89%. The theoretical loss, before tax effect, amounts to 2 million.

Asset management

As in 2013, the asset management industry grew significantly over the past year, benefiting from large net inflows and good financial market performance.

At 31 December 2014 the various forms of assets under management amount to 4,378 million, +9.59%. Specifically, asset management totals 1,930 million, while other forms of investment - mainly mutual funds and Sicavs - amount to 2,448 million, +12.90%.

BPS stock

The price for BPS stock, which is listed on the MTA, the screen-based market, Blue Chips segment, of the Italian Stock Exchange, fell by 9.85% over the year.

Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Sinergia Seconda srl and Popso Covered Bond 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 are stable at 156 million. The reader is referred to the report accompanying the Parent Bank's 2014 financial statements and to Part A, section 3 and Part B, section 10 of the explanatory notes 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 2014, the parent bank's corporate bodies decided the following transactions of greater relevance:

– Alba Leasing spa, associated company; renewal of lines of credit totalling € 485,876,500 repayable on demand; resolution of 31/01/2014;
– Factorit spa, subsidiary; renewal of lines of credit totalling € 2,366,039,000 repayable on demand; resolution of 28/02/2014;
– Release spa, associated company; grant of revolving facility for guarantees in favour of residents of € 1,248,000, returnable on demand; revolving facility for guarantees in favour of residents of € 1,560,000, returnable on demand; revolving facility for guarantees in favour of residents of € 1,248,000, returnable on demand; revolving facility for guarantees in favour of residents of € 1,872,000, returnable on demand; renewal of lines of credit for a total of € 201,240,000, repayable on demand; resolutions of 15/04/2014;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of guarantee deposit in securities of € 7,000,000, expiring on 01/07/2015, guarantee deposit of securities of € 910,000, expiring on 02/02/2015; resolutions of 05/06/2014;
– Alba Leasing spa, associated company; grant of guarantees in favour of residents of € 11,500,000, returnable on demand; revolving facility for guarantee deposits in securities of € 9,650,000, returnable on demand; renewal of lines of credit for a total of € 430,355,702, repayable on demand; resolutions of 17/06/2014;
– Factorit spa, subsidiary; grant of revolving facility for guarantees in favour of residents of € 14,000,000, returnable on demand; resolution of 27/06/2014;
– Factorit spa, subsidiary; grant of overdraft facility of € 450,000,000, repayable on demand; overdraft facility of € 25,000,000, repayable on demand; overdraft facility of € 25,000,000, repayable on demand; revolving facility for advances of € 210,000,000, repayable on demand; renewal of lines of credit for a total of € 1,670,039,000, repayable in demand; resolutions of 23/09/2014;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of guarantee deposit in securities of € 3,220,000, repayable on demand; resolution of 02/12/2014;
– Alba Leasing spa, associated company; grant of overdraft facility of € 20,000,000, repayable on demand; resolution of 02/12/2014;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of revolving facility for guarantee deposits in securities of € 450,000,000, repayable on demand; renewal of lines of credit for a total of € 617,348,399, repayable on demand; € 4,000,000 expiring on 01/11/2016, € 7,000,000 expiring on 01/07/2015, € 910,000 expiring on 02/02/2015; resolutions of 19/12/2014.

During 2014, no transactions of greater or lesser relevance were carried out with related parties, which could have had an 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 2013; 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 2014 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.

GOODWILL

The goodwill of 7.847 million was recognised on the acquisition of Factorit spa. The goodwill of 1.112 million recognised on the absorption of InFactor spa by Factorit spa in 1999 was written off in full during the year. In particular, the related impairment test indicated that the reasons for recognition had ceased to apply. Details are explained in part B of the notes.

HUMAN RESOURCES

At the end of 2014 the Group has 3,062 employees, an increase of just 1 person compared with 3,061 at the end of the previous year.

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

Consolidated shareholders' equity at 31 December 2014, inclusive of valuation reserves and the profit for the period, amounts to 2,407.234 million, being an increase of 471.060 million, +24.33%.

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	2014	2013	2014	2013
ASSETS				
Loans and receivables with banks	–	35,004		
Loans and receivables with customers	528,142	388,732	929	1,114
Other financial assets	13,510	53,680	–	–
LIABILITIES AND EQUITY				
Due to banks	2,933	23		
Due to customers	179,113	136,519	270	428
Other financial liabilities	–	–	–	–
GUARANTEES AND COMMITMENTS				
Guarantees given	105,912	106,306	98	89
Commitments	15,649	2,371	–	–

Share capital, made up of 453,385,777 ordinary shares with a par value of 3 euro, amounted to 1,360.157 million, having increased by 435.713 million as the result of a capital increase through a combined bonus and rights issue, the means and timing of which were approved by the Board of Directors at a meeting held on 5 June 2014, acting on a mandate granted by the Shareholders' Meeting of 26 April 2014, and which was completed by the beginning of July.

The aforementioned capital increase involved: the issue of 30,814,798 ordinary shares with a par value of 3 euro, with dividend rights as from 1 January 2014, without any option rights, allocated free of charge; the issue, for the part issued for cash, of 114,422,994 ordinary shares with a par value of 3 euro, with dividend rights as from 1 January 2014, subscribed for by those entitled to do so at a price of euro 3, which was thus equal to the par value.

The share premium reserve amounted to 79.005 million and had decreased by 92.445 million due to the capitalisation thereof as part of the bonus issue as indicated above.

Reserves increased by 35.178 million to 829.959 million, +4.43%, primarily due to the allocation of a significant portion of the profit for 2013. The increase was offset by the costs relating to the capital increase, net of the tax effect, of 7.987 million and which were recognised as a reduction of equity as required by international accounting standards (IAS/IFRS).

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 47.941 million, which is significantly up from 16.782 million at the end of 2013.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent bank holds 3,550,000 treasury shares with a carrying amount of 25.031 million, compared with 24.316 million. The increase of 530,000 shares since 31 December 2013 largely reflects the allotment of bonus shares, together with the purchase of fractional rights as part of the bonus capital increase.

The increase of 530,000 shares since 31 December 2013 partly reflects the allotment of bonus shares and the purchase of share fractions for 0.114 million, as part of the capitalisation increase, and partly the purchase of 202,323 shares, par value 606,969 euro, representing 0.045% of share capital. The total amount paid for these purchases was 0.601 million.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios effective from March 2014. This communication was supplemented by another from the ECB to those banks subject to EU-level supervision. Set out below are the Group's adequacy requirements at 31 December 2014 and the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	9.75%	8%
Tier 1 Capital Ratio	9.76%	8%
Total Capital Ratio	11.28%	10.50%

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2013:

– *capital/direct funding from customers*
8.10% v. 7.26%;

– *capital/customer loans*
10.03% v. 8.10%;

– *capital/financial assets*
26.54% v. 28.49%;

– *capital/total assets*
6.76% v. 5.91%;

– *net non-performing loans/capital*
25.53% v. 23.79%.

RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles «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 PROFIT FOR THE YEAR REPORTED BY THE PARENT BANK WITH THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of euro)

	Equity	of which: profit for the year
Equity of the Parent Bank as of 31.12.2014	2,221,419	97,552
Consolidation adjustments	(12,085)	(12,085)
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	172,034	23,021
– companies valued using the equity method	25,866	6,715
Balance as of 31.12.2014, as reported in the consolidated financial statements	**2,407,234**	**115,203**

INCOME STATEMENT

Hopes for a recovery were gradually replaced during the year by disillusion, as the difficulties continued and economists deferred the upturn in the productive cycle until 2015. In the meantime, the quality of lending has continued to deteriorate and, in the general gloom, the only positive note came from the financial and money markets which, among other things, benefited from interest rates that are at historical lows.

Against this background, the Group's results are satisfactory.

Profit for the year amounted to 115.203 million, up by 117.23% from 53.033 million in the prior year.

Although the growth rate slowed during the year, net interest income rose to 590.923 million from 559.162 million, +5.68%, with a slight increase in the spread. Interest income declined by 5.80% due to the fall in interest rates, both on lending to customers and on financial investments. Action has continued to ensure a proper balance between remuneration and the level of risk accepted. The increased size of the securities portfolio also made a positive contribution, although their yields were much lower, with government securities - in particular - reflecting the relaxation of market tensions. Interest expense fell by 19.78% due to the lower cost of the funding obtained from customers, especially in relation to the more costly positions, and in the interbank market. This effect was partly offset by the large increase in deposits from customers.

There was a satisfactory rise in net fee and commission income, +6.01%, from 283.001 to 300.021 million, with contributions from almost all components of this line item. Commission from guarantees given performed well, as did those from the acceptance of instructions, the placement of funds and insurance products, collections and payments, loans and currency conversion.

Dividends went from 2.699 to 3.524 million, +30.57%.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 199.288 million compared with 169.117 million, +17.84%. This increase was essentially attributable to the securities element, which generated must larger trading/disposal gains than in the prior year.

Among the financial activities, the net trading income associated with the HFT portfolio contributed 99.818 million compared with 111.055 million.

The contribution made by available-for-sale financial assets, held-to-maturity investments and financial liabilities amounted to 94.154 million, as against 52.720 million, mainly reflecting gains on the disposal of Italian government bonds. The result from assets carried at fair value was 5.187 million, compared with 5.387 million in the previous year.

Total income accordingly rose 7.87% to 1,093.756 million. Within this aggregate, the weighting of net interest income decreased slightly, from 55.15% to 54.03%.

As mentioned, the continuation of the recession and economic decline has fuelled the downward spiral of impaired loans. As a result, it was again necessary to make further substantial provisions against the continued deterioration in lending quality, not least due to the adoption of prudent assessment criteria.

Net adjustments to loans, available-for-sale financial assets and other financial transactions fell slightly to 481.895 million from 490.285 million (-1.71%). Within this line item, adjustments to loans and receivables with customers were essentially stable at 464.084 million compared with 463.866 million. This charge reflects continuation of the recession and the resulting delayed effects on the banking system: as stated, Group policies on this matter adopt highly prudent criteria for the assessment of risk and they also take account of the results of the AQR. This line item also includes a substantial adjustment of the amounts due from Alitalia CAI spa, following the restructuring of that company’s debt to the banking system.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has fallen from 1.94% to 1.93%. Losses from the impairment of securities have increased from 12.881 million to 19.308 million. Of this amount, 12.184 million relates to the writedown of the investment in Release spa (already written down in the prior year by 9.664 million), while 7.124 million relates to certain AFS shares and mutual funds whose stock market prices are objectively lower than their original carrying amounts. Adjustments in relation to other financial transactions include the release of provisions against guarantees given, 1.497 million, as against new provisions of 13.538 million in the prior year. In particular, there was an

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	31/12/2014	31/12/2013	(+/-)	% change
Net interest income	590,923	559,162	31,761	5.68
Dividends	3,524	2,699	825	30.57
Net fee and commission income	300,021	283,001	17,020	6.01
Results of financial activities	199,288	169,117	30,171	17.84
Total income	**1,093,756**	**1,013,979**	**79,777**	**7.87**
Net adjustments to loans and financial assets	-481,895	-490,285	8,390	-1.71
Net financial income	**611,861**	**523,694**	**88,167**	**16.84**
Personnel costs	-223,125	-219,088	-4,037	1.84
Other administrative expenses	-234,148	-222,087	-12,061	5.43
Other operating income/expense	73,849	73,465	384	0.52
Net accruals to provisions for risks and charges	1,934	-2,850	4,784	–
Adjustments to property, equipment and investment property and intangible assets	-30,394	-29,416	-978	3.32
Operating costs	**-411,884**	**-399,976**	**-11,908**	**2.98**
Operating profit (loss)	**199,977**	**123,718**	**76,259**	**61.64**
Share of profit (loss) of equity investments and other investments	6,742	1,630	5,112	313.62
Goodwill writedowns	-1,112	–	-1,112	–
Profit (loss) before tax	**205,607**	**125,348**	**80,259**	**64.03**
Income taxes	-80,325	-64,671	-15,654	24.21
Profit	**125,282**	**60,677**	**64,605**	**106.47**
Profit pertaining to minority interests	-10,079	-7,644	-2,435	31.86
Profit pertaining to the Parent Bank	**115,203**	**53,033**	**62,170**	**117.23**

increase in impaired loans in 2013 and a general provision was also recognised in relation to performing guarantees given, using methodology similar to that adopted in relation to ordinary loans. The prior year also included a provision of 3.892 million to cover our share of the support to be given by the Interbank Deposit Protection Fund in favour of Banca Tercas, which is in Special Receivership.

The net financial income therefore comes to 611.861 million, +16.84%.

Operating costs amounted to 411.884 million, +2.98%. The increase, despite constant monitoring, essentially reflects the growth in the scale of operations. The ratio of operating costs/total income «cost income ratio» has fallen to 37.66%, from 39.45% in the prior year.

Considering the various components of this ratio, administrative expenses amounted to 457.273 million, +3.65%; of these, personnel expenses rose from 219.088 to 223.125 million, +1.84%, partly as a consequence of contractual increases. Other administrative expenses increased from 222.087

million to 234.148 million, +5.43%, due in the main to higher stamp duties linked to the rise in other operating income, but also to higher IT costs and consultancy and legal fees.

Net accruals to provisions for risks and charges reflect the net release of 1.934 million because of the difference between the provisions made during the year and the release and use of provisions made in prior years.

The depreciation of property, equipment and investment property and amortisation of software amounted to 30.394 million, +3.32%.

Other operating income, net of other operating expenses, contributed 73,849 million, +0.52%.

The operating profit therefore came to 199.977 million, +61.64%.

Profits/losses on equity investments amounted to 6.715 million, compared with 1.620 million in the prior year, while net profits from the sales of investments totalled 27 thousand, compared with 10 thousand.

Goodwill adjustments, not recorded in the prior year, amounted to 1.112 million following the write off of the goodwill recognised by Factorit spa on the absorption of In Factor in 1999. In particular, the periodic impairment test carried out in accordance with international accounting standards indicated only a marginal contribution from the business that originally gave rise to the goodwill, such that its continued recognition could not be justified.

Profit before income taxes therefore totalled 205.607 million, +64.03%. After deducting income taxes of 80.325 million, +24.21%, and the non-controlling interest of 10.079 million, the profit for the year amounted to 115.203 million, compared with 53.033 million in the prior year, +117.23%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 39.07% compared with 51.59% in the previous year when the additional IRES charge still applied.

INFORMATION ON THE RESULTS OF THE COMPREHENSIVE ASSESSMENT

As regards the outcome of the Comprehensive Assessment («CA») performed by the European Central Bank («ECB») and by the European Banking Authority («EBA»), and, in particular, the results of the Asset Quality Review («AQR») as reported in the disclosure template published on 26 October, the following information is provided as required by the Consob letter dated 30 January 2015, prot. 0007634/15, pursuant to art. 114, paragraph 5 of Legislative Decree 58/98.

As indicated by the relevant guidelines, the Comprehensive Assessment consisted of an exercise with primarily prudent, as opposed to accounting, implications, based on the conservative application of measurement criteria that did not substitute international accounting standards used for the preparation of the financial statements. Additionally, to the extent applicable, the preparation of the consolidated financial statements at 31 December 2014 took account of the results of the AQR.

With regard to the analysis of lending positions on a sample basis (*«Credit File Review» - CFR*), the AQR identified total adjustments of 162.7 million, gross of tax effect, comprising potential additional provisions of 200.4 million and potential write-backs of 37.7 million in relation to provisions that appeared to be overstated when applying the assessment methodology on a consistent basis.

The financial statements at 31 December 2014 reflect additional net provisions against the above positions of 181.6 million. This amount, which exceeds that identified by the inspection by 19.0 million, comprises:

– 189.7 million of new provisions, compared with the amount requested of 200.4 million. This difference, 10.7 million, comprises the net effect of:
  - 64.8 million of suggested adjustments that were not accepted, since the positions are:
    - backed by guarantees from third parties deemed fully solvent by the bank that, pursuant to the established methodology, were not considered during the AQR;
    - covered by restructuring plans signed during 2014 in accordance with current legislation, which altered the conditions of and outlook for the relationship with respect to those considered during the evaluation process;
    - affected by settlements signed with customers or by risk mitigation measures adopted by the bank;
  - 54.1 million in additional provisions recorded by the bank;
– 8.1 million in write-backs, compared with 37.7 million indicated in the results of the comprehensive assessment; in particular, the bank decided not to record possible write-backs totalling 29.6 million.

With reference to the effect of the projection of CFR findings, 33.2 million, no direct adjustments were recorded in the financial statements at 31 December 2014, since this prudent overall statistic cannot be allocated to specific loans. In this regard, the bank had already taken action during 2014 to increase the coverage of deteriorated loans, as indicated further below. This action followed the prudent strengthening of internal policies governing the allocation of accounts to the various categories of impaired loan and the related assessment methodology.

Following the collective provision analysis, the ECB indicated a possible impact of 78.2 million, of which 22.6 million relating to the collective assessment of performing exposures and 55.6 million to the collective assessment of non-performing exposures. The prudential criteria applied during the AQR, using the «Collective Challenger Model», differ from the IAS/IFRS accounting criteria adopted by the Group: the amount included in the results for the year does not benefit from the offset of excess and insufficient coverage between performing loan portfolio categories, which is permitted by the supervisory regulations, but not by the AQR methodology. In particular, with regard to the collective assessment of performing loans, the weakness identified in certain of the portfolios subject to the AQR, and included in the results published on 26 October, was later found - with reference to subsequent details provided by the ECB - to be more than offset by excess provisions allocated to other portfolios. In order to make the assessment process more consistent with the loan categories used by the ECB, during 2015 the bank intends to revise the method used to allocate collective adjustments against performing loans to the various sub-portfolios with similar risk exposures; this work should not have an accounting impact since, as stated, the total amount of the provisions recorded is adequate.

With regard to the collective assessment of non-performing loans, the changes to the internal regulations already described with reference to the statistical projection of CFR results, and the periodic update of detailed estimates and measurement parameters carried out by the bank during 2014, in accordance with internal regulations, resulted in an increase compared with 31 December 2013 in the provisions made against impaired loans and, accordingly, in the level of coverage. In particular, the overall coverage ratio of non-performing loans rose to 43.2% at 31 December 2014, from 39.2% at the end of the prior year.

With regard to the fair value review of financial instruments, the results had no accounting impact and no adjustments were required following the comprehensive assessment.

On completion of the comprehensive assessment, the European Central Bank requested remedial action to overcome the qualitative issues identified during the assessment.

In particular, the Group was requested to:

– adopt, at the various levels of the internal regulations, the definitions of non-performing exposures subject to forbearance, with explicit reference to loss events and to those that trigger the reclassification of positions, consistent with the indications of the EBA adopted by the European Commission on 9 January and by the Bank of Italy, which updated the criteria for the classification of impaired loans in the revised Instructions issued on 20 January;
– extend its internal IT procedures to include the full range of information needed to identify properly, on a timely basis, those non-performing loans subject to forbearance;
– establish and implement a specific system for monitoring the value of property guarantees, in order to constantly update the technical appraisals obtained, so that they reflect current market values.

These various requests are being addressed by specific projects, involving the subsidiaries as necessary, that are intended to overcome the issues identified within the timescales indicated by the Supervisory Authority by:

– updating the internal policies adopted;
– designing and implementing new supporting processes;
– specific IT-related work.

With regard to the specific obligations regarding additional own funds, on 20 February 2015 the European Central Bank set the level of capital required to cover adequately the Group's risks at 11%, in terms of the Total Capital Ratio, compared with the minimum regulatory threshold of 10.5%. The Common Equity Tier 1 Ratio was set at 9%, compared with the minimum of 8% established for banks subject to supervision at European level.

This decision was based on an assessment by the Supervisory Authority of the Group's situation and risk profile, as well as of the risks identified by the comprehensive assessment, having regard for the nature, scale and complexity of the activities of the bank and the results of the SREP (Supervisory Review Evaluation Process) carried out in Italy using domestic methodology.

Compared with the other banks subject to the SSM (Single Supervisory Mechanism), the new capital requirements are at the lower end of the scale.

The consolidated prudential coefficients at 31 December 2014 for the CET1 Ratio and the Total Capital Ratio amount to respectively 9.75% and 11.28%, which exceed the limits indicated above.

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 2014.

The share capital of Banca Popolare di Sondrio (SUISSE) SA has been increased by Swiss Francs 30,000,000, equivalent to euro 28,390,271.60, all of which was subscribed for by the parent bank. The purpose of this operation was to re-align the ratio of own funds to risk-weighted assets, having regard for the operational growth of the company and the specific requirements of FINMA, the Swiss supervisory authority.

Given the problematic macroeconomic situation - despite some signs of steady improvement - the Group should consolidate the current level of net interest income, in the face of historically low rates, and achieve a slight improvement in fee and commission income. The results of financial activities may decline due to the low yields on securities, especially with regard to public debt. Credit risk will be continued to be controlled by the application of careful and prudent policies, while the cost of credit should improve, despite remaining high. Operating costs will increase slightly, linked to the growth of the organisation.

Sondrio, 17 March 2015

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2014

CONSOLIDATED BALANCE SHEET
(in thousands of euro)

	ASSET ITEMS		31-12-2014		31-12-2013
10.	CASH AND CASH EQUIVALENTS		**264,482**		**196,517**
20.	FINANCIAL ASSETS HELD FOR TRADING		**2,338,630**		**3,154,594**
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		**84,702**		**79,226**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**6,498,605**		**3,375,500**
50.	HELD TO MATURITY INVESTMENTS		**148,620**		**182,621**
60.	LOANS AND RECEIVABLES WITH BANKS		**1,088,388**		**733,954**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**24,011,925**		**23,904,559**
80.	HEDGING DERIVATIVES		**-**		**2,923**
100.	EQUITY INVESTMENTS		**155,986**		**156,404**
120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**254,303**		**245,962**
130.	INTANGIBLE ASSETS		**21,572**		**21,865**
	Of which:				
	- Goodwill	7,847		8,959	
140.	TAX ASSETS		**403,851**		**342,310**
	a) current	10,691		33,478	
	b) deferred	393,160		308,832	
	b1) of which as per Law 214/2011	346,451		269,858	
160.	OTHER ASSETS		**347,783**		**373,493**
	TOTAL ASSETS		**35,618,847**		**32,769,928**

THE CHAIRMAN
Piero Melazzini

THE BOARD OF STATUTORY AUDITORS
Piergiuseppe Forni, Chairman
Pio Bersani - Mario Vitali

	EQUITY AND LIABILITY ITEMS		31-12-2014		31-12-2013
10.	DUE TO BANKS		**2,314,035**		**3,067,978**
20.	DUE TO CUSTOMERS		**26,310,842**		**23,710,352**
30.	SECURITIES ISSUED		**3,406,198**		**2,964,974**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**56,136**		**36,550**
60.	HEDGING DERIVATIVES		**45,562**		**27,580**
80.	TAX LIABILITIES		**61,778**		**36,889**
	a) current	2,104		662	
	b) deferred	59,674		36,227	
100.	OTHER LIABILITIES		**722,835**		**720,873**
110.	POST-EMPLOYMENT BENEFITS		**44,915**		**40,527**
120.	PROVISIONS FOR RISKS AND CHARGES:		**166,849**		**152,593**
	a) pension and similar obligations	117,043		100,539	
	b) other provisions	49,806		52,054	
140.	VALUATION RESERVES		**47,941**		**16,782**
170.	RESERVES		**829,959**		**794,781**
180.	SHARE PREMIUM RESERVE		**79,005**		**171,450**
190.	SHARE CAPITAL		**1,360,157**		**924,444**
200.	TREASURY SHARES (-)		**(25,031)**		**(24,316)**
210.	MINORITY INTERESTS		**82,463**		**75,438**
220.	PROFIT FOR THE PERIOD (+/-)		**115,203**		**53,033**
	TOTAL LIABILITIES AND EQUITY		**35,618,847**		**32,769,928**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS			2014		2013
10.	INTEREST AND SIMILAR INCOME		959,077		1,018,114
20.	INTEREST AND SIMILAR EXPENSE		(368,154)		(458,952)
30.	**NET INTEREST INCOME**		**590,923**		**559,162**
40.	FEE AND COMMISSION INCOME		322,022		305,579
50.	FEE AND COMMISSION EXPENSE		(22,001)		(22,578)
60.	**NET FEE AND COMMISSION INCOME**		**300,021**		**283,001**
70.	DIVIDENDS AND SIMILAR INCOME		3,524		2,699
80.	NET TRADING INCOME		99,818		111,055
90.	NET HEDGING GAINS (LOSSES)		129		(45)
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:		94,154		52,720
	b) available-for-sale financial assets	95,505		52,518	
	c) held-to-maturity investments	-		55	
	d) financial liabilities	(1,351)		147	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS		5,187		5,387
120.	**TOTAL INCOME**		**1,093,756**		**1,013,979**
130.	NET IMPAIRMENT LOSSES ON:		(481,895)		(490,285)
	a) loans and receivables	(464,084)		(463,866)	
	b) available-for-sale financial assets	(19,308)		(12,881)	
	d) other financial transactions	1,497		(13,538)	
140.	**NET FINANCIAL INCOME**		**611,861**		**523,694**
170.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**611,861**		**523,694**
180.	ADMINISTRATIVE EXPENSES:		(457,273)		(441,175)
	a) personnel expenses	(223,125)		(219,088)	
	b) other administrative expenses	(234,148)		(222,087)	
190.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		1,934		(2,850)
200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(17,037)		(17,056)
210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(13,357)		(12,360)
220.	OTHER OPERATING CHARGES/INCOME		73,849		73,465
230.	**OPERATING COSTS**		**(411,884)**		**(399,976)**
240.	SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS		6,715		1,620
260.	ADJUSTMENTS TO GOODWILL		(1,112)		-
270.	NET GAINS ON SALES OF INVESTMENTS		27		10
280.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**205,607**		**125,348**
290.	INCOME TAXES		(80,325)		(64,671)
300.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**125,282**		**60,677**
320.	**PROFIT FOR THE PERIOD**		**125,282**		**60,677**
330.	PROFIT OF THE PERIOD OF MINORITY INTERESTS		(10,079)		(7,644)
340.	**PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT BANK**		**115,203**		**53,033**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items		2014	2013
10.	**Profit for the year**	**125,282**	**60,677**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	(13,007)	(1,639)
60.	Share of valuation reserves of equity investments valued at net equity	182	(130)
	Other income items net of income taxes that will not be reclassified to profit or loss		
100.	Available-for-sale financial assets	41,792	25,441
120.	Share of valuation reserves of equity investments valued at net equity	2,143	986
130.	**Total other income items net of income taxes**	**31,110**	**24,658**
140.	**Comprehensive income (item 10+130)**	**156,392**	**85,335**
150.	Consolidated comprehensive income pertaining to minority interests	(10,030)	(7,677)
160.	**Consolidated comprehensive income pertaining to the Parent Bank**	**146,362**	**77,658**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Balance at 31.12.2013	Change in opening balances	Balance at 1.1.2014	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves
Share capital						
a) ordinary shares	958,019	10	958,029	–	–	–
c) other shares	–	–	–	–	–	–
Share premium reserve	**175,807**	**2**	**175,809**	**–**	**–**	**–**
Other reserves						
a) from earnings	819,511	–	819,511	42,369	–	(2,565)
c) other	5,186	–	5,186	–	–	–
Valuation reserves	**16,728**	**–**	**16,728**	**–**	**–**	**(4)**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(24,316)**	**–**	**(24,316)**	**–**	**–**	**–**
Profit for the year	**60,677**	**–**	**60,677**	**(42,369)**	**(18,308)**	**–**
Equity attributable to the group	**1,936,174**	**–**	**1,936,174**	**–**	**(15,286)**	**(2,569)**
Equity attributable to minority interests	**75,438**	**12**	**75,450**	**–**	**(3,022)**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Balance at 31.12.2013	Change in opening balances	Balance at 1.1.2014	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves
Share capital						
a) ordinary shares	958,019	–	958,019	–	–	–
c) other shares	–	–	–	–	–	–
Share premium reserve	**175,807**	**–**	**175,807**	**–**	**–**	**–**
Reserves						
a) from earnings	793,088	–	793,088	27,693	–	(1,270)
c) other	5,186	–	5,186	–	–	–
Valuation reserves	**(7,930)**	**–**	**(7,930)**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(24,316)**	**–**	**(24,316)**	**–**	**–**	**–**
Profit for the year	**40,183**	**–**	**40,183**	**(27,693)**	**(12,490)**	**–**
Equity attributable to the group	**1,869,925**	**–**	**1,869,925**	**–**	**(10,139)**	**(1,270)**
Equity attributable to minority interests	**70,112**	**–**	**70,112**	**–**	**(2,351)**	**–**

Changes during the year								
Equity transactions								
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 attributable to the group at 31.12.2014**	**Equity pertaining to minority interests at 31.12.2014**
435,717	–	–	–	–	–	–	1,360,157	33,589
–	–	–	–	–	–	–	–	–
(92,444)	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,360**
–	–	–	–	–	–	–	826,730	32,585
–	–	–	–	–	–	–	3,229	1,957
–	**–**	**–**	**–**	**–**	**–**	**31,110**	**47,941**	**(107)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**(715)**	**–**	**–**	**–**	**–**	**–**	**(25,031)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**125,282**	**115,203**	**10,079**
343,268	**(715)**	**–**	**–**	**–**	**–**	**146,362**	**2,407,234**	**–**
5	**–**	**–**	**–**	**–**	**–**	**10,030**	**–**	**82,463**

Changes during the year								
Equity transactions								
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 attributable to the group at 31.12.2014**	**Equity pertaining to minority interests at 31.12.2014**
–	–	–	–	–	–	–	**924,444**	**33,575**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**171,450**	**4,357**
–	–	–	–	–	–	–	**791,552**	**27,959**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**24,658**	**16,782**	**(54)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**(24,316)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**60,677**	**53,033**	**7,644**
–	**–**	**–**	**–**	**–**	**–**	**77,658**	**1,936,174**	**–**
–	**–**	**–**	**–**	**–**	**–**	**7,677**	**–**	**75,438**

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

	31/12/2014	31/12/2013
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**649,355**	**616,808**
- Profit for the period (+/-)	115,203	53,033
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	(41,466)	(55,972)
- net hedging gains (losses) (-/+)	(129)	46
- net impairment adjustments (+/-)	492,037	497,989
- net adjustments to property, equipment and investment property and intangible assets (+/-)	31,506	29,415
- provisions for risks and charges and other costs/revenues (+/-)	24,390	27,223
- unpaid taxes and duties (+)	80,326	64,670
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	(52,512)	404
2. **Cash generated/absorbed by financial assets**	**(3,031,814)**	**(725,543)**
- financial assets held for trading	877,097	(1,011,996)
- financial assets at fair value through profit or loss	(1,041)	28,794
- available-for-sale financial assets	(3,102,792)	(929,460)
- loans and receivables with banks: sight	(57,359)	194,680
- loans and receivables with banks: other receivables	(277,451)	236,671
- loans and receivables with customers	(500,879)	872,870
- other assets	30,611	(117,102)
3. **Cash generated/absorbed by financial liabilities**	**2,127,690**	**158,768**
- Due to banks: sight	178,651	(187,414)
- Due to banks: other payables	(924,192)	57,125
- due to customers	2,564,125	514,489
- securities issued	439,065	33,836
- financial liabilities held for trading	(7,896)	(32,219)
- financial liabilities carried at fair value	–	–
- other liabilities	(122,063)	(227,049)
Net cash generated/absorbed by operating activities	**(254,769)**	**50,033**

	31/12/2014	31/12/2013
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**43,122**	**48,404**
- sales of equity investments	–	–
- dividends collected from equity investments	8,103	14,127
- sales and reimbursements of held-to-maturity investments	35,000	34,250
- sale of property, equipment and investment property	19	27
- sale of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(39,163)**	**(71,982)**
- purchases of equity investments	–	(16,509)
- purchases of held-to-maturity investments	–	(12,179)
- purchases of property, equipment and investment property	(25,045)	(30,966)
- purchases of intangible assets	(14,118)	(12,328)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**3,959**	**(23,578)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	334,583	–
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(18,208)	(12,390)
Net cash generated/absorbed by financing activities	**316,375**	**(12,390)**
NET CASH GENERATED/ABSORBED IN THE PERIOD	**65,565**	**14,065**

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31/12/2014	31/12/2013
Cash and cash equivalents at beginning of year	196,517	183,746
Total net cash generated/absorbed in the year	65,565	14,065
Cash and cash equivalents: effect of change in exchange rates	2,400	(1,294)
Cash and cash equivalents at end of year	**264,482**	**196,517**

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 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 2014 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 Decree 38/2005 and subsequent updates.

Section 2 *Basis of preparation*

The consolidated 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: 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. 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, even considering the difficulties encountered by sovereign debt securities in the recent past, 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 changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if 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 and subsequent updates.

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.

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.).

All figures reported in the consolidated financial statements and explanatory notes are stated in thousands of euro.

Section 3 *Scope of consolidation and methodology*

The consolidated financial statements present the economic and financial position at 31.12.2014 of the Banca Popolare di Sondrio banking group, which comprises the Parent Bank, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.a., Sinergia Seconda, Popso Covered Bond S.r.l. and the entities that are controlled by the Group pursuant to IFRS 10.

The following companies have been consolidated on a line-by-line basis:

Names	Registered office	Type of relationship (1)	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 150,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	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
Popso Covered Bond srl	Conegliano V.	1	10	60	60

(1) 1 = majority of voting rights at ordinary shareholders' meeting.
4 = other form of control
* held by Sinergia Seconda S.r.l.
** equity investments not included in the banking group

The scope of consolidation has changed since 31 December 2013 following the entry into force of IFRS 10, which has revised the concept. Control exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control may therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies. As a result, the scope of consolidation now includes:

- the special purpose vehicle Centro delle Alpi RMBS Srl that is 100% held by SVM Securitisation Vehicles Management Srl and which was set up for the securitisation of performing residential mortgages in relation to which both Junior and Senior securities issued by the special purpose vehicle were subscribed for in full by the Parent Bank;

- Popso Covered Bond Srl, in which the Parent Bank holds a 60% stake and which was set up for an issue of covered bonds;
- Fondo Immobiliare Centro delle Alpi Real Estate, which was set up recently.

The comparative figures presented have not been restated, despite these changes in the scope of consolidation, given that the amounts concerned are not significant. As allowed in the circumstances by the relevant accounting standards, 1 January 2014 was adopted as the reference date for the first-time consolidation of the above entities.

The joint venture shown below is valued at equity:

Names	Registered office	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 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 is 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 group is shown in a specific item in the income statement.

The ownership percentages are specified in the following table:

Names	Registered office	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.021
Arca Vita S.p.a.	Verona	208,279	14.837
Banca della Nuova Terra S.p.a.	Milan	50,000	19.609
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Srgpa	Milan	5,200	19.600
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	75	33.333
Sofipo S.A.	Lugano	(CHF) 2,000*	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27.000
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.

The significant evaluations and assumptions adopted to establish the existence of control are also given in paragraph 7 «Equity investments» in «A.2 Part relating to the main line items in the financial statements»

There are no restrictions concerning Group assets/liabilities referred to in paragraph 13 of IFRS 12.

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 are booked to reserves.

Section 4 *Subsequent events*

No events have taken place between the reference date for these consolidated financial statements and the date of their approval by the Board of Directors on 17/03/2015 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 adopted during the period are consistent with those adopted in relation to the financial statements for 2013, except for the entry into force pursuant to Regulation (EU) 1254/2012 of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The entry into force of IFRS 10 Consolidated Financial Statements has affected the scope of consolidation, although the amounts involved are small. In particular, as specifically required by the IAS/IFRS, the scope of consolidation now includes the companies, to the extent that effective control exists regardless of the ownership of equity interests.

The consolidated 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 consolidated 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. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Parent 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 2014, 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 2014. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a lack of growth and high levels of uncertainty about the prospects for recovery, 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 to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2014.

In compliance with the requirements of IAS 8, we report below the regulatory changes which introduced new standards or amended existing ones, the application of which is compulsory from 2014 onwards:

- Regulation (EU) 1254/2012 of 11/12/2012 relating to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as to amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments apply from 1 January 2014 (first financial year commencing on or after 1/1/2014).
- Regulation (EU) 1256/2012 of 13/12/2012: Amendments to IFRS 7 Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities and to IAS 32 Financial instruments: Presentation - Offsetting Financial Assets and Financial Liabilities. The amendments apply from 1 January 2013 (first financial year commencing on or after 1/1/2013 for the amendments to IFRS 7) and from 1 January 2014 (first financial year commencing on or after 1/1/2014 for IAS 32).
- Regulation (EU) 313/2013 of 4 April 2013 which adopted the «Transition Guidance (amendments to IFRS 10, 11 and 12)». The purpose of these amendments is to clarify the intentions of the IASB when the transition guidance for IFRS 10 was first published. The amendments further reduce the comparative information required on transition to IFRS 10, IFRS 11 and IFRS 12. They apply from 1 January 2014.
- Regulation (EU) 1174/2013 of 20 November 11 which adopted «Investment entities» (Amendments to IFRS 10, 12 and IAS 27). IFRS 10 Consolidated Financial Statements has been amended to require investment entities to measure subsidiaries at fair value through profit or loss, rather than consolidate them, in order to reflect better their business model. IFRS 12 Disclosure of Interests in Other Entities has been amended to require the disclosure of specific information about the subsidiaries of investment entities. The amendments to IAS 27 have eliminated the ability of investment entities to choose between measuring subsidiaries at cost or at fair value in their separate financial statements. The amendments to IFRS 10 and 12 and to IAS 27 also affect IFRS 1, 3 and 7 and IAS 7, 12, 24, 32, 34 and 39. In force from 1/1/2014.
- Regulation (EU) 1374/2013 of 19 December 2013 which adopted «Recoverable amount disclosures for non-financial assets» (amendment to IAS 36). The amendments clarify that the information to be disclosed about the recoverable amount of assets, when that amount is based on fair value net of disposal costs, only relates to those assets whose value has been impaired. They apply from 1 January 2014.
- Regulation (EU) 1375/2013 of 19 December 2013 which adopted «Novation of derivatives and continuation of hedge accounting» (amendment to IAS 39). The amendments govern situations in which a derivative designated as a hedging instrument is subject to novation from a counterparty to a central counterparty, as a result of regulatory requirements. They apply from 1 January 2014.

The EU also endorsed various amendments to international accounting standards during 2014, by adopting the following regulations:

- Regulation (EU) 634/2014 of 14/6/2014 which adopts the interpretation of IFRIC 21 Levies. This interpretation provides guidance on the recognition of a liability to pay a levy when the liability is governed by IAS 37, as well as on the recognition of a liability to pay a levy whose timing and amount are uncertain. The application is mandatory for financial periods beginning on 17 June 2014.

– Regulation (EU) 1361/2014 of 18/12/2014 which amends Regulation (EU) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EU) 1606/2002 of the European Parliament and of Council with regard to IFRS 3, IFRS 13 and IAS 40. It will apply from 1/1/2015 (first financial year starting on or after 1/1/2015).

The amendments made to the Basel Committee accords on the banking supervision of capital adequacy and public disclosures («Basel 3») were adopted and came into force in the European Union on 1 January 2014. Adoption involved two measures: Regulation (EU) 575/2013 (CRR) and Directive 2013/36/EU (CRD IV). The European Union regulation was supplemented by Bank of Italy Circular 285 of 17 December 2013, which aligned the supervisory regulations with the amended regulatory framework.

In the 3rd update to Circular 262 of 22 December 2014, the Bank of Italy adopted the disclosure requirements specified by certain accounting standards that came into force from 2014.

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 official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on official 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 are used, where available; 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 and similar income» 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. Available-for-sale financial assets

Classification

This caption comprises financial assets that are not derivatives and which are not classified as Receivables, Financial assets held for trading or held-to-maturity investments. 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.

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 held-to-maturity investments 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 discretional, 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 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

Available-for-sale financial assets 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. Held-to-maturity investments

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, 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

Held-to-maturity investments 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. Receivables also include trade receivables, repo transactions, loans originating from finance leases and securities not listed on an active market that were acquired as a result of subscriptions or private placements, with payment amounts that are known or determinable.

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.

For measurement purposes, loans are classified into two macro categories: impaired loans and performing loans.

Impaired loans comprise:

a) non-performing loans;

b) watchlist loans;

c) restructured loans;

d) past due loans.

Non-performing loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.

Watchlist loans reflect the exposure to borrowers that are experiencing temporary objective difficulties that are likely to be resolved within a reasonable period of time. Objective difficulties are determined with reference to specific parameters established by the Bank of Italy, while subjective difficulties are determined by the Group based on its own assessment.

Restructured loans are those for which, following a deterioration in the economic-financial position of the borrower, the Group has agreed to amend the original contractual conditions and accept a loss.

Past due loans comprise amounts that have remained unpaid and/or overdrawn for more than 90 continuous days, determined with reference to the amount and timing parameters specified in the current supervisory instructions.

Loans may be measured on a detailed or an overall basis. Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, 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 both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;

b) expected timing of recoveries, considering the progress made by recovery procedures;

c) internal rate of return.

Non-performing loans are assessed on either a detailed or an overall basis. 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.

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Subjective watchlist loans are also assessed on either a detailed or an overall basis. The detailed analysis 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.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans.

Objective watchlist loans are determined using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. These loans are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Restructured loans are assessed on a detailed basis with reference to the following parameters:

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 are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. These are adjusted on an overall basis with reference to historical/statistical evidence of the related losses incurred in the past.

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). The expected loss on these loans (nominal amount of the loan multiplied by the PD and the LGD) is adjusted by the LCP (Loss Confirmation Period), which reflects for the various homogenous classes of loan the delay between the deterioration in the financial situation of the customer and the recognition of that situation by the Group.

Recognition of components affecting the income statement

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

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 liabilities.

5. Financial assets at fair value through profit or loss

The portfolio of «Financial assets at fair value through profit or loss» 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 at fair value through profit or loss booked to the income statement in the period when they arise to «net gains on financial assets and liabilities at fair value through profit or loss».

6. Hedging transactions

Classification and recognition

The portfolio of hedging derivatives comprises the derivative instruments used by the Group 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.

   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. Control is presumed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;
b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;
c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

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 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 is being provided.

Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

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 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 the income statement

The negative differences on initial recognition, the interest in 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, except for «profit (loss) from disposal of subsidiaries» which are recorded under caption «Net gains on sales of 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, equipment and investment property

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. In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

Recognition

Property, equipment and investment property 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, equipment and investment property are stated at cost net of accumulated depreciation and any permanent impairment of value, except for property held for investment purpose, which are valued at fair 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, equipment and investment property 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 «depreciation and net impairment losses on property, equipment and investment property» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

Derecognition

Property, equipment and investment property 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 plus any related charges, only if it is probable that the future economic benefits attributable to such assets 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 recoverable amount of the asset 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 «amortisation and net impairment losses on 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 post-employment benefits; once again, the actuarial gains and losses deriving from actuarial estimates are treated in accordance with the provisions of the revised version of IAS 19 endorsed by EC Regulation 475 of 5 June 2012, i.e. booked to equity as shown in the statement of comprehensive income. These are:
   1) Pension and similar obligations. This is classified as an «internal» pension fund and represents a defined-benefit obligation. 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 securities issued

Classification

Amounts due to customers and banks and securities issued 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. 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 and similar expense».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sales 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 carried 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 non-monetary 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 every six months 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.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

18. Other information

The Parent 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.

Securitisations

In 2012, the Parent Bank carried out a securitisation of performing residential mortgage loans. These loans were sold without recourse to a vehicle company and its senior and junior securities were purchased by the Parent Bank. Given that the Parent Bank maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet. The economic effects were recognised consistently, giving prevalence to substance over form.

Covered bonds

On 6 November 2013, the Board of Directors of the Parent Bank authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Bank.

On 30 May 2014, a portfolio of performing loans totalling € 802 million was assigned without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the first series of covered bonds amounting to€ 500 million issued on 5 August 2014.

Non-Performing Exposures and Forbearance

On 9 January 2015, the European Commission amendments to the definition of impaired financial assets for consistency with the new notions of Non-Performing Exposures and Forbearance introduced by the technical enabling regulations for harmonised consolidated reporting for supervisory purposes established by the European Banking Authority. The purpose of these amendments was to have just one definition for both individual and consolidated reporting purposes. The new definition came into force on 1 January 2015; accordingly, the notion of impaired finanacial assets was unchanged at 31 December 2014.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

A.3.1 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)	Net book value as of 31.12.2014 (4)	Fair value at 31.12.2014 (5)	Income items without any transfer (pre-tax) Valuation (6)	Income items without any transfer (pre-tax) Others (7)	Income items recorded during the year (pre-tax) Valuation (8)	Income items recorded during the year (pre-tax) Others (9)
A. Debt securities	HFT	HTM	73,460	70,735	3,539	768	627	768

Income items do not include securities service employees' pension and similar obligations.

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those not transferred.

A.3.3 Transfer of financial assets held for trading

As in the previous year, the Parent 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.4 INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 Fair Value Measurement came into force on 1 January 2013. This standard collects in one document the rules governing the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change the concept of fair value, but provides new application guidelines and envisages additional disclosures.

The information about fair value required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in an orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument. With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the CVA (Credit value adjustment) and represents the potential loss associated with the counterparty credit risk, while the DVA (Debit value adjustment) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

A.4.2 Processes and sensitivity of the measurements

The Parent Bank uses various methodologies to determine the fair value of assets and liabilities. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;
b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
c) the rate applicable to risk-free monetary assets of similar duration;
d) the risk premium;
e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

For changes of +/- 1 basis point in the credit spread or changes in other input parameters, the fair value of the financial instruments changes by about € 25 thousand.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets - according the definition of IAS 39 – for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) 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 Group.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used. Following the entry into force of IFRS 13, which strengthened the guidelines underlying the classification of financial instruments, the Bank revised such classifications during the year and transferred its financial instruments to the most appropriate fair value level.

A.4.4 Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

Assets/liabilities carried at fair value on a recurring basis	31/12/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	2,215,590	61,764	61,276	3,059,729	36,810	58,055
2. Financial assets at fair value through profit or loss	84,702	–	–	79,226	–	–
3. Available-for-sale financial assets	6,432,499	2,613	63,493	3,257,770	–	117,730
4. Hedging derivatives	–	–	–	–	2,923	–
5. Property, equipment and investment property	–	–	3,425	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**8,732,791**	**64,377**	**128,194**	**6,396,725**	**39,733**	**175,785**
1. Financial assets held for trading	–	56,136	–	29	36,521	–
2. Financial liabilities carried at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	45,562	–	–	27,580	–
Total	**–**	**101,698**	**–**	**29**	**64,101**	**–**

There were no significant transfers between the various levels during the year.

The impact of the CVA (Credit value adjustment) and the DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because a large part of the exposures are covered by credit support annexes (CSA).

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

	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Hedging derivatives	Property, and equipment	Intangible assets
1. **Opening balance**	**58,055**	**–**	**117,730**	**–**	**–**	**–**
2. **Increases**	**5,753**	**–**	**21,105**	**–**	**3,425**	**–**
2.1. Purchases	222	–	7,758	–	3,425	–
2.2. Income booked to:						
2.2.1. Income statement	4,550	–	181	–	–	–
of which realized gains	4,550	–	–	–	–	–
2.2.2. Equity	–	–	1,132	–	–	–
2.3. Transfers from other levels	–	–	–	–	–	–
2.4. Other increases	981	–	12,034	–	–	–
3. **Decreases**	**2,532**	**–**	**75,342**	**–**	**–**	**–**
3.1. Sales	–	–	4,195	–	–	–
3.2. Reimbursements	1,923	–	45,600	–	–	–
3.3. Losses booked to:						
3.3.1. Income statement	68	–	13,018	–	–	–
of which realized losses	68	–	13,018	–	–	–
3.3.2. Equity	–	–	6	–	–	–
3.4. Transfers to other levels	64	–	–	–	–	–
3.5. Other decreases	477	–	12,523	–	–	–
4. **Closing balance**	**61,276**	**–**	**63,493**	**–**	**3,425**	**–**

A.4.5.3 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.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a recurring basis	31/12/2014				31/12/2013			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	148,620	135,063	-	27,019	182,621	156,305	-	25,358
2. Loans and receivables with banks	1,088,388	-	-	1,088,388	733,954	-	-	733,954
3. Loans to customers	24,011,925	-	-	24,404,742	23,904,559	-	-	24,255,913
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**25,248,933**	**135,063**	**-**	**25,520,149**	**24,821,134**	**156,305**	**-**	**25,015,225**
1. Due to banks	2,314,035	-	-	2,314,035	3,067,978	-	-	3,067,978
2. Customers deposits	26,310,842	-	-	26,310,842	23,710,352	-	-	23,710,352
3. Securities issued	3,406,198	518,968	2,957,980	-	2,964,974	-	2,985,293	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**32,031,075**	**518,968**	**2,957,980**	**28,624,877**	**29,743,304**	**-**	**2,985,293**	**26,778,330**

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IAS 39 para. AG. 76 derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

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 consolidated balance sheet*

Assets

Section 1 *Cash and cash equivalents - line item 10*

1.1 Cash and cash equivalents: analysis

	31/12/2014	31/12/2013
a) Cash	121,053	122,491
b) Unrestricted deposits with central banks	143,429	74,026
Total	**264,482**	**196,517**

Section 2 *Financial assets held for trading - line item 20*

2.1 Financial assets held for trading: breakdown by sector

	31/12/2014			31/12/2013		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	2,124,783	–	61,276	2,990,507	–	58,055
1.1 Structured securities	46,659	–	46,534	116,639	–	9,035
1.2 Other fixed-yield securities	2,078,124	–	14,742	2,873,868	–	49,020
2. Variable-yield securities	54,710	2,133	–	42,369	–	–
3. Mutual funds	35,820	–	–	25,976	–	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**2,215,313**	**2,133**	**61,276**	**3,058,852**	**–**	**58,055**
B. **Derivatives**						
1. Financial derivatives:	277	59,631	–	877	36,810	–
1.1 for trading	277	59,631	–	877	36,810	–
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	**277**	**59,631**	**–**	**877**	**36,810**	**–**
Total (A+B)	**2,215,590**	**61,764**	**61,276**	**3,059,729**	**36,810**	**58,055**

The fixed-yield securities included in Level 3 principally comprise capital accumulation certificates, carried at cost, and bonds deriving from the securitisation of loans, measured using price information received from external infoproviders and for which the market cannot be considered active.

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

Items/Amounts	**31/12/2014**	**31/12/2013**
A. **Cash assets**		
1. Fixed-yield securities	2,186,059	3,048,562
a) Governments and central banks	1,954,228	2,833,795
b) Other public entities	5,315	22
c) Banks	164,745	161,113
d) Other issuers	61,771	53,632
2. Variable-yield securities	56,843	42,369
a) Banks	20,910	13,570
b) Other issuers:	35,933	28,799
- insurance companies	785	1,103
- financial companies	1,790	2,544
- non-financial companies	33,358	25,152
- other	–	–
3. Mutual funds	35,820	25,976
4. Loans	–	–
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**2,278,722**	**3,116,907**
B. **Derivatives**		
a) Banks	30,564	8,339
b) Customers	29,344	29,348
Total B	**59,908**	**37,687**
Total (A + B)	**2,338,630**	**3,154,594**

Mutual funds are made up of: equity funds and sicavs for € 34.603 million, bond funds for € 0.776 million and real estate funds for € 0.441 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**	**3,048,562**	**42,369**	**25,976**	**–**	**3,116,907**
B. **Additions**	**6,043,831**	**267,855**	**101,489**	**–**	**6,413,175**
B.1 Purchases	5,952,355	260,903	99,493	–	6,312,751
B.2 Positive changes in fair value	25,144	117	642	–	25,903
B.3 Other changes	66,332	6,835	1,354	–	74,521
C. **Decreases**	**6,906,334**	**253,381**	**91,645**	**–**	**7,251,360**
C.1 Disposals	6,393,402	243,503	91,015	–	6,727,920
C.2 Reimbursements	491,678	–	–	–	491,678
C.3 Negative changes in fair value	392	9,545	593	–	10,530
C.4 Transfer to other portfolios	–	–	–	–	–
C.5 Other changes	20,862	333	37	–	21,232
D. **Closing balance**	**2,186,059**	**56,843**	**35,820**	**–**	**2,278,722**

Section 3 *Financial assets at fair value through profit or loss - line item 30*

3.1 Financial assets at fair value through profit or loss: breakdown by sector

	31/12/2014			31/12/2013		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**494**	**–**	**–**	**493**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	494	–	–	493	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**84,208**	**–**	**–**	**78,733**	**–**	**–**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total	**84,702**	**–**	**–**	**79,226**	**–**	**–**
Cost	**80,209**	**–**	**–**	**74,438**	**–**	**–**

This portfolio includes all securities, other than those booked to the trading portfolio, which the Parent 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 at fair value through profit or loss: breakdown by debtor/issuer

Items/Amounts	31/12/2014	31/12/2013
1. **Fixed-yield securities**	**494**	**493**
a) Governments and central banks	494	493
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**	**84,208**	**78,733**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**84.702**	**79,226**

Mutual funds are made up of: bond funds and sicavs for € 49.435 million, equity funds and sicavs for € 30.127 million, real estate funds for € 1.101 million and flexible funds for € 3.545 million.

3.3 Financial assets at fair value through profit or loss: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2014
A. **Opening balance**	**493**	**–**	**78,733**	**–**	**79,226**
B. **Additions**	**5**	**–**	**23,378**	**–**	**23,383**
B.1 Purchases	–	–	18,059	–	18,059
B.2 Positive changes in fair value	1	–	4,569	–	4,570
B.3 Other changes	4	–	750	–	754
C. **Decreases**	**4**	**–**	**17,903**	**–**	**17,907**
C.1 Disposals	–	–	17,768	–	17,768
C.2 Reimbursements	–	–	–	–	–
C.3 Negative changes in fair value	–	–	135	–	135
C.4 Other changes	4	–	–	–	4
D. **Closing balance**	**494**	**–**	**84,208**	**–**	**84,702**

Section 4 *Available-for-sale financial assets - line item 40*

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

	31/12/2014			31/12/2013		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**6,035,797**	**–**	**6,725**	**3,181,707**	**–**	**53,229**
1.1 Structured securities	768,884	–	3,293	303,187	–	3,000
1.2 Other fixed-yield securities	5,266,913	–	3,432	2,878,520	–	50,229
2. **Variable-yield securities**	**12,285**	**2,613**	**42,007**	**13,862**	**–**	**53,440**
2.1 Carried at fair value	12,285	2,613	–	13,862	–	–
2.2 Carried at cost	–	–	42,007	–	–	53,440
3. **Mutual funds**	**384,417**	**–**	**14,761**	**62,201**	**–**	**11,061**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**6,432,499**	**2,613**	**63,493**	**3,257,770**	**–**	**117,730**

The increase in structured fixed-yield securities classified at level 1 since the end of last year is attributable to the purchase of Italian BTPs, which are securities linked to the Italian inflation rate.

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 net equity and on the latest available financial statements only identified impairment losses in relation to Release spa, an investment of the Parent Bank.

Variable-yield securities include € 4.250 million in profit-sharing transactions pursuant to art. 2549 of the Civil Code relating to the production and exploitation of cinematographic work.

Mutual funds consist of closed-end unlisted equity funds for € 8.203 million, bond funds for € 359.630 million and a real estate funds for € 6.558 million, balanced funds for € 14.743 million and a flexible fund for € 10.044 million. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

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

Items/Amounts	31/12/2014	31/12/2013
1. **Fixed-yield securities**	**6,042,522**	**3,234,936**
a) Governments and central banks	6,035,797	3,171,722
b) Other public entities	1,304	1,307
c) Banks	–	40,609
d) Other issuers	5,421	21,298
2. **Variable-yield securities**	**56,905**	**67,302**
a) Banks	15,258	15,826
b) Other issuers:	41,647	51,476
- insurance companies	1,927	1,937
- financial companies	21,508	33,695
- non-financial companies	18,210	15,842
- other	2	2
3. **Mutual funds**	**399,178**	**73,262**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**6,498,605**	**3,375,500**

4.4 Available-for-sale financial assets: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds.	Loans	Total 31/12/2014
A. **Opening balance**	**3,234,936**	**67,302**	**73,262**	**–**	**3,375,500**
B. **Additions**	**6,020,210**	**14,273**	**435,411**	**–**	**6,469,894**
B.1 Purchases	5,763,618	2,247	410,031	–	6,175,896
B.2 Positive changes in fair value	80,989	141	21,985	–	103,115
B.3 Write-backs	–	–	–	–	–
- booked to income statement	–	–	–	–	–
- booked to equity	–	–	–	–	–
B.4 Transfers from other portfolios	–	–	–	–	–
B.5 Other changes	175,603	11,885	3,395	–	190,883
C. **Decreases**	**3,212,624**	**24,670**	**109,495**	**–**	**3,346,789**
C.1 Disposals	2,609,722	346	103,085	–	2,713,153
C.2 Reimbursements	515,000	600	–	–	515,600
C.3 Negative changes in fair value	571	43	1,549	–	2,163
C.4 Writedowns - from impairment	–	18,473	835	–	19,308
- booked to income statement	–	18,473	835	–	19,308
- booked to equity	–	–	–	–	–
C.5 Transfer to other portfolios	–	–	–	–	–
C.6 Other changes	87,331	5,208	4,026	–	96,565
D. **Closing balance**	**6,042,522**	**56,905**	**399,178**	**–**	**6,498,605**

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 principal increases included the purchase di fixed-yield securities, mainly Italian Government securities, for € 5,763.618 million, subscription to the increase in the capital of Banca Carige spa for € 1.184 million, and the purchase of mutual funds for € 410.031 million. Increases in fair value amounted to € 103.115 million, while other increases of € 190.883 million mainly related to the interest and profits earned and recorded in relation to fixed-yield securities. Those relating to variable-yield securities included € 4.981 million on the conversion of Prelios bonds into shares, € 2 million on new profit-sharing contracts, € 2.463 million on the recognition of Aedes shares and € 2.441 million in relation to other transactions.

The decreases include sales of fixed-yield securities, above all Italian Government securities, of € 2,609.722 million, sale of equities of € 0.346 million and sale of mutual fund units of € 103.085 million, repayment of fixed-yield securities of € 515 million and of equities of € 0.6 million, negative changes in fair value of € 2.163 million, while writedowns for impairment of equities and mutual funds amounted to € 19.308 million. Lastly, other decreases total € 96.565 million and reflect the collection of coupons € 46.812 million, reclassifications from equity on disposals, € 32.625 million, and from amortised cost, € 1.870 million, the elimination of Prelios bonds converted into shares, € 4.981 million and other operations, € 1.043 million, the elimination of profit-sharing agreements, € 1.520 million, reclassifications from equity, € 0.316 million, elimination of Aedes, € 1.361 million and other operations, € 2.011 million, redemption of mutual funds, € 3.838 million, and other operations, € 0.188 million.

Section 5 Held-to-maturity investments - line item 50

5.1 Held-to-maturity investments: breakdown by sector

	31/12/2014				31/12/2013			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**148,620**	**135,063**	**–**	**27,019**	**182,621**	**156,305**	**–**	**25,358**
- structured	16,895	–	–	16,707	16,795	–	–	16,104
- other	131,725	135,063	–	10,312	165,826	156,305	–	9,254
2. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

In 2008 the Parent Bank 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 € 74.372 million at par, had been carried at fair value at the date of the financial statements, they would have been worth € 70.735 million with a loss of € 2.725 million.

5.2 Held-to-maturity investments: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2014	31/12/2013
1. **Fixed-yield securities**	**148,620**	**182,621**
a) Governments and central banks	22,403	22,366
b) Other public entities	–	–
c) Banks	53,673	68,390
d) Other issuers	72,544	91,865
2. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**148,620**	**182,621**
Total fair value	**162,082**	**181,663**

5.4 Held-to-maturity investments: changes during the year

	Fixed-yield securities	Loans	Total
A. **Opening balance**	**182,621**	**–**	**182,621**
B. **Additions**	**11,856**	**–**	**11,856**
B.1 Purchases	–	–	–
B.2 Write-backs	–	–	–
B.3 Transfer from other portfolios	–	–	–
B.4 Other changes	11,856	–	11,856
C. **Decreases**	**45,857**	**–**	**45,857**
C.1 Disposals	–	–	–
C.2 Reimbursements	35,000	–	35,000
C.3 Adjustments	–	–	–
C.4 Transfer to other portfolios	–	–	–
C.5 Other changes	10,857	–	10,857
D. **Closing balance**	**148,620**	**–**	**148,620**

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 C.2 relates to the repayment of securities expired.

Section 6 Loans and receivables with banks - line item 60

6.1 Loans and receivables with banks: breakdown by sector

	31/12/2014				31/12/2013			
	Book	Fair value			Book	Fair value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**269,622**	**–**	**–**	**269,622**	**107,438**	**–**	**–**	**107,438**
1. Time deposits	–	–	–	–	–	–	–	–
2. Compulsory reserve	267,799	–	–	–	105,504	–	–	–
3. Repurchase agreements	–	–	–	–	–	–	–	–
4. Other	1,823	–	–	–	1,934	–	–	–
B. **Loans and receivables with banks**	**818,766**	**–**	**–**	**818,766**	**626,516**	**–**	**–**	**626,516**
1. Loans	818,766	–	–	818,766	626,516	–	–	626,516
1.1 Current accounts and sight deposits	296,707	–	–	–	236,810	–	–	–
1.2 Time deposits	413,184	–	–	–	361,215	–	–	–
1.3 Other loans:	108,875	–	–	–	28,491	–	–	–
- Repurchase agreements	–	–	–	–	–	–	–	–
- Financial leases	–	–	–	–	–	–	–	–
- Other	108,875	–	–	–	28,491	–	–	–
2. Fixed-yield securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–
2.2 Other fixed-yield securities	–	–	–	–	–	–	–	–
Total	**1,088,388**	**–**	**–**	**1,088,388**	**733,954**	**–**	**–**	**733,954**

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 *Loans and receivables with customers - line item 70*

7.1 Loans and receivables with customers: breakdown by sector

	31/12/2014						31/12/2013					
	Book value			Fair Value			Book value			Fair Value		
Type of transaction/ Amounts	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**21,776,273**	**-**	**2,069,433**	**-**	**-**	**24,237,924**	**22,066,085**	**-**	**1,838,474**	**-**	**-**	**24,255,913**
1. Current accounts	5,363,010	-	948,754	-	-	-	5,915,644	-	853,997	-	-	-
2. Repurchase agreements	587,505	-	-	-	-	-	49,412	-	-	-	-	-
3. Mortgage loans	10,737,430	-	888,032	-	-	-	10,834,442	-	778,848	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	173,703	-	11,827	-	-	-	163,229	-	11,112	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	1,625,791	-	26,249	-	-	-	1,606,170	-	51,844	-	-	-
7. Other loans	3,288,834	-	194,571	-	-	-	3,497,188	-	142,673	-	-	-
Fixed-yield securities	**166,219**	**-**	**-**	**-**	**-**	**166,818**	**-**	**-**	**-**	**-**	**-**	**-**
8. Structured securities	166,219	-	-	-	-	-	-	-	-	-	-	-
9. Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**21,942,492**	**-**	**2,069,433**	**-**	**-**	**24,404,742**	**22,066,085**	**-**	**1,838,474**	**-**	**-**	**24,255,913**

These receivables are partially 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.

Mortgage loans include € 1,922 million of residential mortgages, which were the subject of a securitisation and covered bonds transactions.

The securitisation transaction involved the sale without recourse of mortgage loans to the SPV Centro delle Alpi RMBS S.r.l., the senior and junior securities of which were issued in connection with this operation and were purchased by the Parent Bank. Given that the Parent Bank maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

The covered bond transaction involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers. Given that the Parent Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Group.

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	31/12/2014 Performing	31/12/2014 Impaired Purchased	31/12/2014 Impaired Other	31/12/2013 Performing	31/12/2013 Impaired Purchased	31/12/2013 Impaired Other
1. **Fixed-yield securities**	**166,219**	**–**	**–**	**–**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	166,219	–	–	–	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	166,219	–	–	–	–	–
- insurance companies	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. **Loans to:**	**21,776,273**	**–**	**2,069,433**	**22,066,085**	**–**	**1,838,474**
a) Governments	510	–	9,046	78	–	9,983
b) Other public entities	138,534	–	169	93,258	–	291
c) Other parties	21,637,230	–	2,060,218	21,972,749	–	1,828,200
- non-financial companies	13,394,516	–	1,630,477	14,439,679	–	1,438,380
- financial companies	2,299,648	–	33,431	1,647,259	–	32,694
- insurance companies	1,476	–	–	3,064	–	–
- other	5,941,589	–	396,310	5,882,747	–	357,126
Total	**21,942,492**	**–**	**2,069,433**	**22,066,085**	**–**	**1,838,474**

7.3 Loans and receivables with customers: covered by micro hedges

	31/12/2014	31/12/2013
1. **Loans covered by micro fair-value hedges**	**1,191,166**	**1,325,501**
a) Interest rate risk	1,191,166	1,325,501
b) Exchange risk	–	–
c) Credit risk	–	–
d) Multiple risks	–	–
2. **Loans covered by micro cash-flow hedges**	**–**	**–**
a) Interest rate risk	–	–
b) Exchange risk	–	–
c) Expected transactions	–	–
d) Other hedged assets	–	–
Total	**1,191,166**	**1,325,501**

Section 8 *Hedging derivatives - line item 80*

8.1 Hedging derivatives: breakdown by type of hedge and by level

	Fair Value 31/12/2014 Level 1	Fair Value 31/12/2014 Level 2	Fair Value 31/12/2014 Level 3	**Notional value 31/12/2014**	Fair Value 31/12/2013 Level 1	Fair Value 31/12/2013 Level 2	Fair Value 31/12/2013 Level 3	**Notional value 31/12/2013**
A. **Financial derivatives**								
1) Fair value	–	–	–	–	–	2,923	–	408,521
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**								
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**2,923**	**–**	**408,521**

Section 10 *Equity investments - line item 100*

10.1 Equity investments: disclosure

Name	Registered offices of company	Operational office	Type of relationship	Parent company	% holding	% of votes
A. **Investments in companies under joint control**						
RAJNA IMMOBILIARE SRL	Sondrio	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000	50.000
B. **Associated companies**						
ALBA LEASING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.021	19.021
ARCA VITA SPA	Verona	Verona	8	Banca Popolare di Sondrio SCPA	14.837	14.837
BANCA DELLA NUOVA TERRA SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.609	19.609
UNIONE FIDUCIARIA SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	24.000	24.000
POLIS FONDI SGR	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.600	19.600
SOFIPO SA	Lugano	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000
SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL	Milan	Milan	8	Banca Popolare di Sondrio SCPA	33.333	33.333
ACQUEDOTTO DELLO STELVIO SRL	Bormio	Bormio	8	Pirovano Stelvio spa	27.000	27.000
SIFAS SPA	Bolzano	Bormio	8	Pirovano Stelvio spa	21.614	21.614

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 D.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 Relevant equity investments: book value, fair value and dividends received

Name	Book value	Fair value	Dividends received
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	468	–	–
B. **Associated companies**			
1. ALBA LEASING S.p.A.	75,849	–	–
2. ARCA VITA S.p.A.	60,982	–	7,829
3. BANCA DELLA NUOVA TERRA S.p.A.	8,279	–	–
4. UNIONE FIDUCIARIA S.p.A.	7,829	–	156
5. POLIS FONDI SGR PA	1,907	–	119
6. SOFIPO SA	307	–	–

The fair value is not shown for companies that are not listed on active markets.

10.3 Relevant equity investments: disclosure

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues
A. **Investments in companies under joint control**						
1. RAJNA IMMOBILIARE S.r.l.	144	8	794	-	10	123
B. **Associated companies**						
1. ALBA LEASING S.p.A.	14	4,558,514	274,283	4,400,699	33,347	106,018
2. ARCA VITA S.p.A.	248,993	6,098,032	119,350	6,044,643	8,384	1,527,010
3. BANCA DELLA NUOVA TERRA S.p.A.	2	38,163	13,290	5,121	4,114	5,744
4. UNIONE FIDUCIARIA S.p.A.	4	51,123	17,426	28,823	7,403	15,717
5. POLIS FONDI SGR PA	2	9,568	2,778	33	2,587	6,667
6. SOFIPO SA	4	2,945	26	1,952	-	2,097

The above figures are taken from the most recent financial investments available.

The accounting information presented in the financial statements of associated companies is reconciled below with the carrying amounts of the related equity investments, as required by IFRS 12.

Name	Equity value	Share of equity value	Book value
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	936	468	468
B. **Associated companies**			
1. ALBA LEASING S.p.A.	398,766	75,849	75,849
2. ARCA VITA S.p.A.	411,009	60,982	60,982
3. BANCA DELLA NUOVA TERRA S.p.A.	42,221	8,279	8,279
4. UNIONE FIDUCIARIA S.p.A.	32,621	7,829	7,829
5. POLIS FONDI SGR PA	9,728	1,907	1,907
6. SOFIPO SA	1,023	307	307

10.4 Insignificant equity investments: accounting information

Name	Book value of equity investments	Total Assets	Total liabilities
Associated companies	366	2,681	536

The above figures are taken from the most recent financial investments available.

Net interest income	Net adjustments to property, equipment and investments property and intangible assets	Profit (loss) on current operations before income taxes	Profit (loss) on current operations after income taxes	Profit (loss) after tax on non-current assets held for sale	Profit for the year (1)	Other income items net of income taxes (2)	Comprehensive income (3) = (1)+(2)
–	(37)	58	40	–	40	–	40
56,443	(104)	2,767	1,496	–	1,496	(138)	1,358
153,413	–	76,704	47,860	–	47,860	15,642	63,502
2,498	(88)	(4,705)	(4,045)	–	(4,045)	(38)	(4,084)
(192)	(935)	2,321	1,045	–	1,045	–	1,045
43	(71)	1,825	1,078	–	1,078	75	1,153
(35)	(116)	(1,188)	(1,193)	–	(1,193)	–	(1,193)

Total revenues	Profit (loss) on current operations after income taxes	Profit (loss) after tax on non-current assets held for sale	Profit for the year	Other income items net of income taxes	Comprehensive income
2,599	108	–	108	–	108

10.5 Equity investments: changes during the year

	31/12/2014	31/12/2013
A. **Opening balance**	**156,404**	**146,214**
B. **Additions**	**1,771**	**22,573**
B.1 Purchases	–	15,390
B.2 Write-backs	–	7
B.3 Revaluations	–	–
B.4 Other changes	1,771	7,176
C. **Decreases**	**2,189**	**12,383**
C.1 Disposals	–	–
C.2 Adjustments	–	–
C.3 Other changes	2,189	12,383
D. **Closing balance**	**155,986**	**156,404**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(229)**	**(229)**

This item passes from € 156.404 million to € 155.986 million.
Increases and decreases arise from the valuation at equity of investments.

10.6 Considerations and significant assumptions to determine the existence of joint control or significant influence

The existence of joint control or significant influence is determined on the basis described in Part A – Accounting policies.

10.7 - 10.8 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 Parent Bank has made a specific risk provision.

Section 12 Property, equipment and investment property - line item 120

12.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2014	31/12/2013
1. **Owned assets**	**222,019**	**216,083**
a) land	60,594	60,462
b) buildings	136,780	131,337
c) furniture	7,567	8,294
d) IT equipment	4,951	5,490
e) other	12,127	10,500
2. **purchased under finance leases**	**28,859**	**29,879**
a) land	6,803	6,803
b) buildings	22,056	23,076
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**250,878**	**245,962**

12.4 Investment property: analysis of assets carried at fair value

	31/12/2014			31/12/2013		
Assets/Values	L1	L2	L3	L1	L2	L3
1. **Owned assets**	**–**	**–**	**3,425**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	3,425	–	–	–
2. **Assets purchased under finance leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**3,425**	**–**	**–**	**–**

These are owned buildings of the Fondo Immobiliare Centro delle Alpi Real Estate, which was set up during the year under review.

12.5 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total 31/12/2014**
A. **Opening gross amount**	**67,347**	**243,420**	**32,387**	**31,257**	**62,865**	**437,276**
A.1 Total net reductions in value	(82)	(89,006)	(24,093)	(25,767)	(52,366)	(191,314)
A.2 Opening net amount	67,265	154,414	8,294	5,490	10,499	245,962
B. **Additions**	**132**	**11,446**	**1,480**	**1,482**	**7,512**	**22,052**
B.1 Purchases	84	8,002	1,455	1,404	7,494	18,439
B.2 Capitalised improvement expenditure	–	3,180	–	–	–	3,180
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	48	264	25	78	18	433
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**7,024**	**2,207**	**2,021**	**5,884**	**17,136**
C.1 Disposals	–	–	–	–	5	5
C.2 Depreciation	–	6,930	2,207	2,021	5,879	17,037
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	–	94	–	–	–	94
D. **Closing net amount**	**67,397**	**158,836**	**7,567**	**4,951**	**12,127**	**250,878**
D.1 Total net reductions in value	(82)	(96,007)	(26,367)	(27,744)	(57,854)	(208,054)
D.2 Closing gross amount	67,479	254,843	33,934	32,695	69,981	458,932
E. **Valuation at cost**	**67,397**	**158,836**	**7,567**	**4,951**	**12,127**	**250,878**

12.6 Investment property: changes during the year

	Total 31/12/2014	
	Land	Buildings
A. **Opening balance**	**–**	**–**
B. **Additions**	**–**	**3,425**
B.1 Purchases	–	3,425
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	–
B.4 Write-backs	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	–
B.7 Other changes	–	–
C. **Decreases**	**–**	**–**
C.1 Disposals	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	–
C.4 Impairment writedowns	–	–
C.5 Exchange losses	–	–
C.6 Transfer of assets to other portfolios	–	–
a) Assets used in business	–	–
b) Non-current assets held for sale and discontinued operations	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**3,425**
E. **Valuation at fair value**	**–**	**3,425**

12.7 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 8.304 million.

Section 13 Intangible assets - line item 130

13.1 Intangible assets: breakdown by type

	31/12/2014		31/12/2013	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**7,847**	**–**	**8,959**
A.1.1 attributable to the banking group	–	7,847	–	8,959
A.1.2 pertaining to minority interests	–	–	–	–
A.2 **Other intangible assets:**	**13,725**	**–**	**12,906**	**–**
A.2.1 Carried at cost:	13,725	–	12,906	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	13,725	–	12,906	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other	–	–	–	–
Total	**13,725**	**7,847**	**12,906**	**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 € 7.847 million refers to the acquisition of Factorit SpA and shows a decrease of € 1.112 million. 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.

€ 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 Parent 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. In this case we have used the Dividend Discount Model (DDM), which assumes that the economic value of a financial intermediary is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period. We assumed a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 7.73%. The value in use was approximately € 196 million with an excess of the carrying amount of € 93 million.

The decrease of € 1.112 million reflects the write-off of the goodwill generated by the merger of Factorit Spa with In Factor in 1999. Based on the impairment test performed, the conditions that gave rise to the recognition of this goodwill have changed and the profitability of the customers derived from In Factor has steadily declined, to the extent that there is no longer any objective evidence of expected future economic benefits.

13.2 Intangible assets: change during the year

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total 31/12/2014
		Specified	Unspecified	Specified	Unspecified	
A. **Opening gross amount**	**8,959**	**–**	**–**	**113,605**	**–**	**122,564**
A.1 Total net reductions in value	–	–	–	(100,699)	–	(100,699)
A.2 Opening net amount	8,959	–	–	12,906	–	21,865
B. **Additions**	**–**	**–**	**–**	**14,176**	**–**	**14,176**
B.1 Purchases	–	–	–	14,118	–	14,118
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	–	–	–	28	–	28
B.6 Other changes	–	–	–	30	–	30
C. **Decreases**	**1,112**	**–**	**–**	**13,357**	**–**	**14,469**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	1,112	–	–	13,357	–	14,469
- Amortisation	–	–	–	13,357	–	13,357
- Write-downs	1,112	–	–	–	–	1,112
+ equity	–	–	–	–	–	–
+ income statement	1,112	–	–	–	–	1,112
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**	**7,847**	**–**	**–**	**13,725**	**–**	**21,572**
D.1 Total net reductions in value	(1,112)	–	–	(114,056)	–	(115,168)
E. **Closing gross amount**	**8,959**	**–**	**–**	**127,751**	**–**	**136,740**
F. **Valuation at cost**	**7,847**	**–**	**–**	**13,725**	**–**	**21,572**

Key
SPECIFIED: finite life
UNSPECIFIED: indefinite life

Section 14 *Tax assets and liabilities - asset line item 140 and liability line item 80*

14.1 Deferred tax assets: breakdown

	31/12/2014	31/12/2013
- Loan writedowns	346,480	269,903
- Provisions for risks and charges	17,933	19,671
- Deferred charges	15,352	10,205
- Securities and equity investments	270	2,193
- Administrative expenses	11,600	5,415
- Amortisation and depreciation	1,525	1,445
Total	**393,160**	**308,832**

14.2 Deferred tax liabilities: breakdown

	31/12/2014	31/12/2013
- Owned buildings	5,921	5,899
- Accelerated depreciation	2,042	2,555
- Leased buildings	1,833	1,886
- Revaluation of securities and gains	36,205	17,316
- Administrative expenses	280	954
- Loans	13,393	7,617
Total	**59,674**	**36,227**

14.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2014	31/12/2013
1. **Opening balance**	**301,472**	**185,266**
2. **Increases**	**165,377**	**168,830**
2.1 Deferred tax assets arising during the year	165,170	168,785
a) relating to prior years	451	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	164,719	168,785
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	207	45
3. **Decreases**	**85,304**	**52,624**
3.1 Deferred tax assets eliminated during the year	78,523	52,390
a) reversals	78,523	52,390
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	6,781	234
a) transformation into tax credits as per Law 214/2011	–	–
b) other	6,781	234
4. **Closing balance**	**381,545**	**301,472**

14.3.1 Change in deferred tax assets as per Law 214/2011 (with contra-entry to the Income Statement)

	31/12/2014	31/12/2013
1. **Opening balance**	**269,858**	**151,545**
2. **Increases**	**152,513**	**158,072**
3. **Decreases**	**75,920**	**39,759**
3.1 Reversals	70,828	39,759
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	5,092	–
4. **Closing balance**	**346,451**	**269,858**

14.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2014	31/12/2013
1. **Opening balance**	**16,543**	**23,468**
2. **Increases**	**5,942**	**87**
2.1 Deferred tax liabilities arising during the year	5,761	87
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	5,761	87
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	181	–
3. **Decreases**	**704**	**7,012**
3.1 Deferred tax liabilities eliminated during the year	699	5,768
a) reversals	698	5,768
b) due to changes in accounting policies	–	–
c) other	1	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	5	1.244
4. **Closing balance**	**21,781**	**16,543**

14.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2014	31/12/2013
1. **Opening balance**	**7,359**	**11,956**
2. **Increases**	**6,874**	**1,453**
2.1 Deferred tax liabilities arising during the year	6,874	1,453
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	6,874	1,453
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**2,618**	**6,050**
3.1 Deferred tax liabilities eliminated during the year	2,618	5,010
a) reversals	2,618	4,978
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	32
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	1,040
4. **Closing balance**	**11,615**	**7,359**

This amount relates for € 0.270 million to losses on securities available for sale booked to equity, and for € 9.588 million to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised, as well as for € 1.757 million to expenses related to the increase in capital of the Parent Bank.

14.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2014	31/12/2013
1. **Opening balance**	**19,684**	**10,931**
2. **Increases**	**18,929**	**9,695**
2.1 Deferred tax liabilities arising during the year	18,929	9,695
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	18,929	9,695
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**720**	**942**
3.1 Deferred tax liabilities eliminated during the year	720	942
a) reversals	720	942
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**37,893**	**19,684**

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

	31/12/2014	31/12/2013
Advances paid to tax authorities	49,184	31,768
Withholdings on interest due to customers	3,491	6,360
Tax credits and related interest	24,384	16,611
Current account cheques drawn on third parties	31,165	26,208
Current account cheques drawn on Group banks	13,575	14,051
Transactions in customers' securities	4,383	1,488
Inventories	10,264	11,880
Costs pertaining to the subsequent year	1,262	1,559
Advances to suppliers	523	732
Advances to customers awaiting collections	17,927	17,371
Miscellaneous debits in transit	51,870	32,581
Liquidity of pension fund	33,283	16,924
Accrued income not allocated	30,877	28,629
Prepayments not allocated	9,417	6,974
Differences on elimination	1,334	873
Residual items	64,844	159,484
Total	**347,783**	**373,493**

Liabilities and equity

Section 1 *Due to banks - line item 10*

1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2014	31/12/2013
1. **Due to central banks**	**1,107,248**	**1,851,122**
2. **Due to banks**	**1,206,787**	**1,216,856**
2.1 Current accounts and sight deposits	418,632	239,938
2.2 Time deposits	289,861	606,036
2.3 Loans	492,373	364,300
2.3.1 Repurchase agreements	–	–
2.3.2 Other	492,373	364,300
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	5,921	6,582
Total	**2,314,035**	**3,067,978**
Fair value - Level 1	**–**	**–**
Fair value - Level 2	**–**	**–**
Fair value - Level 3	**2,314,035**	**3,067,978**
Total fair value	**2,314,035**	**3,067,978**

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO). The first, for € 350 million, was obtained in September 2014 and the second, for € 748 million, was granted in December 2014. Both are repayable in September 2018, subject to obligatory early repayment in September 2016 if the lending thresholds established by the ECB have not been met. These loans are secured by bonds, mainly Government bonds, securities issued in connection with the securitisation carried out by the Bank, and loans.

«Other loans» principally comprise funding from the EIB in connection with loans granted by the bank under agreements signed with the EIB, as well as special forms of loan drawn down by Factorit Spa.

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

	31/12/2014	31/12/2013
- Payables for finance leases	1,114	1,977

Section 2 *Due to customers - line item 20*

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2014	31/12/2013
1. **Current accounts and sight deposits**	**23,142,217**	**18,951,820**
2. **Time deposits**	**2,700,506**	**4,430,611**
3. **Loans**	**410,399**	**283,142**
3.1 Repurchase agreements	383,722	210,968
3.2 Other	26.677	72.174
4. **Payables for commitments to repurchase own equity instruments**	**-**	**-**
5. **Other payables**	**57,720**	**44,779**
Total	**26,310,842**	**23,710,352**
Fair value - Level 1	**-**	**-**
Fair value - Level 2	**-**	**-**
Fair value - Level 3	**26,310,842**	**23,710,352**
Fair value	**26,310,842**	**23,710,352**

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.

2.5 Payables for finance leases

	31/12/2014	31/12/2013
- Payables for finance leases	3,180	3,724

Section 3 *Securities issued - line item 30*

3.1 Securities issued: breakdown by sector

	31/12/2014				31/12/2013			
	Book	Fair Value			Book	Fair Value		
Type of security/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	3,327,681	518,968	2,879,463	-	2,881,231	-	2,901,550	-
1.1 structured	86,180	-	86,180	-	-	-	-	-
1.2 Others	3,241,501	518,968	2,793,283	-	2,881,231	-	2,901,550	-
2. Other securities	78,517	-	78,517	-	83,743	-	83,743	-
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	78,517	-	78,517	-	83,743	-	83,743	-
Total	**3,406,198**	**518,968**	**2,957,980**	**-**	**2,964,974**	**-**	**2,985,293**	**-**

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.

Level 1 securities refer to covered bonds issued last year.

3.2 Details of line item 30 «Securities issued»: subordinated securities

Subordinated securities amount to € 883.554 million and are made up of the loans indicated below:

- loan of € 217.988 million from 26/2/2010 and maturity on 26/2/2017 with an annual repayment of 20% from 26/2/2013. This was issued with an interest rate of 4% which will gradually rise to 5%; the coupon current at year end is 4.50%.
- loan of € 313.965 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. The interest rate commenced at 4.50% and will gradually rise to 6%; the coupon current at year end is 5%.
- loan of € 100.971 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2%.
- loan of € 100.609 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2%.
- loan of € 150.021 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 2.25%.

The entry into force of Regulation (EU) 575/2013 of 26 June 2013 changed the way subordinated loans are included in own funds for the determination of supervisory capital. Art. 63 of this regulation limits the inclusion of subordinated loans as class 2 capital within own funds, if they may be redeemed within five years of issue. This regulation has been interpreted in various ways. The bank specifically questioned the Supervisory Authority on this matter and received a restrictive interpretation. Accordingly, the subordinated loans issued in 2014 have not been included as part of own capital, while part of those issued earlier have been included in view of the related guarantee clauses.

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	31/12/2014					31/12/2013				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
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	–	–	56,136	–	–	–	29	36,521	–	–
1.1 for trading	–	–	56,136	–	–	–	29	36,521	–	–
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	**–**	**–**	**56,136**	**–**	**–**	**–**	**29**	**36,521**	**–**	**–**
Total A+B	**–**	**–**	**56,136**	**–**	**–**	**–**	**29**	**36,521**	**–**	**–**

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

	Fair Value 31/12/2014			Nominal Value	Fair Value 31/12/2013			Nominal Value
underlying	Level 1	Level 2	Level 3	**31/12/2014**	Level 1	Level 2	Level 3	**31/12/2013**
A. **Financial derivatives**	**–**	**45,562**	**–**	**1,148,120**	**–**	**27,580**	**–**	**895,528**
1) Fair value	–	45,562	–	1,148,120	–	27,580	–	895,528
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**–**	**45,562**	**–**	**1,148,120**	**–**	**27,580**	**–**	**895,528**

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

	Fair Value						Financial flows		
	Micro								
Transaction/ Type of hedge	interest rate risk	exchange risk	credit risk	price risk	multiple risk	Macro	Micro	Macro	Foreign investments
1. Available-for-sale financial assets	–	–	–	–	–	–	–	–	–
2. Loans	45,562	–	–	–	–	–	–	–	–
3. Held-to-maturity investments	–	–	–	–	–	–	–	–	–
4. Portfolio	–	–	–	–	–	–	–	–	–
5. Other transactions	–	–	–	–	–	–	–	–	–
Total assets	**45,562**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
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 € 61.778 million and relates for € 2.104 million to current taxes and for € 59.674 million to deferred taxes.

As regards the composition and amount of deferred taxes, please read Assets Section 14 of these notes.

The Parent Bank's tax years up to 2005 have been closed.

For 2006, 2007 and 2008 the Parent Bank received notices 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. They have assessed higher IRES of € 0.544 million for 2006, € 0.855 million for 2007 and € 0.978 million for 2008 and higher IRAP of € 0.086 million, € 0.136 million and € 0.171 million respectively, plus penalties and interest. The appeals relating to the assessments regarding the 2006, 2007 and 2008 tax years are currently pending before the Milan Provincial Tax Commission, for which the Tax Authorities proposed a court conciliation, accepted by the Parent Bank.

For 2009, the Parent Bank received a notice of assessment for VAT purposes for not applying VAT on the commissions received as a custodian bank for the amount of € 0.129 million plus interest. This matter was raised in prior years and a solution was found in Tax Authority Resolution 97/E of 17 December 2013, which formalised a compromise that subjects part of these commissions to VAT at a flat rate, with no penalties in relation to the prior years covered by assessments. The 2009 assessment therefore reflects the content of the above Resolution. The bank has decided to close the dispute under the terms of the Resolution, without penalties and with a reduction of the amount requested, consistent with the approach taken in relation to the prior years subjected to assessment.

An assessment was received during the year regarding the flat tax on a syndicated medium/long-term loan, the contract for which was signed abroad. Similar matters were raised in the prior year. By contrast with previous guidance, the Tax Authorities now state that such contracts were prepared in Italy, even if signed abroad, and are therefore subject to flat-rate taxation. In almost all cases, such contracts envisage recharge of the additional taxation to the financed counterparties. The Parent Bank has filed the related appeals, through its lawyers after consultation with the other banks in the syndicate and the beneficiaries of the loans. The dispute is likely to be resolved largely in favour of the Parent Bank.

The litigation concerning a property subsidiary is still pending after a favourable judgement at 1st and 2nd grade as the Tax Authorities have appealed.

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2014	31/12/2013
Amounts at the disposal of third parties	243,488	309,843
Taxes to be paid on behalf of third parties	49,559	51,465
Taxes to be paid	5,717	9,841
Employee salaries and contributions	26,160	14,587
Suppliers	15,981	12,994
Transit accounts for sundry entities	1,430	10,663
Invoices to be received	12,353	10,839
Credits in transit for financial transactions	321	132
Value date differentials on portfolio transactions	141,607	135,442
Directors' and statutory auditors' emoluments	1,020	999
Loans disbursed to customers to be finalised	19,313	9,705
Miscellaneous credit items being settled	60,469	68,521
Accrued expenses not allocated	7,726	7,162
Deferred income not allocated	14,008	14,820
Allowance for risks on guarantees and commitments	19,120	20,606
Differences on elimination	6,327	4,287
Residual items	98,236	38,967
Total	**722,835**	**720,873**

Section 11 *Termination indemnities - line item 110*

11.1 Termination indemnities: change in the year

	2014	2013
A. **Opening balance**	**40,527**	**42,352**
B. **Additions**	**11,729**	**7,502**
B.1 Provisions	7,444	7,441
B.2 Other changes	4,285	61
C. **Decreases**	**7,341**	**9,327**
C.1 Payments made	984	821
C.2 Other changes	6,357	8,506
D. **Closing balance**	**44,915**	**40,527**

Section 12 *Provisions for risks and charges - line item 120*

12.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2014	31/12/2013
1. **Pension and similar obligations**	**117,043**	**100,539**
2. **Other provisions for risks and charges**	**49,806**	**52,054**
2.1 legal disputes	30,225	34,993
2.2 personnel expenses	16,120	15,116
2.3 Other	3,461	1,945
Total	**166,849**	**152,593**

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 in the year

Items/Components	Pension and similar obligations	Other provisions
A. **Opening balance**	**100,539**	**52,054**
B. **Additions**	**20,537**	**21,684**
B.1 Provisions	2,351	18,499
B.2 Changes due to the passage of time	–	68
B.3 Changes due to variations in the discount rate	13,876	49
B.4 Other changes	4,310	3,068
C. **Decreases**	**4,033**	**23,932**
C.1 Utilisations during the year	3,530	15,234
C.2 Changes due to variations in the discount rate	–	12
C.3 Other changes	503	8,686
D. **Closing balance**	**117,043**	**49,806**

12.3 Defined-benefit pension plans

12.3.1. Description of plans

The Parent 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 423 employees and 237 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. 2,040 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 - Changes in net (assets) liabilities and redemption rights

	2014	2013
At 1 January	100,539	95,729
service cost	2,043	1,984
interest cost	3,024	3,358
actuarial gains/losses	13,876	2,990
payments	(3,530)	(3,522)
other provisions	1,091	–
At 31 December	**117,043**	**100,539**

12.3.3 Defined-benefit pension plans - Other information

Details of the assets of the pension plan are summarised in the following table:

	31/12/2014	31/12/2013
Fixed-yield securities	75,160	74,769
Variable-yield securities	1,142	515
Mutual funds invested in shares	7,017	7,890
Mutual funds invested in property	441	441
Other assets	33,283	16,924
Total	**117,043**	**100,539**

The amount of the fund increases by € 16.504 million, +16.42%.

Payments of benefits amount to € 3.530 million compared with € 3.522 million. The contributions paid by the employees totalled € 0.234 million (€ 0.231 million last year).

12.3.4 Defined-benefit pension plans – Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	31/12/2014	31/12/2013
Discount rate	1.88%	3.00%
Expected increase in salaries	0.50%	2.00%
Rate of inflation	–	1.50%
Underlying rate of pension increases	1.00%	1.50%

See the Bank's financial statements for an explanation of how the discount rate was chosen.

12.4 Provisions for risks and charges: other provisions

Items/Amounts	31/12/2014	31/12/2013
Provision for legal disputes	30,225	34,993
Provision for personnel expenses	16,120	15,116
Provision for charitable donations	3,461	1,945
Total	**49,806**	**52,054**

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 31/12/2014 as the discount rate.

This decrease of € 4.768 million 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. It increases to € 1.004 million, + 6.,64%.

Other provisions include the provision for charitable donations consisting of an allocation of profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2013 profit, while the reduction of € 0.182 million was a consequence of payments made during the year.

Section 15 *Group equity - Items 140, 160, 170, 180, 190, 200 and 220*

15.1 «Share capital» and «Treasury shares»: breakdown

Issued and fully-paid share capital is represented by 453,385,777 ordinary shares, par value € 3 each, totalling € 1,360.157 million. This follows an increase of 145,237,792 shares, with a total nominal value of € 435.713 million, after full implementation of the mixed capital increase authorised at the Shareholders' Meeting held on 26 April 2014. Under a mandate granted at that Meeting, the basis and timing of the increase was approved at the Board Meeting held on 5 June 2014, and the increase was completed in early July 2014. Shares in circulation have dividend and voting rights from 1 January 2014.

At the period-end, the Parent Bank held treasury shares with a carrying value of € 25.031 million.

15.2 Share capital - Number of shares of the Parent Bank: change during the year

	Ordinary	Other
A. **Shares at the beginning of the year**	**308,147,985**	**–**
- fully paid	308,147,985	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,020,000)	–
A.2 **Shares in circulation: opening balance**	**305,127,985**	**–**
B. **Additions**	**145,237,792**	**–**
B.1 New issues	145,237,792	–
- for payment	114,422,994	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- other	114,422,994	–
- free of charge	30,814,798	–
- to employees	–	–
- to directors	–	–
- other	30,814,798	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**(530,000)**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	(202,323)	–
C.3 Business disposals	–	–
C.4 Other changes	(327,677)	–
D. **Shares in circulation: closing balance**	**449,835,777**	**–**
D.1 Treasury shares (+)	3,550,000	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

15.3 Share capital: other information

Share premium reserve

This line item amounts to € 79.005 million, down by 92.445 million, - 53.92%, compared with the previous year, following the allotment of bonus shares as part of the capital increase.

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 € 826.730 million and increase by € 35.178 million, + 4.43%. 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 € 93.000 million (it has been used for € 25.031 million).

There are also € 3.229 million of reserves from capital contributions.

Section 16 *Equity pertaining to minority interests - Line item 210*

16.1 Equity instruments: breakdown and change in the year

The line item equity of minority interests amounts to € 82.463 million and is made up of the share capital of € 33.589 million, the share premium reserve of € 4.360 million, reserves of € 34.542 million, valuation reserves of € - 0.107 million and profits of € 10.079 million.

Other information

1. Guarantees given and commitments

Operations	31/12/2014	31/12/2013
1) **Financial guarantees**	**386,283**	**533,268**
a) Banks	40,593	115,417
b) Customers	345,690	417,851
2) **Commercial guarantees**	**3,587,813**	**3,674,562**
a) Banks	75,969	78,689
b) Customers	3,511,844	3,595,873
3) **Irrevocable commitments to make loans**	**1,235,734**	**1,081,813**
a) Banks	71,556	46,589
i) certain to be called on	59,946	34,523
ii) not certain to be called on	11,610	12,066
b) Customers	1,164,178	1,035,224
i) certain to be called on	384,592	216,615
ii) not certain to be called on	779,586	818,609
4) **Commitments underlying credit derivatives: protection sold**	**–**	**–**
5) **Assets lodged to guarantee the commitments of third parties**	**26,861**	**26,162**
6) **Other commitments**	**79,560**	**28,247**
Total	**5,316,251**	**5,344,052**

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2014	31/12/2013
1. Financial assets held for trading	659,526	1,123,846
2. Financial assets at fair value through profit or loss	–	-
3. Available-for-sale financial assets	1,270,938	1.139,554
4. Held-to-maturity investments	–	12,833
5. Loans and receivables with banks	–	-
6. Loans and receivables with customers	998,605	432,798
7. Property, equipment and investment property	–	-

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. Assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances. These securities are not subject to structured repurchase agreements.

In addition, securities (senior tranche) of € 899.783 million deriving from the securitisation of performing residential mortgage loans sold to Centro delle Alpi RMBS srl, the vehicle company.

Loans and receivables with customers comprises the residential mortgages used to guarantee the loans obtained from the ECB.

5. Management and intermediation for third parties

Type of service	Amount
1. **Execution of orders on behalf of customers**	
a) Purchases	1,102,361
1. settled	1,101,503
2. not settled	858
b) Sales	981,565
1. settled	981,002
2. not settled	563
2. **Portfolio management**	
a) Individual	1,930,321
b) Collective	–
3. **Custody and administration of securities**	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management))	971,147
1. securities issued by consolidated companies	–
2. other securities	971,147
b) Third-party securities on deposit (excluding portfolio management): other	17,866,771
1. securities issued by consolidated companies	3,607,766
2. other securities	14,259,005
c) Third-party securities on deposit with third parties	19,361,426
d) own securities on deposit with third parties	8,793,409
4. **Other transactions**	**–**

6. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at 31/12/2014 (f = c-d-e)**	**Net amount at 31/12/2013**
1. Derivatives	24,276	–	24,276	17,254	1,323	5,699	7,361
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2014	**24,276**	**–**	**24,276**	**17,254**	**1,323**	**5,699**	**–**
Total 31/12/2013	**7,414**	**–**	**7,414**	**–**	**53**	**–**	**7,361**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The net positive fair value at 31/12/2014 that is not correlated with deposits received in guarantee amounts to € 5.699 million. This amount principally derives from the fact that the margin calls on deposits given in guarantee are made weekly.

Given that fair value changes daily, there may be situations intraweek in which fair value is not fully covered or in which the deposits given in guarantee exceed the value of the related derivatives.

When the «third pillar» of the EMIR regulation (obligatory collateralisation of the Mark-to-Market adjustment of derivative products via a Central Counterparty) becomes operational (the exact date is not yet known), the amount of these differences will diminish considerably, tending to zero, since the CSA margin calls will made daily.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

7. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial assets netted in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c=a-b)	Correlated amounts no netted in the balance sheet		**Net amount at 31/12/2014 (f = c-d-e)**	**Net amount at 31/12/2013**
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	78,390	–	78,390	17,254	59,762	1,374	3,864
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2014	**78,390**	**–**	**78,390**	**17,254**	**59,762**	**1,374**	**–**
Total 31/12/2013	**47,928**	**–**	**47,928**	**–**	**44,064**	**–**	**3,864**

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 31/12/2014	Total 31/12/2013
1. Financial assets held for trading	30,445	–	–	30,445	42,391
2. Financial assets at fair value through profit or loss	4	–	–	4	434
3. Available-for-sale financial assets	72,177	–	–	72,177	71,570
4. Held-to-maturity investments	1,395	–	–	1,395	2,017
5. Loans and receivables with banks	–	8,533	–	8,533	11,192
6. Loans and receivables with customers	1,199	845,324	–	846,523	890,508
7. Hedging derivatives	–	–	–	–	–
8. Other assets	–	–	–	–	2
Total	**105,220**	**853,857**	**–**	**959,077**	**1,018,114**

1.3 Interest and similar income: other information

1.3.1 Interest and similar income on foreign currency assets

Items	31/12/2014	31/12/2013
Interest and similar income on foreign currency assets	91,303	101,484

1.4 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other liabilities	Total 31/12/2014	Total 31/12/2013
1. Due to central banks	(2,742)	–	–	(2,742)	(10,270)
2. Due to banks	(11,416)	–	–	(11,416)	(15,334)
3. Due to customers	(248,726)	–	–	(248,726)	(328,302)
4. Securities issued	–	(91,293)	–	(91,293)	(90,147)
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	–	–	–	–	–
8. Hedging derivatives	–	–	(13,977)	(13,977)	(14,899)
Total	**(262,884)**	**(91,293)**	**(13,977)**	**(368,154)**	**(458,952)**

1.5 Interest and similar expense: differential on hedging transactions

Items	31/12/2014	31/12/2013
A. Positive differentials on hedging transactions	–	–
B. Negative differentials on hedging transactions	(13,977)	(14,899)
C. **Net total (A-B)**	**(13,977)**	**(14,899)**

1.6 Interest and similar expense: other information

1.6.1 Interest and similar expense on foreign currency liabilities

	31/12/2014	31/12/2013
Interest and similar expense on foreign currency liabilities	(31,266)	(35,993)

1.6.2 Interest expense on finance lease transactions

	31/12/2014	31/12/2013
Interest expense on finance lease transactions	(48)	(60)

Section 2 Commissions - line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2014	31/12/2013
a) **guarantees given**	**28,362**	**26,977**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**88,843**	**80,615**
1. trading in financial instruments	14,941	17,175
2. trading in foreign currencies	9,228	8,226
3. portfolio management	6,762	5,767
3.1. individual	6,762	5,767
3.2. collective	–	–
4. custody and administration of securities	10,673	9,549
5. custodian bank	1,374	1,137
6. placement of securities	20,112	13,446
7. order receipt and transmission	12,427	12,114
8. consultancy	59	65
8.1 investments	–	–
8.2 corporate finance	59	65
9. distribution of third-party services	13,267	13,136
9.1 portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2 insurance products	9,100	8,449
9.3 other products	4,167	4,687
d) **collection and payment services**	**66,878**	**62,892**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**29,790**	**30,631**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**30,466**	**30,697**
j) **other services**	**77,683**	**73,767**
Total	**322,022**	**305,579**

The sub-item «other services» is essentially made up of loan commissions and commissions generated by the foreign currency exchange activities.

2.2 Fee and commission expense: breakdown

Services/Amounts	31/12/2014	31/12/2013
a) **guarantees received**	**(385)**	**(255)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(3,458)**	**(4,213)**
1. trading in financial instruments	(1,700)	(2,765)
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated by third parties	–	–
4. custody and administration of securities	(1,758)	(1,448)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,998)**	**(9,600)**
e) **other services**	**(8,160)**	**(8,510)**
Total	**(22.001)**	**(22,578)**

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2014		31/12/2013	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	767	137	1,105	122
B. Available-for-sale financial assets	1,301	1,308	1,303	–
C. Financial assets at fair value through profit or loss	–	–	–	–
D. Equity investments	11	–	169	–
Total	**2,079**	**1,445**	**2,577**	**122**

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Unrealized gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit [(A+B)-(C+D)]
1. **Financial assets held for trading**	**37,889**	**59,114**	**(11,232)**	**(1,210)**	**84,561**
1.1 Fixed-yield securities	25,143	35,221	(392)	(865)	59,107
1.2 Variable-yield securities	75	6,566	(9,203)	(314)	(2,876)
1.3 Mutual funds	165	1,217	(532)	(31)	819
1.4 Loans	–	–	–	–	–
1.5 Other	12,506	16,110	(1,105)	–	27,511
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Others	–	–	–	–	–
3. **Other financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**12,627**
4. **Derivatives**	**4,277**	**15,792**	**(6,581)**	**(10,908)**	**2,630**
4.1 Financial derivatives:	4,277	15,792	(6,581)	(10,908)	2,630
- On debt securities and interest rates	3,977	8,057	(5,711)	(7,712)	(1,389)
- On equities and equity indices	–	6,494	(570)	(2,012)	3,912
- On currency and gold	–	–	–	–	50
- Other	300	1,241	(300)	(1,184)	57
4.2 Credit derivatives	–	–	–	–	–
Total	**42,166**	**74,906**	**(17,813)**	**(12,118)**	**99,818**

Net trading income has decreased from € 111.055 million to € 99.818 million, despite higher trading profits and good net unrealised gains, albeit lower than in the prior year due to continuation of the recovery in the financial markets.

Trading income on other financial assets is mainly made up of exchange gains. Exchange differences consist almost entirely of fixed-yield securities in US dollars.

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	31/12/2014	31/12/2013
A. **Income from:**		
A.1 Fair value hedging derivatives	–	20,406
A.2 Hedged financial assets (fair value)	20,931	–
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)	**20,931**	**20,406**
B. **Charges from:**		
B.1 Derivatives hedging fair value	(20,802)	–
B.2 Hedged financial assets (fair value)	–	(20,451)
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)	**(20,802)**	**(20,451)**
C. **Net hedging gains (losses) (A-B)**	**129**	**(45)**

Income includes € 20,931 million for the valuation at fair value of the loans being hedged, versus a negative valuation of hedging derivatives of € 20.802 million at fair value. The net result of measuring the hedging structure at fair value is a positive balance of € 0.129 million.

Section 6 *Gains (losses) from sales/repurchases - line item 100*

6.1 Gains (losses) from sales/repurchases - breakdown

	31/12/2014			31/12/2013		
Items/income items	Profits	Losses	Profit	Profits	Losses	Profit
Financial assets						
1. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Loans and receivables with customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Available-for-sale financial assets**	**95,926**	**(421)**	**95,505**	**52,747**	**(229)**	**52,518**
3.1 Fixed-yield securities	95,023	(284)	94,739	48,152	–	48,152
3.2 Variable-yield securities	–	(137)	(137)	2,684	(87)	2,597
3.3 Mutual funds	903	–	903	1,911	(142)	1,769
3.4 Loans	–	–	–	–	–	–
4. **Held-to-maturity investments**	**–**	**–**	**–**	**55**	**–**	**55**
Total assets	**95,926**	**(421)**	**95,505**	**52,802**	**(229)**	**52,573**
Financial liabilities						
1. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Customer deposits**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Securities issued**	**271**	**(1,622)**	**(1,351)**	**538**	**(391)**	**147**
Total liabilities	**271**	**(1,622)**	**(1,351)**	**538**	**(391)**	**147**

Section 7 *Net gains on financial assets and liabilities at fair value through profit or loss - line item 110*

7.1 Net gains on financial assets/liabilities at fair value through profit or loss: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Profit [(A+B)-(C+D)] **31/12/2014**
1. **Financial assets**	**2,174**	**751**	**(135)**	**–**	**2,790**
1.1 Fixed-yield securities	1	–	–	–	1
1.2 Variable-yield securities	–	–	–	–	–
1.3 Mutual funds	2,173	751	(135)	–	2,789
1.4 Loans	–	–	–	–	–
2. **Financial liabilities**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Due to banks	–	–	–	–	–
2.3 Customer deposits	–	–	–	–	–
3. **Foreign currency financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**2,397**
4. **Credit and financial derivatives**	**–**	**–**	**–**	**–**	**–**
Total	**2,174**	**751**	**(135)**	**–**	**5,187**

Gains, losses, proceeds from disposals principally concern mutual fund units and Italian Government securities.

Section 8 *Net impairment losses - line item 130*

8.1 Net impairment losses on loans and receivables: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)					
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B	**Total 31/12/2014**	**Total 31/12/2013**
A. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(86,026)**	**(507,572)**	**(24,199)**	**533**	**81,146**	**–**	**72,034**	**(464,084)**	**(463,866)**
Purchased impaired loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
Other receivables	**(86,026)**	**(507,572)**	**(24,199)**	**533**	**81,146**	**–**	**72,034**	**(464,084)**	**(463,866)**
- Loans	(86,026)	(502,818)	(23,600)	533	81,146	–	72,034	(458,731)	(463,866)
- Fixed-yield securities	–	(4,754)	(599)	–	–	–	–	(5,353)	–
C. **Total**	**(86,026)**	**(507,572)**	**(24,199)**	**533**	**81,146**	**–**	**72,034**	**(464,084)**	**(463,866)**

Key:
A = Interest
B = Other write-backs

8.2 Net impairment losses on available-for-sale financial assets: breakdown

Transactions/Income items	Adjustments (1)		Write-backs (2)		Total 31/12/2014	Total 31/12/2013
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	–	–	–	–	–	–
B. Variable-yield securities	–	(18,473)	–	–	(18,473)	(11,419)
C. Mutual funds	–	(835)	–	–	(835)	(1.462)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. **Total**	**–**	**(19,308)**	**–**	**–**	**(19,308)**	**(12,881)**

Key:
A = Interest
B = Other write-backs

8.4 Net impairment losses on other financial transactions: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)				Total 31/12/2014	Total 31/12/2013
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B		
A. Guarantees given	–	(451)	(50)	–	1,996	–	2	1,497	(9,646)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to make loans	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	(3,892)
E. **Total**	**–**	**(451)**	**(50)**	**–**	**1,996**	**–**	**2**	**1,497**	**(13,538)**

Key:
A = Interest
B = Other write-backs

Section 11 *Administrative expenses - line item 180*

11.1 Personnel expenses: breakdown

Type of expenses/Sectors	31/12/2014	31/12/2013
1) Employees	**(217,881)**	**(213,057)**
a) Wages and salaries	(142,158)	(140,628)
b) Social security contributions	(34,321)	(33,737)
c) Termination indemnities	(16)	(16)
d) Pension expenses	(3,652)	(3,392)
e) Provision for employee termination indemnities	(7,445)	(7,451)
f) Provision for pension and similar obligations and similar commitments:	(6,286)	(5,606)
- defined contribution	–	–
- defined benefits	(6,286)	(5,606)
g) Payments to external supplementary pension funds:	(3,092)	(3,028)
- defined contribution	(3,092)	(3,028)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(20,911)	(19,199)
2) **Other working personnel**	**(3,162)**	**(3,206)**
3) **Directors and Statutory auditors**	**(2,082)**	**(2,825)**
4) **Retired personnel**	**–**	**–**
Total	**(223,125)**	**(219,088)**

11.2 Average number of employees by category

	31/12/2014	31/12/2013
1) **Employees**	**3,068**	**3,078**
a) Managers	32	32
b) Officials	721	708
c) Other employees	2,315	2,338
2) **Other personnel**	**85**	**95**

	31/12/2014	31/12/2013
Actual number of employees		
- Employees	3,062	3,061
- Other personnel	86	91

11.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	**31/12/2014**	**31/12/2013**
Service cost	2,043	1,984
Interest cost	3,025	3,358
Contributions from employees	(234)	(231)
Reductions and payments	1,452	495
Total charge to income statement (A)	**6,286**	**5,606**
Portion of yield from assets servicing the fund (B)	4,310	3,681
Total charge (A-B)	1,976	1,925

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 principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements.

The cost for the Parent Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. These contributions amounted to € 1.976 million. An additional provision of € 4.310 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». A provision of € 13.876 million to cover the actuarial loss has not been charged to the income statement, but instead it has been deducted from equity in accordance with IAS 19, as reported in the statement of comprehensive income.

11.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

11.5 Other administrative expenses: breakdown

	31/12/2014	31/12/2013
Telephone, post and data transmission	(14,718)	(15,135)
Maintenance of property, equipment and investment property	(9,392)	(9,616)
Rent of buildings	(27,385)	(27,471)
Security	(6,285)	(6,395)
Transportation	(4,021)	(4,097)
Professional fees	(22,901)	(16,421)
Office materials	(2,705)	(2,906)
Electricity, heating and water	(6,179)	(6,260)
Advertising and entertainment	(4,196)	(3,961)
Legal	(13,732)	(12,147)
Insurance	(1,764)	(1,835)
Company searches and information	(5,506)	(4,896)
Indirect taxes and dues	(53,674)	(49,560)
Software and hardware rental and maintenance	(13,388)	(12,583)
Data entry by third parties	(2,033)	(1,948)
Cleaning	(5,487)	(5,357)
Membership fees	(2,039)	(2,105)
Services received from third parties	(3,010)	(3,210)
Outsourced activities	(20,069)	(19,124)
Deferred charges	(3,886)	(4,389)
Goods and services for employees	(1,024)	(1,105)
Other	(10,754)	(11,566)
Total	**(234,148)**	**(222,087)**

Section 12 *Net accruals to provisions for risks and charges - line item 190*

12.1 Net accruals to provisions for risks and charges: breakdown

The positive balance of € 1.934 million reflects the excess of amounts released during the year over new provisions.

Section 13 *Depreciation and net impairment losses on property, equipment and investment property - line item 200*

13.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2014**
A. **Property, equipment and investment property**				
A.1 Owned	(16,017)	–	–	(16,017)
- for business purposes	(16,017)	–	–	(16,017)
- for investment purposes	–	–	–	–
A.2 Acquired under finance leases	(1,020)	–	–	(1,020)
- for business purposes	(1,020)	–	–	(1,020)
- for investment purposes	–	–	–	–
Total	**(17,037)**	**–**	**–**	**(17,037)**

Section 14 *Amortisation and net impairment losses on intangible assets - line item 210*

14.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2014**
A. **Intangible assets**				
A.1 Owned	(13,357)	–	–	(13,357)
- Internally generated	–	–	–	–
- Other	(13,357)	–	–	(13,357)
A.2 Acquired under finance leases	–	–	–	–
Total	**(13,357)**	**–**	**–**	**(13,357)**

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

	31/12/2014	**31/12/2013**
Out-of-period expense	(2,565)	(3,900)
Other	(2,237)	(249)
Consolidation differences	(856)	(1,592)
Total	**(5,658)**	**(5,741)**

15.2 Other operating income: breakdown

	31/12/2014	**31/12/2013**
Recovery of charges on deposits and overdrafts	96	48
Recovery of expenses	1,375	1,302
Rental income from buildings	1,345	1,351
Recovery of taxes	44,537	41,211
Financial income of pension and similar obligations plan	4,310	5,889
Out-of-period income - other	2,372	2,211
Out-of-period income - overprovisions	10	363
Other	24,589	26,583
Consolidation differences	873	248
Total	**79,507**	**79,206**

Section 16 *Share of profit (loss) of equity investments - line item 240*

16.1 Share of profit (loss) of equity investments: breakdown

Income item/Segments	31/12/2014	31/12/2013
1) **Joint-ventures**		
A. **Income**	**20**	**26**
1. Revaluations	20	26
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**–**	**–**
1. Write-downs	–	–
2. Impairment writedowns	–	–
3. Loss from disposals	–	–
4. Other charges	–	–
Profit	**20**	**26**
2) **Associated companies**		
A. **Income**	**7,846**	**6,274**
1. Revaluations	7,845	6,267
2. Gains on disposal	–	–
3. Write-backs	1	7
4. Other income	–	–
B. **Charges**	**(1,151)**	**(4,680)**
1. Write-downs	(1,151)	(4,680)
2. Impairment writedowns	–	–
3. Loss from disposals	–	–
4. Other charges	–	–
Profit	**6,695**	**1,594**
Total	**6,715**	**1,620**

Section 18 *Adjustments to goodwill - line item 260*

18.1 Adjustments to goodwill: breakdown

The charge of € 1.112 million reflects the write-off of the goodwill generated on the merger of Factorit Spa with In Factor in 1999, since the reasons for its recognition have ceased to apply.

Section 19 *Net gains on sales of investments - line item 270*

19.1 Net gains on sales of investments: breakdown

Income items/Segments	31/12/2014	31/12/2013
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**27**	**10**
- Gains on disposal	33	20
- Losses on disposal	(6)	(10)
Profit	**27**	**10**

Section 20 *Income taxes - line item 290*

20.1 Income taxes: breakdown

Income items/Segments	31/12/2014	31/12/2013
1. Current taxes (-)	(157,473)	(187,803)
2. Change in prior period income taxes (+/-)	2,312	–
3. Reduction in current taxes (+)	–	–
3. bis Reduction in current taxes for tax credits under Law n. 214/2011 (+)	–	–
4. Change in deferred tax assets (+/-)	80,074	116,207
5. Change in deferred tax liabilities (+/-)	(5,238)	6,925
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(80,325)	(64,671)

The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 39.07% compared with 51.59%. An additional 8.5 percentage points of IRES taxation applied in the prior year, as introduced by art. 2, para. 2, of the Decreed dated 30 November 2013 that was converted, with amendments, in Law 5 of 29 January 2014.

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	Imponibile	Imposta
Theoretical tax burden	205,607	(58,292)
Increases	296,981	(79,809)
Decreases	(53,263)	14,734
Effective tax burden	**449,325**	**(123,367)**

IRAP (REGIONAL BUSINESS TAX)	Imponibile	Imposta
Theoretical tax burden	192,873	(11,196)
Increases	653,656	(35,888)
Decreases	(233,770)	12,978
Effective tax burden	**612,759**	**(34,106)**
Total effective tax burden	**–**	**(157,473)**

Section 24 *Earnings per share*

24.1 Average number of ordinary shares (fully diluted)

The mixed capital increase authorised at the shareholders' meeting held on 26 April 2014 took place during the period 9 June - 4 July, following approval of the basis and timing for the increase at the Parent Bank's Board Meeting held on 5 June 2014. This involved the issue of 30,814,798 bonus shares on 9 June and 114,422,994 shares for payment on 4 July. The number of shares shown in the table below is the weighted average for the year.

	31/12/2014	31/12/2013
number of shares	381,569,217	308,147,985

This is the weighted average used as the denominator in the calculation of basic earnings per share.

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.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2014	31/12/2013
earnings per share - €	0.302	0.172
diluted eps - €	0.296	0.172

PART D *Consolidated comprehensive income*

Analytical statement of consolidated comprehensive income

Items/Amounts	31/12/2014 Gross amount	Income taxes	Net amount
10. **Profit for the year**	**–**	**–**	**125,282**
Other items of comprehensive income that will not be reclassified to profit or loss			
20. **Property, equipment and investment property**	**–**	**–**	**–**
30. **Intangible assets**	**–**	**–**	**–**
40. **Defined-benefit plans**	**(17,940)**	**4,933**	**(13,007)**
50. **Non-current assets held for sale and discontinued operations**	**–**	**–**	**–**
60. **Share of valuation reserves of equity investments valued at net equity**	**251**	**(69)**	**182**
Other items of comprehensive income that may be reclassified subsequently to profit or loss			
70. **Hedges of foreign investments:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
80. **Exchange differences:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
90. **Cash-flow hedges:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
100. **Available-for-sale financial assets:**	**62,436**	**(20,644)**	**41,792**
a) changes in fair value	40,695	(16,398)	24,297
b) transfer to income statement	21,741	(4,246)	17,495
- adjustments for impairment	2	(25)	(23)
- gains/losses on disposals	21,739	(4,221)	17,518
c) other changes	–	–	–
110. **Non-current assets held for sale and discontinued operations:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
120. **Share of valuation reserves of equity investments valued at net equity:**	**2,955**	**(812)**	**2,143**
a) changes in fair value	2,955	(812)	2,143
b) transfer to income statement	–	–	–
- adjustments for impairment	–	–	–
- gains/losses on disposals	–	–	–
c) other changes	–	–	–
130. **Total other income items**	**47,702**	**(16,592)**	**31,110**
140. **Comprehensive income (item 10+130)**	**–**	**–**	**156,392**
150. **Consolidated comprehensive income pertaining to minority interests**	**–**	**–**	**(10,030)**
160. **Consolidated comprehensive income pertaining to the Parent Bank**	**–**	**–**	**146,362**

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 Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Parent Bank's website.

Introduction

The Parent Bank has the task of ensuring effective risk management through proper articulation of the roles and responsibilities of key decision-making departments, as well as the integrity and completeness of the Group's system of controls. This principle involves the centralisation of essential choices in terms of risk management, in order to ensure the harmonisation of all systems of risk assessment and control developed within the Group and to implement a risk management policy that is as integrated and consistent as possible.

The strategic guidelines for risk exposure are established by the governing bodies of the Parent Bank, evaluating the overall operations of the Group and the actual risks that it runs, based on the specific type of operations and risk profiles of each company. The decisions are supported by mechanisms for monitoring and control inherent in the evolution of the various risks assumed within the perimeter of the Group and their compatibility with respect to the pursuit of sound and prudent management.

The governing bodies of subsidiaries, according to each one's powers, are responsible for implementing the risk management policies defined by the Parent Bank in a manner that is consistent with their company's situation, ensuring the functioning of suitable internal control procedures and a constant flow of information to the Parent Bank on individual cases of significant risk.

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 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 with mortgage backing or financial collateral is long-standing practice in Switzerland: in confirmation, over 80% of loans to customers are backed by mortgages, almost entirely relating to residential property.

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.

Impaired loans have never been acquired from third parties.

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)

	Banking group					Other businesses			
Portfolio/quality	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures, impaired	Past due exposures, not impaired	Other assets	Impaired	Other assets	**Total 31/12/2014**
1. Financial assets held for trading	77	222	–	12	–	2,245,658	–	–	2,245,969
2. Available-for-sale financial assets	–	–	220	–	–	6,042,302	–	–	6,042,522
3. Held-to-maturity investments	–	–	–	–	–	148,620	–	–	148,620
4. Loans and receivables with banks	–	–	–	–	–	1,088,225	–	163	1,088,388
5. Loans and receivables with customers	614,513	993,393	85,874	375,654	1,153,966	20,788,240	–	285	24,011,925
6. Financial assets measured at fair value	–	–	–	–	–	494	–	–	494
7. Financial assets being sold	–	–	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	–	–	–	–
Total 31/12/2014	**614,590**	**993,615**	**86,094**	**375,666**	**1,153,966**	**30,313,539**	**–**	**448**	**33,537,918**
Total 31/12/2013	**460,686**	**899,472**	**42,819**	**435,862**	**1,049,469**	**28,257,281**	**–**	**147**	**31,145,736**

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 Gross exposure	Impaired assets Specific adjustments	Impaired assets Net exposure	Performing Gross exposure	Performing General portfolio adjustments	Performing Net exposure	**Total net exposure**
A. **Banking group**							
1. Financial assets held for trading	356	45	311	2,245,658	–	2,245,658	2,245,969
2. Available-for-sale financial assets	220	–	220	6,042,302	–	6,042,302	6,042,522
3. Held-to-maturity investments	–	–	–	148,620	–	148,620	148,620
4. Loans and receivables with banks	–	–	–	1,088,226	1	1,088,225	1,088,225
5. Loans and receivables with customers	3,644,290	1,574,856	2,069,434	22,087,772	145,566	21,942,206	24,011,640
6. Financial assets measured at fair value	–	–	–	494	–	494	494
7. Financial assets being sold	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	–	–
Total A	**3,644,866**	**1,574,901**	**2,069,965**	**31,613,072**	**145,567**	**31,467,505**	**33,537,470**
B. **Other consolidated companies**							
1. Financial assets held for trading	–	–	–	–	–	–	–
2. Available-for-sale financial assets	–	–	–	–	–	–	–
3. Held-to-maturity investments	–	–	–	–	–	–	–
4. Loans and receivables with banks	–	–	–	163	–	163	163
5. Loans and receivables with customers	–	–	–	285	–	285	285
6. Financial assets measured at fair value	–	–	–	–	–	–	–
7. Financial assets being sold	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	–	–
Total B	**–**	**–**	**–**	**448**	**–**	**448**	**448**
Total 31/12/2014	**3,644,866**	**1,574,901**	**2,069,965**	**31,613,520**	**145,567**	**31,467,953**	**33,537,918**
Total 31/12/2013	**3,025,342**	**1,186,501**	**1,838,841**	**29,451,513**	**144,619**	**29,306,894**	**31,145,735**

With reference to financial assets held for trading, those at fair value and hedging derivatives, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial writeoffs recorded over the years in relation to the above portfolios total € 92.788 million, reflecting the non-performing loans still held on the books.

In relation to the portfolio of «performing loans», a distinction is made below between exposures to customers «in financial difficulties» (an approximation of «forborne», a new situation about to be introduced that is discussed in section 2.4 of the notes to the separate financial statements) that are subject to renegotiation under collective agreements (e.g. the «2013 loan accord» signed between ABI and the business associations) or other renegotiations allowed by the bank, and other exposures.

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	Not past due
Forborne subject to renegotiation under collective agreements	194,514	15,940	4,726	1,256	2,852	169,740
Forborne subject to renegotiation by banks	61,397	5,985	8,817	972	0	45,623
Other receivables	21,686,291	763,206	248,804	86,865	14,543	20,572,873

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) Impaired past due exposures	–	–	–	–
e) Other assets	1,306,644	–	1	1,306,643
Total A	**1,306,644**	**–**	**1**	**1,306,643**
B. **Off-balance sheet exposures**				
a) Impaired	–	–	–	–
b) Other	167,445	–	35	167,410
Total B	**167,445**	**–**	**35**	**167,410**
Total A+B	**1,474,089**	**–**	**36**	**1,474,053**

Cash exposures include the loans and receivables with 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 (except those relating to variable-yield securities).

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	1,581,382	966,792	–	614,590
b) Watchlist loans	1,524,520	531,127	–	993,393
c) Restructured exposures	109,753	23,659	–	86,094
d) Impaired past due exposures	428,931	53,277	–	375,654
e) Other assets	30,250,759	–	145,566	30,105,193
Total A	**33,895,345**	**1,574,855**	**145,566**	**32,174,924**
B. **Off-balance sheet exposures**				
a) Impaired	121,726	13,228	–	108,498
b) Other	5,106,258	–	5,902	5,100,356
Total B	**5,227,984**	**13,228**	**5,902**	**5,208,854**
Total A+B	**39,123,329**	**1,588,083**	**151,468**	**37,383,778**

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 (except those relating to variable-yield securities and mutual funds).

A.1.7 Banking group - Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. **Opening gross exposure**	**1,179,509**	**1,305,666**	**51,162**	**488,578**
- of which: sold but not eliminated from the balance sheet	3,750	14,799	–	22,693
B. **Increases**	**615,469**	**782,406**	**99,102**	**399,238**
B.1 transfers from performing loans	206,430	436,803	51,467	367,507
B.2 transfers from other categories of impaired exposure	367,997	255,854	24,989	9,146
B.3 other increases	41,042	89,749	22,646	22,585
C. **Decreases**	**213,596**	**563,552**	**40,511**	**458,885**
C.1 transfers to performing loans (including past due exposures, not impaired)	154	42,610	1,699	97,994
C.2 write-offs	101,331	579	–	–
C.3 collections	111,002	163,237	30,053	66,444
C.4 proceeds from disposals	–	–	–	–
C.4 bis Loss from disposals	–	–	–	–
C.5 transfers to other categories of impaired exposure	622	354,601	8,759	294,004
C.6 other decreases	487	2,525	–	443
D. **Closing gross exposure**	**1,581,382**	**1,524,520**	**109,753**	**428,931**
- of which: sold but not eliminated from the balance sheet	9,965	26,108	–	20,501

A.1.8 Banking group - Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. **Total opening adjustments**	**718,822**	**406,531**	**8,344**	**52,740**
- of which: sold but not eliminated from the balance sheet	1,073	2,612	–	1,818
B. **Increases**	**393,813**	**270,117**	**21,094**	**32,877**
B.1 adjustments	289,486	240,039	10,408	31,357
B.1 bis loss from disposals	–	–	–	–
B.2 transfers from other categories of impaired exposure	104,009	29,803	10,685	1,513
B.3 other increases	318	275	1	7
C. **Decreases**	**145,843**	**145,521**	**5,779**	**32,340**
C.1 write-backs on valuation	30,144	19,008	3,819	543
C.2 write-backs due to collections	11,841	7,341	–	178
C.2 bis profit from disposals	–	–	–	–
C.3 write-offs	101,330	579	–	–
C.4 transfers to other categories of impaired exposure	1,363	111,599	1,605	31,443
C.5 other decreases	1,165	6,994	355	176
D. **Total closing adjustments**	**966,792**	**531,127**	**23,659**	**53,277**
- of which: sold but not eliminated from the balance sheet	3,126	5,339	–	2,629

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

	External rating classes							
Exposure	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	**Total 31/12/2014**
A. **Cash exposures**	**8,057,906**	**238,264**	**592,947**	**399,291**	**41,314**	**5,168**	**24,667,844**	**34,002,734**
B. **Derivatives**	**–**	**21,575**	**1,397**	**617**	**–**	**–**	**36,318**	**59,907**
B.1 Financial derivatives	–	21,575	1,397	617	–	–	36,318	59,907
B.2 Credit derivatives	–	–	–	–	–	–	–	-
C. **Guarantees given**	**1,308**	**42,693**	**165,176**	**59,186**	**31,772**	**18**	**3,691,588**	**3,991,741**
D. **Commitments to make loans**	**51,272**	**–**	**18,994**	**10,000**	**–**	**–**	**1,023,195**	**1,103,461**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**221,155**	**221,155**
Total	**8,110,486**	**302,532**	**778,514**	**469,094**	**73,086**	**5,186**	**29,640,100**	**39,378,998**

The distribution of exposures other than those in variable-yield securities 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. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	From AAA to AAL	From AH to AL	From BBBH to BBBL	From BBH to BBL	From BH to BL	CCC
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-	from CCC+ down
Fitch Ratings	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB-	From B+ to B-	from CCC+ down

A.2.2 Banking Group - Distribution of cash loans and off-balance sheet items by internal rating class

BANCA POPOLARE DI SONDRIO - CUSTOMERS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**528,542**	**108,436**	**131,894**	**445,333**	**698,837**	**436,499**	**192,621**
B. **Derivatives**	**14**	**–**	**–**	**234**	**40**	**336**	**1**
B.1 Financial derivatives	14	–	–	234	40	336	1
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**3,620**	**8**	**46**	**15,662**	**19,369**	**8,017**	**1,143**
D. **Commitments to make loans**	**316**	**1,769**	**428**	**3,036**	**2,406**	**1,751**	**1,079**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**532,492**	**110,213**	**132,368**	**464,265**	**720,652**	**446,603**	**194,844**

BANCA POPOLARE DI SONDRIO - SMALL BUSINESS Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**2,701**	**409,675**	**113,274**	**173,129**	**918,721**	**293,358**	**157,241**
B. **Derivatives**	**–**	**28**	**–**	**26**	**473**	**26**	**19**
B.1 Financial derivatives	–	28	–	26	473	26	19
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**98**	**3,682**	**3,073**	**7,300**	**75,093**	**12,485**	**4,092**
D. **Commitments to make loans**	**14**	**521**	**1,136**	**809**	**4,000**	**1,051**	**1,659**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,813**	**413,906**	**117,483**	**181,264**	**998,287**	**306,920**	**163,011**

BANCA POPOLARE DI SONDRIO - MICRO ENTERPRISES - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**26,495**	**41,965**	**75,018**	**230,652**	**831,078**	**845,008**	**687,783**
B. **Derivatives**	**–**	**–**	**71**	**4**	**1,382**	**23**	**45**
B.1 Financial derivatives	–	–	71	4	1,382	23	45
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**3,371**	**2,986**	**8,590**	**88,523**	**99,937**	**88,546**	**62,142**
D. **Commitments to make loans**	**–**	**445**	**60**	**10,233**	**45,086**	**23,852**	**20,785**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**29,866**	**45,396**	**83,739**	**329,412**	**977,483**	**957,429**	**770,755**

BANCA POPOLARE DI SONDRIO - SMEs - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**9,125**	**12,343**	**34,237**	**146,332**	**803,661**	**866,518**	**523,427**
B. **Derivatives**	**–**	**–**	**–**	**536**	**571**	**532**	**253**
B.1 Financial derivatives	–	–	–	536	571	532	253
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**10,304**	**6,606**	**12,169**	**70,436**	**199,250**	**144,939**	**62,571**
D. **Commitments to make loans**	–	–	800	2,122	11,786	32,583	15,885
E. **Other**	–	–	–	–	–	–	–
Total	**19,429**	**18,949**	**47,206**	**219,426**	**1,015,268**	**1,044,572**	**602,136**

08	09	10	11	12	13	Insolvent	Total 31/12/2014
110,990	70,655	68,671	34,179	22,752	156,441	321,358	3,327,208
895	–	–	–	–	–	93	1,613
895	–	–	–	–	–	93	1,613
–	–	–	–	–	–	–	–
915	389	310	158	200	287	2,460	52,584
1,358	136	143	9	16	31	241	12,719
–	–	–	–	–	–	–	–
114,158	71,180	69,124	34,346	22,968	156,759	324,152	3,394,124

08	09	10	11	12	13	Insolvent	Total 31/12/2014
142,408	77,020	40,256	35,744	30,085	79,722	252,104	2,725,438
–	–	–	17	–	–	10	599
–	–	–	17	–	–	10	599
–	–	–	–	–	–	–	–
3,390	1,592	984	843	902	1,839	3,698	119,071
884	669	128	146	82	373	1,721	13,193
–	–	–	–	–	–	–	–
146,682	79,281	41,368	36,750	31,069	81,934	257,533	2,858,301

08	09	10	11	12	13	Insolvent	Total 31/12/2014
531,865	159,612	98,564	39,916	74,226	104,464	899,213	4,645,859
–	–	–	–	–	–	47	1,572
–	–	–	–	–	–	47	1,572
–	–	–	–	–	–	–	–
21,806	10,073	2,381	802	8,835	4,158	29,259	431,409
9,064	1,109	1,760	403	1,875	1,826	3,822	120,320
–	–	–	–	–	–	–	–
562,735	170,794	102,705	41,121	84,936	110,448	932,341	5,199,160

08	09	10	11	12	13	Insolvent	Total 31/12/2014
346,983	279,082	141,879	67,799	45,379	63,065	413,748	3,753,578
111	51	22	–	16	–	84	2,176
111	51	22	–	16	–	84	2,176
–	–	–	–	–	–	–	–
26,087	28,225	17,159	4,383	1,245	4,057	18,029	605,460
681	5,098	16	985	507	1,500	3,084	75,047
–	–	–	–	–	–	–	–
373,862	312,456	159,076	73,167	47,147	68,622	434,945	4,436,261

BANCA POPOLARE DI SONDRIO - LARGE ENTERPRISES AND PUBLIC ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. **Cash exposures**	**29,351**	**50,516**	**101,678**	**449,278**	**476,356**	**175,983**	**93,789**
B. **Derivatives**	**38**	**2,751**	**41**	**133**	**10,578**	**349**	**171**
B.1 Financial derivatives	38	2,751	41	133	10,578	349	171
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**53,288**	**243,172**	**90,775**	**478,038**	**178,465**	**501,632**	**75,363**
D. **Commitments to make loans**	**677**	**1,050**	**751**	**35,894**	**25,908**	**22,658**	**10,395**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**83,354**	**297,489**	**193,245**	**963,343**	**691,307**	**700,622**	**179,718**

BANCA POPOLARE DI SONDRIO BANKS - Exposure	01	02	03	04
A. **Cash exposures**	**–**	**–**	**111,589**	**12,972**
B. **Derivatives**	**–**	**–**	**157**	**11**
B.1 Financial derivatives	–	–	157	11
B.2 Credit derivatives	–	–	–	–
C. **Guarantees given**	**–**	**–**	**28,814**	**325**
D. **Commitments to make loans**	**–**	**–**	**4**	**618**
E. **Other**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**140,564**	**13,926**

BANCA POPOLARE DI SONDRIO (SUISSE) - CUSTOMERS - Exposure	R1	R2	R3	R3G
A. **Cash exposures**	**–**	**–**	**407,948**	**442,224**
Total	**–**	**–**	**407,948**	**442,224**

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 first category identifies customers with the lowest risk, while the categories from R6 to R8 indicate various levels of insolvency, depending on how serious it is.

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 31/12/2014
84,197	**54,486**	**9,477**	**932**	**4,269**	**47,896**	**100,309**	**1,678,517**
453	**–**	**–**	**–**	**–**	**–**	**–**	**14,514**
453	–	–	–	–	–	–	14,514
–	–	–	–	–	–	–	–
29,509	**32,046**	**1,573**	**1,398**	**9,492**	**25,059**	**38,962**	**1,758,772**
1,717	**175**	**63**	**50**	**–**	**–**	**395**	**99,733**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
115,876	**86,707**	**11,113**	**2,380**	**13,761**	**72,955**	**139,666**	**3,551,536**

Internal rating classes						
05	06	07	08	09	Insolvent	Total 31/12/2014
4,491	**70,218**	**16,779**	**12,338**	**–**	**–**	**228,387**
20	**–**	**–**	**–**	**2**	**–**	**190**
20	–	–	–	2	–	190
–	–	–	–	–	–	–
1,218	**305**	**2,762**	**–**	**337**	**–**	**33,761**
–	**–**	**668**	**–**	**–**	**–**	**1,290**
–	**–**	**–**	**–**	**–**	**–**	**–**
5,729	**70,523**	**20,209**	**12,338**	**339**	**–**	**263,628**

Internal rating classes						
R4	R4G	R5	R6	R7	R8	Total 31/12/2014
1,723,579	**262,150**	**62,425**	**25,565**	**–**	**2,572**	**2,927,263**
1,723,579	**262,150**	**62,425**	**25,565**	**–**	**2,572**	**2,927,263**

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net 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. This is especially true for the guarantees represented by properties, for which the value of the assets pledged can significantly exceed the balance of the loan still outstanding, as can the value of the mortgage originally registered.

A.3.1 Banking group - Guaranteed cash exposure to banks

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**78,632**	**–**	**–**	**1,327**	**–**
1.1 fully guaranteed	56,354	–	–	1,133	–
- of which: impaired	–	–	–	–	–
1.2 partially guaranteed	22,278	–	–	194	–
- of which: impaired	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**12,358**	**–**	**–**	**–**	**–**
2.1 fully guaranteed	12,139	–	–	–	–
- of which: impaired	–	–	–	–	–
2.2 partially guaranteed	219	–	–	–	–
- of which: impaired	–	–	–	–	–

A.3.2 Banking group - Guaranteed cash exposure to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**16,322,126**	**32,435,290**	**–**	**1,148,033**	**363,449**
1.1. fully guaranteed	15,517,582	32,426,512	–	1,025,989	343,372
- of which: impaired	1,632,107	4,936,771	–	19,818	29,419
1.2. partially guaranteed	804,544	8,778	–	122,044	20,077
- of which: impaired	117,956	5,427	–	14,138	1,831
2. **Guaranteed off-balance sheet exposures:**	**1,733,040**	**632,163**	**–**	**82,479**	**71,077**
2.1. fully guaranteed	1,586,431	632,163	–	70,995	64,028
- of which: impaired	31,598	16,182	–	805	1,292
2.2. partially guaranteed	146,609	–	–	11,484	7,049
- of which: impaired	3,696	–	–	895	31

Personal guarantees (2)										
Credit derivatives										
	Other derivatives				Guarantees given					
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2014**
–	**–**	**–**	**–**	**–**	**5,553**	**–**	**81,459**	**–**	**88,339**
–	–	–	–	–	5,553	–	59,999	–	66,685
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	21,460	–	21,654
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**11,377**	**–**	**944**	**–**	**12,321**
–	–	–	–	–	11,328	–	811	–	12,139
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	49	–	133	–	182
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives									
	Other derivatives				Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2014**
–	**–**	**–**	**–**	**–**	**16,244**	**28,178**	**149,078**	**9,522,103**	**43,662,375**
–	–	–	–	–	1,979	25,384	133,902	9,107,655	43,064,793
–	–	–	–	–	64	4,276	2,012	1,991,813	6,984,173
–	–	–	–	–	14,265	2,794	15,176	414,448	597,582
–	–	–	–	–	552	870	396	106,381	129,595
–	**–**	**–**	**–**	**–**	**47,920**	**7,681**	**207,400**	**1,492,399**	**2,541,119**
–	–	–	–	–	1,798	7,438	204,601	1,461,580	2,442,603
–	–	–	–	–	307	–	–	67,062	85,648
–	–	–	–	–	46,122	243	2,799	30,819	98,516
–	–	–	–	–	103	243	–	1,347	2,619

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.3. and A.1.6., exposures to counterpart risk relating to loans of securities or goods, granted or received.

B.1 Banking group - Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	Government			Other public entities		
Exposures/Counterparties	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. **Cash exposures**						
A.1 Non-performing loans	76	–	–	–	276	–
A.2 Watchlist loans	9,046	3,654	–	28	184	–
A.3 Restructured exposures	–	–	–	–	–	–
A.4 Past due exposures	–	–	–	141	14	–
A.5 Other exposures	8,013,356	–	2	145,155	–	39
Total A	**8,022,478**	**3,654**	**2**	**145,324**	**474**	**39**
B. **Off-balance sheet exposures**						
B.1 Non-performing loans	–	–	–	–	–	–
B.2 Watchlist loans	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–
B.4 Other exposures	105,482	–	–	30,376	–	–
Total B	**105,482**	**–**	**–**	**30,376**	**–**	**–**
Total (A+B) 31/12/2014	**8,127,960**	**3,654**	**2**	**175,700**	**474**	**39**
Total (A+B) 31/12/2013	**6,109,820**	**2,904**	**–**	**126,667**	**472**	**37**

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
7,347	22,135	–	–	–	–	496,678	832,420	–	110,489	111,961	–
24,283	18,580	–	–	–	–	771,727	445,793	–	188,309	62,916	–
–	–	–	–	–	–	86,094	23,659	–	–	–	–
1,802	286	–	–	–	–	276,200	39,360	–	97,511	13,617	–
2,552,348	–	18,365	23,266	–	10	13,429,525	–	93,612	5,941,543	–	33,538
2,585,780	**41,001**	**18,365**	**23,266**	**–**	**10**	**15,060,224**	**1,341,232**	**93,612**	**6,337,852**	**188,494**	**33,538**
–	53	–	–	17	–	26,388	9,142	–	212	277	–
1,174	2	–	–	–	–	27,440	3,527	–	1,488	145	–
27	–	–	–	–	–	43,923	54	–	7,846	11	–
486,395	–	131	3,772	–	6	4,120,460	–	5,373	353,778	–	392
487,596	**55**	**131**	**3,772**	**17**	**6**	**4,218,211**	**12,723**	**5,373**	**363,324**	**433**	**392**
3,073,376	**41,056**	**18,496**	**27,038**	**17**	**16**	**19,278,435**	**1,353,955**	**98,985**	**6,701,176**	**188,927**	**33,930**
2,111,533	**34,291**	**9,275**	**35,696**	**17**	**39**	**20,297,327**	**1,026,566**	**106,442**	**6,553,207**	**136,978**	**34,703**

B.2 Banking group - Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	596,645	944,981	17,860	21,694
A.2 Watchlist loans	956,871	511,185	35,495	17,542
A.3 Restructured exposures	86,094	23,659	–	–
A.4 Past due exposures	372,865	52,873	2,673	391
A.5 Other exposures	26,275,457	133,058	3,272,904	12,204
Total A	**28,287,932**	**1,665,756**	**3,328,932**	**51,831**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	26,600	9,489	–	–
B.2 Watchlist loans	30,072	3,674	30	–
B.3 Other impaired assets	51,796	65	–	–
B.4 Other exposures	4,461,407	5,015	636,872	886
Total B	**4,569,875**	**18,243**	**636,902**	**886**
Total A+B 31/12/2014	**32,857,807**	**1,683,999**	**3,965,834**	**52,717**
Total A+B 31/12/2013	**31,455,469**	**1,300,735**	**3,681,173**	**50,695**

B.3 Banking group - Territorial distribution of the cash and off-balance sheet exposures to banks (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	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	952,331	1	234,239	–
Total A	**952,331**	**1**	**234,239**	**–**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	–	–	–	–
B.2 Watchlist loans	–	–	–	–
B.3 Other impaired assets	–	–	–	–
B.4 Other exposures	95,209	35	61,750	–
Total B	**95,209**	**35**	**61,750**	**–**
Total A+B 31/12/2014	**1,047,540**	**36**	**295,989**	**–**
Total A+B 31/12/2013	**936,161**	**1**	**232,540**	**–**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
85	14	–	80	–	23
–	–	1,027	2,400	–	–
–	–	–	–	–	–
86	9	13	2	17	2
507,080	159	47,432	129	2,320	16
507,251	**182**	**48,472**	**2,611**	**2,337**	**41**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1,463	1	323	–	198	–
1,463	**1**	**323**	**–**	**198**	**–**
508,714	**183**	**48,795**	**2,611**	**2,535**	**41**
75,562	**154**	**20,029**	**127**	**2,024**	**14**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
67,915	–	33,423	–	18,735	–
67,915	**–**	**33,423**	**–**	**18,735**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
506	–	7,730	–	2,215	–
506	**–**	**7,730**	**–**	**2,215**	**–**
68,421	**–**	**41,153**	**–**	**20,950**	**–**
33,851	**–**	**35,642**	**–**	**7,127**	**–**

B.4 Significant risks

	31/12/2014	31/12/2013
Amount (book value - nominal exposure)	14,196,420	9,659,812
Amount (weighted value - risk position)	3,427,061	2,580,531
Number	13	10

The exposure limit of 10% of own funds – 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

QUANTITATIVE INFORMATION

C.1 Exposure deriving from securitisation transactions broken down by the quality of underlying assets

	Cash exposure					
	Senior		Mezzanine		Junior	
Underlying asset quality/Exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. **with own underlying assets:**						
a) Impaired	–	–	–	–	–	–
b) Other	–	–	–	–	–	–
B. **with underlying assets of third parties**	**171,572**	**166,219**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–
b) Other	171,572	166,219	–	–	–	–

C.3 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	Cash exposure					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgage loans	80,611	4,754	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045		–	–	–	–	–
Lease contracts	85,608	599	–	–	–	–

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

C.4 Banking group -Exposure deriving from securitisation transactions broken down by portfolio and type

Exposure/portfolio	Financial assets held for trading	Financial assets fair value option
1. **Cash exposures**	**–**	**–**
- Senior	–	–
- Mezzanine	–	–
- Junior	–	–
2. **Off-balance sheet exposures**	**–**	**–**
- Senior	–	–
- Mezzanine	–	–
- Junior	–	–

C.6 Banking group – Non-consolidated special purpose vehicle for securitisation

Names	Registered offices of the company	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	no	116,098
Bnt Portfolio Spv Srl	Conegliano (TV)	no	356,697

C.7 Banking group – Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv Srl and BNT Porfolio Spv Srl have not been consolidated as there are not the requirements of IFRS 10.

D. Information about structured entities (other than securitisation vehicles)

D.1 Consolidated structured entities

The scope of consolidation has changed since 31 December 2013 following the entry into force of IFRS 10, which has revised the concept. Control exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control may therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies. Since the above conditions apply, the recently-formed Fondo Immobiliare Centro delle Alpi Real Estate is now consolidated on a line-by-line basis.

Available-for-sale financial assets	Financial assets held to maturity	Loans	**31/12/2014**	**31/12/2013**
–	**–**	**166,219**	**166,219**	**–**
–	–	166,219	166,219	–
–	–	–	–	–
–	–	–	–	–
–	**–**	**–**	**–**	**–**
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	8,001	86,210	–	21,863
16,798	7,694	379,054	–	–

E. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

E.1 Banking group – Financial assets sold and not eliminated from the balance sheet: book value and full value

	Financial assets held for trading			Financial assets carried at fair value			Financial assets available for sale		
Technical forms/Portfolio	A	B	C	A	B	C	A	B	C
A. **Cash assets**	**95,634**	**–**	**–**	**–**	**–**	**–**	**288,539**	**–**	**–**
1. Fixed-yield securities	95,634	–	–	–	–	–	288,539	–	–
2. Variable-yield securities	–	–	–	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total 31/12/2014	**95,634**	**–**	**–**	**–**	**–**	**–**	**288,539**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–
Total 31/12/2013	**27,120**	**–**	**–**	**–**	**–**	**–**	**184,074**	**–**	**–**
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.

E.2 Banking group - Financial liabilities associated with assets sold and not eliminated from the balance sheet: book value

Liabilities/Portfolio of assets	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Financial assets held to maturity	Loans and receivables with banks	Loans and receivables with customers	**Total 31/12/2014**
1. **Due to customers**	**95,621**	**–**	**288,101**	**–**	**–**	**–**	**383,722**
a) for assets recognised in full	95,621	–	288,101	–	–	–	383,722
b) for assets recognised in part	–	–	–	–	–	–	–
2. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
3. **Securities issued**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
Total 31/12/2014	**95,621**	**–**	**288,101**	**–**	**–**	**–**	**383,722**
Total 31/12/2013	**27,120**	**–**	**183,848**	**–**	**–**	**–**	**210,968**

Financial assets held to maturity			Loans and receivables with banks			Loans and receivables with customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2014	31/12/2013
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**384,173**	**211,194**
–	–	–	–	–	–	–	–	–	384,173	211,194
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**384,173**	**–**
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**211,194**
–	–	–	–	–	–	–	–	–	–	–

E.3 Banking group - Disposals with recourse limited solely to the assets sold: fair value

Technical forms/Portfolio	Financial assets held for trading		Financial assets carried at fair value		Financial assets available for sale	
	A	B	A	B	A	B
A. **Cash assets**	**95,634**	**–**	**–**	**–**	**288,539**	**–**
1. Fixed-yield securities	95,634	–	–	–	288,539	–
2. Variable-yield securities	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**95,634**	**–**	**–**	**–**	**288,539**	**–**
C. **Associated liabilities**	**95,621**	**–**	**–**	**–**	**288,101**	**–**
1. Due to customers	95,621	–	–	–	288,101	–
2. Due to banks	–	–	–	–	–	–
3. Securities issued	–	–	–	–	–	–
Total liabilities	**95,621**	**–**	**–**	**–**	**288,101**	**–**
Net value 31/12/2014	**13**	**–**	**–**	**–**	**438**	**–**
Net value 31/12/2013	**–**	**–**	**–**	**–**	**226**	**–**

Key:

A = financial assets sold and recognised in full
B = financial assets sold and recognised in part

E.4. Banking group – covered bond operations

On 6 November 2013, the Board of Directors of the Parent Bank authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Bank.

On 30 May, pursuant and consequent to the combined provisions of arts. 1 and 4-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

The principal strategic objectives for this issue including equipping the Parent Bank with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- planning in good time the replacement of amounts received from the ECB via «LTRO - Long-Term Refinancing Operations»;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

Financial assets held to maturity (fair value)		Loans and receivables with banks (fair value)		Loans and receivables with customers (fair value)		Total	
A	B	A	B	A	B	31/12/2014	31/12/2013
–	**–**	**–**	**–**	**–**	**–**	**384,173**	**211,194**
–	–	–	–	–	–	384,173	211,194
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**384,173**	**211,194**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	
–	**–**	**–**	**–**	**–**	**–**	**383,722**	**210,968**
–	**–**	**–**	**–**	**–**	**–**	**451**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**226**

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, Mazars Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operation is proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, POPSO Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 1
ISIN Code:	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	fixed
Parameter	1,375%
Annual	Coupon
Applicable law	Italian

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., Popso Covered Bond s.r.l. 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 Risk Control office monitors the situation during the month. Every month, this Office presents documentation on the status of the trading portfolio to the Risks Committee, while the General Management of the subsidiary presents the same documentation at the periodic meetings of the local Board of Directors.

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 variable-yield securities, mutual funds and 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 Bank 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; 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 «available-for-sale financial assets», 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.

The internal policies and procedures for stress testing include, with reference to the standard methodology used for ICAAP (Internal Capital Adequacy Assessment Process) purposes, the tests described below.

General risk on fixed-yield securities: change in market rates

With regard to the risk position in fixed-yield securities, consideration is given to greater adverse changes in interest rates than those implicit in the weightings of the regulatory algorithm.

Specific risk on fixed-yield securities: downgrading of issuers

The effect on internal capital of a downgrade in the rating of counterpart issuers is estimated by applying the next worse weighting factor.

With regard to the general risk on fixed-yield securities, different intensities of shock were applied to the various maturity bands: the increase in rates by 200 basis points is in line with that suggested in the regulations for stress tests carried out using the simplified model for the interest-rate risk on the bank book.

Further stress tests applied the same intensity of shock (100 basis points) to all maturity/repricing bands, or acted separately on a single maturity band, leaving other bands subject to the normal weighting. These analyses indicate over time the sensitivity of the portfolio to changes affecting different maturities along the rate curve.

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**	**21**	**1,576,556**	**464,059**	**387,004**	**265,715**	**26,486**	**5,005**	**–**
1.1 Fixed-yield securities	–	989,072	464,059	387,004	265,715	26,486	5,005	–
- with early repayment option	–	38,062	–	–	91	–	–	–
- other	–	951,010	464,059	387,004	265,624	26,486	5,005	–
1.2 Other assets	21	587,484	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**95,620**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	95,620	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**4,584,956**	**785,181**	**294,062**	**1,131,421**	**187,698**	**15,174**	**–**
3.1 With underlying security	–	53,286	51,948	–	–	–	–	–
- Options	–	2,014	658	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	2,014	658	–	–	–	–	–
- Other	–	51,272	51,290	–	–	–	–	–
+ Long positions	–	–	51,290	–	–	–	–	–
+ Short positions	–	51,272	–	–	–	–	–	–
3.2 Without underlying security	–	4,531,670	733,233	294,062	1,131,421	187,698	15,174	–
- Options	–	20,316	14,220	56,976	202,881	179,332	9,798	–
+ Long positions	–	10,163	7,116	28,509	101,446	89,666	4,899	–
+ Short positions	–	10,153	7,104	28,467	101,435	89,666	4,899	–
- Other	–	4,511,354	719,013	237,086	928,540	8,366	5,376	–
+ Long positions	–	2,747,159	357,913	128,058	464,238	4,183	2,688	–
+ Short positions	–	1,764,195	361,100	109,028	464,302	4,183	2,688	–

Currency: US DOLLAR

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**	**–**	**14,039**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	10	–	14,039	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	10	–	14,039	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,457,853**	**126,164**	**110,481**	**41,021**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,457,853	126,164	110,481	41,021	–	–	–
- Options	–	16,117	5,418	27,979	6,798	–	–	–
+ Long positions	–	8,058	2,709	13,993	3,399	–	–	–
+ Short positions	–	8,059	2,709	13,986	3,399	–	–	–
- Other	–	1,441,736	120,746	82,502	34,223	–	–	–
+ Long positions	–	797,466	59,355	32,818	17,147	–	–	–
+ Short positions	–	644,270	61,391	49,684	17,076	–	–	–

Currency: SWISS FRANC

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**	**–**	**643**	**–**	**832**	**15,212**	**451**	**–**	**–**
1.1 Fixed-yield securities	–	643	–	832	15,212	451	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	643	–	832	15,212	451	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,432,818**	**72,238**	**65,447**	**501**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,432,818	72,238	65,447	501	–	–	–
- Options	–	7,948	634	–	–	–	–	–
+ Long positions	–	3,974	317	–	–	–	–	–
+ Short positions	–	3,974	317	–	–	–	–	–
- Other	–	1,424,870	71,604	65,447	501	–	–	–
+ Long positions	–	137,997	36,942	31,354	251	–	–	–
+ Short positions	–	1,286,873	34,662	34,093	250	–	–	–

Currency: JAPANESE 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**	**–**	**92,790**	**12,347**	**5,508**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	92,790	12,347	5,508	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	92,790	12,347	5,508	–	–	–	–
+ Long positions	–	45,852	6,363	2,754	–	–	–	–
+ Short positions	–	46,938	5,984	2,754	–	–	–	–

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**	**–**	**376,899**	**41,116**	**94,908**	**20,434**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	376,899	41,116	94,908	20,434	–	–	–
- Options	–	1,594	–	–	–	–	–	–
+ Long positions	–	797	–	–	–	–	–	–
+ Short positions	–	797	–	–	–	–	–	–
- Other	–	375,305	41,116	94,908	20,434	–	–	–
+ Long positions	–	196,601	21,784	47,152	10,217	–	–	–
+ Short positions	–	178,704	19,332	47,756	10,217	–	–	–

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 COUNTRIES	
A. **Equities**							
- long positions	41,135	–	469	–	4,085	9,021	2,132
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							
- long positions	2,541	–	–	–	–	130	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	516	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

QUANTITATIVE INFORMATION

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 of the Parent Bank	781.8
Fixed-yield securities BPS Suisse	43.1
Total interest rate risk	**776.0**
Variable-yield securities and mutual funds Parent Bank	3,467.2
Variable-yield securities and mutual funds BPS Suisse	20.8
Total Price risk	**3,486.0**
Total Interest rate risk and price risk	**4,052.3**

1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate 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.

The principal source of interest rate risk for the subsidiary Banca Popolare di Sondrio (SUISSE) SA derives from fixed-rate lending (mortgage loans).

The General Management of the subsidiary is assisted by the 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 and from the Asset & Liability Management Committee.

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 Planning and Control Department and by the subsidiary itself.

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., Popso Covered Bond s.r.l. and Sinergia Seconda s.r.l.; in addition, this includes the variable-yield security held by the subsidiary and classified as «available-for-sale financial assets» 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 four unlisted securities were measured at consolidated book value in the VaR calculation. The price risk on foreign currency mutual funds also includes exchange risk.

The stress tests used as part of the strategies to govern the interest-rate risk (but not the price risk) on the bank book include, with reference to the standard methodology used for ICAAP *(Internal Capital Adequacy Assessment Process)* purposes, those described below.

Parallel shift in rates by more than that indicated in the prudential regulations

With regard to the risk position, consideration is given to parallel adverse interest-rate shifts by more than those envisaged in the regulatory model proposed by the Supervisory Authorities. In particular, the impact of shift of 300 basis points in assessed.

Non-parallel change in rates

With regard to the risk position, consideration is given to different adverse changes in interest rates for each currency and for each maturity band. Shifts of +200 basis points are considered when the net position of the Group for the individual currency and maturity band is positive (excess of interest-earning assets over interest-paying liabilities), while the shifts of –200 basis points are considered in the case of net liabilities.

With specific regard to the «Non-parallel change in rates», the size of the additional capital requirement derives from the inability to net the weighted net positions of the different maturity bands, while such netting is implicit in the regulatory model adopted.

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: SWISS FRANC

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**	**–**	**696,690**	**600,301**	**49,401**	**702,013**	**244,844**	**2,994**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	696,690	600,301	49,401	702,013	244,844	2,994	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	696,690	600,301	49,401	702,013	244,844	2,994	–
+ Long positions	–	610,196	537,925	–	–	–	–	–
+ Short positions	–	86,494	62,376	49,401	702,013	244,844	2,994	–
4. **Other off-balance sheet transactions**	**8,032**	**7,942**	**90**	**–**	**–**	**–**	**–**	**–**
+ Long positions	7,651	291	90	–	–	–	–	–
+ Short positions	381	7,651	–	–	–	–	–	–

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	-6.488	2.313	0.514
average	-4.006	1.743	0.131
maximum	-6.488	2.313	0.514
minimum	-1.887	1.235	0.066

Effect on equity of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-30.100	8.002	1.351
average	-23.933	6.667	0.310
maximum	-30.100	8.002	1.351
minimum	-16.346	5.511	-0.001

Price risk

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank (excluding the equity investments Suisse, Factorit, Covered and Sinergia)	10,774.9
BPS Suisse	6.8
Sinergia Seconda	244.3
Total	**11,015.3**

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. and Popso Covered Bond s.r.l. are not exposed to exchange rate risk, as they have no assets or 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 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.

The Bank does not envisage the use of stress tests as part of the strategies to govern exchange-rate risk.

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

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**1,405,878**	**31,344**	**28,934**	**3,415,521**	**4,483**	**14,424**
A.1 Fixed-yield securities	466,231	–	–	17,139	–	–
A.2 Equities	256,603	469	–	5,488	–	–
A.3 Loans to banks	202,836	29,617	21,248	15,902	4,470	13,880
A.4 Loans to customers	480,208	1,258	7,686	3,376,992	13	544
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**3,875**	**1,201**	**197**	**179,102**	**130**	**986**
C. **Financial liabilities**	**835,009**	**35,794**	**27,090**	**2,140,927**	**7,535**	**26,079**
C.1 Due to banks	326,111	3,096	7,138	177,394	1,049	2,299
C.2 Due to customers	508,898	32,698	19,952	1,838,444	6,486	23,780
C.3 Fixed-yield securities	–	–	–	125,089	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**6,119**	**723**	**–**	**166,636**	**34**	**537**
E. **Financial derivatives**	**1,735,520**	**163,981**	**110,647**	**1,571,004**	**3,572**	**365,805**
- Options	56,311	–	–	8,582	–	1,594
+ Long positions	28,159	–	–	4,291	–	797
+ Short positions	28,152	–	–	4,291	–	797
- Other	1,679,209	163,981	110,647	1,562,422	3,572	364,211
+ Long positions	906,787	84,456	54,970	206,543	3,287	188,012
+ Short positions	772,422	79,525	55,677	1,355,879	285	176,199
Total assets	**2,344,699**	**117,001**	**84,101**	**3,805,457**	**7,900**	**204,219**
Total liabilities	**1,641,702**	**116,042**	**82,767**	**3,667,733**	**7,854**	**203,612**
Net balance (+/-)	**(702,997)**	**(959)**	**(1,334)**	**(137,724)**	**(46)**	**(607)**

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)	4,235.6
BPS Suisse (net of eliminations)	960.1
Factorit (net of eliminations)	557.8
Total	**5,731.0**
Details of the principal currencies	
US Dollars	5,839.6
Sterling	8.6
Japanese Yen	18.5
Swiss Francs	278.4
Canadian Dollars	0.7
Other currencies	5.7
Total	**5,731.0**

1.2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

	Total 31/12/2014		**Total 31/12/2013**	
Underlying assets /Type of derivative	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**1,601,817**	**–**	**638,851**	**–**
a) Options	24,964	–	46,023	–
b) Swaps	1,576,853	–	592,828	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**11**	**62,842**	**–**	**67,865**
a) Options	11	62,842	–	67,865
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**3,438,624**	**–**	**3,262,418**	**–**
a) Options	130,823	–	95,774	–
b) Swaps	–	–	–	–
c) Forwards	3,307,801	–	3,166,644	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**9,087**	**–**	**14,003**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**5,049,539**	**62,842**	**3,915,272**	**67,865**
Averages	**4,482,405**	**65,353**	**4,176,231**	**64,923**

A.2 Bank book: notional amounts at period end and averages

A.2.1 For hedging

Underlying assets /Type of derivative	Total 31/12/2014		Total 31/12/2013	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**1,148,120**	**–**	**1,304,049**	**–**
a) Options	–	–	–	–
b) Swaps	1,148,120	–	1,304,049	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**1,148,120**	**–**	**1,304,049**	**–**
Averages	**1,226,085**	**–**	**1,258,220**	**–**

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

Portfolio/Type of derivatives	POSITIVE FAIR VALUE			
	Total 31/12/2014		Total 31/12/2013	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**59,631**	**277**	**36,810**	**877**
a) Options	2,311	277	1,761	877
b) Interest rate swaps	22,336	–	13,604	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forward	34,840	–	21,003	–
f) Futures	–	–	–	–
g) Other	144	–	442	–
B. **Bank book - for hedging purposes**	**–**	**–**	**2.923**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	–	–	2.923	–
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	**59,631**	**277**	**39,733**	**877**

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

	NEGATIVE FAIR VALUE			
	Total 31/12/2014		**Total 31/12/2013**	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**56,136**	**–**	**36,520**	**29**
a) Options	2,215	–	1,702	29
b) Interest rate swap	22,119	–	12,249	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	31,682	–	22,151	–
f) Futures	–	–	–	–
g) Other	120	–	418	–
B. **Bank book - for hedging purposes**	**45,562**	**–**	**27,580**	**–**
a) Options	–	–	–	–
b) Interest rate swap	45,562	–	27,580	–
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	**101.698**	**–**	**64.100**	**29**

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	–	–	1,375,909	12,041	–	202,447	11,420
- positive fair value	–	–	6,790	69	–	15,131	455
- negative fair value	–	–	22,168	1	–	54	–
- future exposure	–	–	4,438	1	–	221	24
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	11	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	1	–	–	–
3. **Currency and gold**							
- notional value	12,355	–	2,250,641	103,097	508	677,650	394,373
- positive fair value	393	–	23,279	4,200	8	7,225	1,938
- negative fair value	–	–	16,685	191	13	13,168	3,736
- future exposure	124	–	23,373	1,440	5	7,354	3,953
4. **Other assets**							
- notional value	–	–	4,872	–	–	4,216	–
- positive fair value	–	–	102	–	–	42	–
- negative fair value	–	–	67	–	–	53	–
- future exposure	–	–	498	–	–	432	–

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 companies	Insurance companies	Non-financial companies	Other parties
1. **Fixed-yield securities and interest rates**							
- notional value	–	–	1,148,120	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	45,562	–	–	–	–
- future exposure	–	–	7,228	–	–	–	–
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**	**3,523,960**	**1,382,816**	**142,763**	**5,049,539**
A.1 Financial derivatives on fixed-yield securities and interest rates	146,175	1,312,890	142,752	1,601,817
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	11	11
A.3 Financial derivatives on exchange rates and gold	3,369,747	68,877	–	3,438,624
A.4 Financial derivatives on other instruments	8,038	1,049	–	9,087
B. **Bank book**	**198,270**	**702,013**	**247,837**	**1,148,120**
B.1 Financial derivatives on fixed-yield securities and interest rates	198,270	702,013	247,837	1,148,120
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 31/12/2014	**3,722,230**	**2,084,829**	**390,600**	**6,197,659**
Total 31/12/2013	**3,573,162**	**1,177,795**	**468,364**	**5,219,321**

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 liquidity objectives rather than profitability, always taking a prudent approach.

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 monitors this type of risk at consolidated level, on a daily basis in the short term as well as from a structural point of view in the long-term.

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	**6,392,742**	**604,454**	**823,159**	**1,487,487**	**1,490,333**	**915,489**	**1,987,943**	**9,269,493**	**6,280,607**	**267,866**
A.1 Government securities	1,310	–	101,433	69,992	184,191	72,642	1,077,122	4,355,465	1,663,000	66
A.2 Other fixed-yield securities	4,597	–	3,991	1,443	13,712	4,597	35,226	199,546	299,020	1
A.3 Mutual funds	260,472	–	–	–	–	–	–	–	–	–
A.4 Loans	6,126,363	604,454	717,735	1,416,052	1,292,430	838,250	875,595	4,714,482	4,318,587	267,799
- Banks	161,467	12,628	4,444	203,273	54,611	90,625	6,089	36	–	267,799
- Customers	5,964,896	591,826	713,291	1,212,779	1,237,819	747,625	869,506	4,714,446	4,318,587	–
Cash liabilities	**21,411,918**	**516,410**	**141,240**	**277,472**	**1,085,135**	**897,487**	**776,219**	**3,460,652**	**457,263**	**–**
B.1 Deposits and current accounts	21,279,084	147,838	138,427	267,472	850,869	721,604	459,300	93,539	–	–
- Banks	125,003	97,757	51,290	57,036	199,039	3,482	–	–	–	–
- Customers	21,154,081	50,081	87,137	210,436	651,830	718,122	459,300	93,539	–	–
B.2 Fixed-yield securities	79,087	688	280	3,208	213,946	170,609	281,563	2,168,127	400,443	–
B.3 Other liabilities	53,747	367,884	2,533	6,792	20,320	5,274	35,356	1,198,986	56,820	–
Off-balance sheet transactions	**608,712**	**445,699**	**491,432**	**1,089,403**	**1,113,857**	**329,420**	**326,512**	**196,189**	**77,091**	**–**
C.1 Financial derivatives with exchange of capital	–	441,172	477,328	877,139	1,055,816	270,221	239,689	57,391	–	–
- Long positions	–	248,665	348,722	642,922	650,263	158,869	129,380	28,669	–	–
- Short positions	–	192,507	128,606	234,217	405,553	111,352	110,309	28,722	–	–
C.2 Financial derivatives without exchange of capital	44,950	–	–	–	–	–	–	–	–	–
- Long positions	22,607	–	–	–	–	–	–	–	–	–
- Short positions	22,343	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	563,015	4,457	14,104	212,264	57,864	58,069	85,510	135,529	75,901	–
- Long positions	36	999	–	182,811	1,408	18,525	78,681	135,022	75,901	–
- Short positions	562,979	3,458	14,104	29,453	56,456	39,544	6,829	507	–	–
C.5 Financial guarantees issued	747	70	–	–	177	1,130	1,313	3,269	1,190	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

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 loans and receivables with 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 Group 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: US DOLLAR

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	**425,476**	**39,091**	**91,013**	**152,171**	**181,569**	**23,125**	**17,936**	**476,231**	**8,158**	**10**
A.1 Government securities	–	–	–	–	309	669	978	461,264	–	10
A.2 Other fixed-yield securities	–	–	–	–	–	–	–	5,785	–	–
A.3 Mutual funds	257,938	–	–	–	–	–	–	–	–	–
A.4 Loans	167,538	39,091	91,013	152,171	181,260	22,456	16,958	9,182	8,158	–
- Banks	157,153	14,822	8,509	10,548	32,310	15,661	1,189	–	6,628	–
- Customers	10,385	24,269	82,504	141,623	148,950	6,795	15,769	9,182	1,530	–
Cash liabilities	**697,046**	**92,663**	**11,217**	**970**	**27,936**	**4,083**	**1,114**	**–**	**–**	**–**
B.1 Deposits and current accounts	697,039	92,663	11,154	590	25,318	4,083	1,091	–	–	–
- Banks	219,580	92,251	10,873	173	165	–	–	–	–	–
- Customers	477,459	412	281	417	25,153	4,083	1,091	–	–	–
B.2 Fixed-yield securities	4	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	3	–	63	380	2,618	–	23	–	–	–
Off-balance sheet transactions	**13,906**	**228,907**	**236,509**	**518,259**	**483,929**	**130,635**	**110,480**	**41,021**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	228,166	236,134	517,225	476,327	126,164	110,480	41,021	–	–
- Long positions	–	106,774	150,971	301,590	246,188	62,064	46,811	20,546	–	–
- Short positions	–	121,392	85,163	215,635	230,139	64,100	63,669	20,475	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	1,235	–	–	–	1,235	–	–	–	–	–
- Long positions	1,235	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	1,235	–	–	–	–	–
C.4 Irrevocable commitments to make loans	12,671	741	375	1,034	6,367	4,471	–	–	–	–
- Long positions	–	618	375	981	6,145	4,471	–	–	–	–
- Short positions	12,671	123	–	53	222	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Currency: SWISS FRANC

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	**209,652**	**45,861**	**22,920**	**82,794**	**323,179**	**172,033**	**180,148**	**1,334,832**	**1,057,002**	**-**
A.1 Government securities	-	-	-	-	643	-	832	8,125	451	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	7,087	-	-
A.3 Mutual funds	4,453	-	-	-	-	-	-	-	-	-
A.4 Loans	205,199	45,861	22,920	82,794	322,536	172,033	179,316	1,319,620	1,056,551	-
- Banks	7,902	4,840	3,161	208	-	-	-	-	-	-
- Customers	197,297	41,021	19,759	82,586	322,536	172,033	179,316	1,319,620	1,056,551	-
Cash liabilities	**1,467,452**	**94,315**	**38,355**	**120,840**	**132,343**	**126,435**	**107,344**	**24,385**	**29,466**	**-**
B.1 Deposits and current accounts	1,466,589	94,248	33,357	120,615	96,696	81,303	87,549	8,720	26,790	-
- Banks	6,193	45,244	18,298	49,912	9,152	4,160	17,673	-	26,790	-
- Customers	1,460,396	49,004	15,059	70,703	87,544	77,143	69,876	8,720	-	-
B.2 Fixed-yield securities	863	67	4,998	225	35,647	45,132	19,795	15,665	2,676	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**8,032**	**122,212**	**320,854**	**532,403**	**472,231**	**81,795**	**74,475**	**667**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	122,014	320,131	530,989	459,681	72,239	65,447	501	-	-
- Long positions	-	13,055	15,029	19,434	94,452	37,259	31,354	251	-	-
- Short positions	-	108,959	305,102	511,555	365,229	34,980	34,093	250	-	-
C.2 Financial derivatives without exchange of capital	-	198	432	676	2,196	4,310	6,820	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	198	432	676	2,196	4,310	6,820	-	-	-
C.3 Deposits and loans to be received	7,651	-	-	-	7,651	-	-	-	-	-
- Long positions	7,651	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	7,651	-	-	-	-	-
C.4 Irrevocable commitments to make loans	381	-	291	738	2,703	5,191	2,208	166	-	-
- Long positions	-	-	291	738	2,703	5,191	2,208	166	-	-
- Short positions	381	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	55	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency: JAPANESE YEN

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	**17,655**	**4,478**	**995**	**1,670**	**4,125**	**2**	**5**	**33**	**47**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	17,655	4,478	995	1,670	4,125	2	5	33	47	-
- Banks	17,563	3,236	207	-	243	-	-	-	-	-
- Customers	92	1,242	788	1,670	3,882	2	5	33	47	-
Cash liabilities	**19,978**	**7,113**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	19,978	7,113	-	-	-	-	-	-	-	-
- Banks	26	7,113	-	-	-	-	-	-	-	-
- Customers	19,952	-	-	-	-	-	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**748**	**60,753**	**7,135**	**16,273**	**8,980**	**12,707**	**5,508**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	60,727	7,128	16,228	8,709	12,347	5,508	-	-	-
- Long positions	-	29,785	2,620	7,742	5,707	6,363	2,754	-	-	-
- Short positions	-	30,942	4,508	8,486	3,002	5,984	2,754	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	227	-	-	-	227	-	-	-	-	-
- Long positions	227	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	227	-	-	-	-	-
C.4 Irrevocable commitments to make loans	521	26	7	45	44	360	-	-	-	-
- Long positions	-	-	-	-	-	337	-	-	-	-
- Short positions	521	26	7	45	44	23	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

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	**38,482**	**8,627**	**939**	**718**	**919**	**–**	**–**	**165**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	38,482	8,627	939	718	919	–	–	165	–	–
- Banks	37,761	8,490	899	474	136	–	–	–	–	–
- Customers	721	137	40	244	783	–	–	165	–	–
Cash liabilities	**48,738**	**2,759**	**406**	**3,247**	**5,942**	**2,877**	**5,480**	**–**	**–**	**–**
B.1 Deposits and current accounts	48,725	2,759	406	3,247	5,942	2,877	5,445	–	–	–
- Banks	1,301	2,090	385	873	1,795	–	–	–	–	–
- Customers	47,424	669	21	2,374	4,147	2,877	5,445	–	–	–
B.2 Fixed-yield securities	13	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	35	–	–	–
Off-balance sheet transactions	**2,883**	**32,635**	**72,323**	**62,455**	**211,555**	**41,116**	**94,908**	**20,434**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	32,202	72,322	62,448	209,926	41,116	94,908	20,434	–	–
- Long positions	–	17,657	39,687	31,506	108,549	21,784	47,152	10,217	–	–
- Short positions	–	14,545	32,635	30,942	101,377	19,332	47,756	10,217	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	2,053	433	–	–	1,620	–	–	–	–	–
- Long positions	2,053	–	–	–	–	–	–	–	–	–
- Short positions	–	433	–	–	1,620	–	–	–	–	–
C.4 Irrevocable commitments to make loans	830	–	1	7	9	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	830	–	1	7	9	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

2. Information about committed assets recognised in the balance sheet

	Committed		Not committed		Total	Total
Technical forms	BV	FV	BV	FV	**31/12/2014**	**31/12/2013**
1. Cash and balances with central banks	–	–	264,481	–	264,481	196,517
2. Fixed-yield securities	2,497,715	2,510,320	6,046,200	6,038,898	8,543,915	6,466,612
3. Variable-yield securities	1,142	1,142	112,549	112,549	113,691	109,671
4. Loans	2,435,923	–	22,487,681	–	24,923,604	24,638,513
5. Other financial assets	–	–	790,156	–	790,156	374,985
6. Non-financial assets	–	–	962,194	–	962,194	983,630
Total 31/12/2014	**4,934,780**	**2,511,462**	**30,663,261**	**6,151,447**	**35,598,041**	**–**
Total 31/12/2013	**4,034,936**	**2,275,730**	**28,734,992**	**4,299,595**	**–**	**32,769,928**

The 2013 figures have been adjusted for comparison purposes.

Key:
BV = book value
FV = fair value

3. Information about committed assets not recognised in the balance sheet

Technical forms	Committed	Not committed	**31/12/2014**	**31/12/2013**
1. **Financial assets**	**900,308**	**1,768,337**	**2,668,645**	**1,466,176**
- Securities	900,308	964,142	1,864,450	1,466,176
- Other	–	804,195	804,195	–
2. **Non-financial assets**	**–**	**–**	**–**	**–**
Total 31/12/2014	**900,308**	**1,768,337**	**2,668,645**	**–**
Total 31/12/2013	**1,071,994**	**394,182**	**–**	**1,466,176**

These are securities associated with repurchase agreements, securitisations and covered bonds.

Securitisation transactions and disposal of assets

Securitisation transactions

A securitisation was carried out by the Bank in April 2012 as part of its funding policies. The transaction consisted of the sale without recourse under Law 130/1999 of € 1,630 million of performing residential mortgage loans to Centro delle Alpi RMBS srl, an SPV specifically set up for this purpose. The SPV issued securities for € 1,678 million, made up of € 1,385 million of «Senior» securities and € 293 million of «Junior» securities, all of which were purchased by the Parent Bank. The Senior securities are listed on the Luxembourg Stock Exchange and are considered «eligible» for the European Central Bank. These securities were pledged as collateral for refinancing granted by the ECB. In accordance with IAS 39, given that the conditions for derecognition do not exist because the Bank has retained all of the risks and rewards, the securitised loans have been maintained in balance sheet item 70 «Loans to customers», whereas the Junior and Senior securities and the loan to the SPV do not feature. The asset-backed securities have been assigned credit ratings by Standard & Poor's and Moody's; these ratings will be monitored throughout the operation. The Bank acts as servicer on behalf of Centro delle Alpi RMBS srl, which means that it handles the management, administration and collection of the loans; it acts on behalf of the SPV, but is the only counterparty of the customers. It receives a fee for performing this service. Quarterly reports are prepared, highlighting the various flows of the operation, which are sent to the offices and corporate bodies involved so that they can constantly assess its results.

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 explains 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.

We would observe that the loss events recorded by Factorit, given the nature of the subsidiary, all relate to risks that arose in the granting and management of credit; 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.

Recoveries are about 42%.

Sources of losses from 01/01/2012 to 31/12/2014

	No. of events	% of events	Gross loss	% of total	Net loss	% of total	% recovered
Fraud	191	20.34%	2,204,847	12.37%	1,529,881	14.91%	30.61%
Settlements and legal disputes	138	14.70%	4,647,886	26.08%	4,610,588	44.93%	0.80%
Damage to fixed assets	144	15.34%	441,180	2.48%	193,852	1.89%	56.06%
Errors in carrying out transactions	408	43.44%	10,105,718	56.71%	3,557,802	34.67%	64.79%
Other	58	6.18%	419,857	2.36%	368,922	3.60%	12.13%
Total	**939**	**100.00%**	**17,819,488**	**100.00%**	**10,261,045**	**100.00%**	**42.42%**

(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, the overall exposure of the bank at 31/12/2014 amounted to € 8,606 million and was structured as follows:

a) Italian Government securities: € 7,538 million;

b) Other issuers securities: € 496 million;

c) Loans to public administrations: € 9 million;

d) Loans to local administrations: € 57 million;

e) Loans to local or state-owned enterprises: € 424 million;

f) Loans to other public administrations and other entities. € 82 million.

PART F *Information on equity*

Section 1 *Consolidated capital*

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for the Group to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects its reputation.

The need for capital adequacy has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery.

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 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 have always been taken up en masse.

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 crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit Spa with a view to providing specialist tools in support of the real economy. The Parent Bank therefore decided to prepare for a capital increase given the lowering of market tensions and the need to strengthen the level of capitalisation that might derive from the ECB's assessment of the banking system, as well as from the subsequent stress tests that all banks supervised by the ECB had to carry out during the year. The Extraordinary Shareholders' Meeting held on 26 April 2014 approved the proposed capital increase in mixed form, to be implemented by the Board of Directors during 2014, acting on a mandate granted at that meeting.

At a meeting held on 5 June 2014, the Board of Directors established that basis and timing for the transaction, which was to be implemented between 9 June and 5 July by the issue of 30,814,798 bonus shares and 114,422,994 shares at € 3 each. The operation ended in July, with the collection of € 343.269 million.

The offer was fully underwritten by a syndicate of leading institutions, that would have taken up any unexercised options outstanding at the end of the offer for payment period.

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.

ESMA (European Securities and Markets Authority) with document 725/2012 of 12 November, noting that the market value of many listed companies was less than their book value because of the current economic situation, recommended that they should carry out impairment tests as required by IAS 36. The Parent Bank decided to carry out a second-level impairment test applied to the entire corporate structure rather than the individual asset by comparing the recoverable amount of the Group with the book value of shareholders' equity at 31/12/2014. The method used to estimate the recoverable amount is the Dividend Discount Model (DDM), which assumes that the value of the Group is equal to the sum of the dividends distributed to the shareholders over a chosen planning horizon (2014-2018), while maintaining an adequate level of capitalisation for expected future development and assuming a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 8.03%. The test carried out by the Corporate Finance Department in conjunction with the Planning and Control Department showed that the Group was worth more than its consolidated equity.

The Group's value in use amounted to € 2,733 million, with a surplus over its consolidated equity of € 326 million.

B. QUANTITATIVE INFORMATION

The component parts and size of the Parent Bank'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**	**1,393,736**	**–**	**10**	**–**	**1,393,746**
2. **Share premium reserve**	**83,363**	**–**	**2**	**–**	**83,365**
3. **Reserves**	**848,547**	**–**	**348**	**15,606**	**864,501**
4. **Equity instruments**	**–**	**–**	**–**	**–**	**–**
5. **(Treasury shares)**	**(25,031)**	**–**	**–**	**–**	**(25,031)**
6. **Valuation reserve:**	**44,097**	**–**	**192**	**3,545**	**47,834**
- Available-for-sale financial assets	74,105	–	–	–	74,105
- Property, equipment and investment property	–	–	–	–	–
- 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	(30,008)	–	–	–	(30,008)
- Share of valuation reserves of equity investments valued at net equity	–	–	–	3,545	3,545
- Special revaluation regulations	–	–	192	–	192
7. **Profit of the year (+/-) of the Group and of minority interests**	**128,547**	**–**	**(2,039)**	**(1,226)**	**125,282**
Total	**2,473,259**	**–**	**(1,487)**	**17,925**	**2,489,697**

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

Assets/Values	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		Total 31/12/2013	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	**Positive reserve**	**Negative reserve**
1. Fixed-yield securities	57,568	(382)	–	–	–	–	–	–	57,568	(382)
2. Variable-yield securities	2,454	–	–	–	–	–	–	–	2,454	–
3. Mutual funds	14,630	(165)	–	–	–	–	–	–	14,630	(165)
4. Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2014	**74,652**	**(547)**	**–**	**–**	**–**	**–**	**–**	**–**	**74,652**	**(547)**
Total 31/12/2013	**36,843**	**(4,530)**	**–**	**–**	**–**	**–**	**–**	**–**	**36,843**	**(4,530)**

B.3 Valuation reserves for available-for-sale financial assets: change in the year

	Fixed yield securities	Variable yield securities	Mutual funds	Loans
1. **Opening balance**	**29,052**	**2,452**	**809**	**–**
2. **Positive changes**	**32,899**	**336**	**13,947**	**–**
2.1 Increases in fair value	11,065	133	13,844	–
2.2 Release to the income statement of negative reserves	21,834	203	103	–
- from impairment	–	203	103	–
- from disposals	21,834	–	–	–
2.3 Other changes	–	–	–	–
3. **Negative changes**	**4,765**	**334**	**291**	**–**
3.1 Reductions in fair value	540	40	165	–
3.2 Impairment writedowns	–	294	33	–
3.3 Transfer to income statement from positive reserves : from disposals	4,225	–	93	–
3.4 Other changes	–	–	–	–
4. **Closing balance**	**57,186**	**2,454**	**14,465**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by € 29.901 million. This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 Capital and capital adequacy ratios

2.1 Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

The CRR applies directly at national level, while the CRD IV must be adopted at that level: these measures were implemented via the issue of Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to own funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the related EU instructions.

2.2 Bank own funds

QUALITATIVE INFORMATION

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds (previously, capital for supervisory purposes being the sum of «core capital» and «supplementary capital») comprise:

– Tier 1 Capital;
– Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

– Common Equity Tier 1 - CET1;
– Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:

– Share capital;
– Share premium reserve;
– Retained earnings;
– Negative valuation reserves - OCI;
– Other reserves;
– Previous CET 1 instruments subject to transitional instructions (grandfathering);
– Prudential filters;
– Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:

– Equity instruments and related premiums;
– Previous AT1 instruments subject to transitional instructions (grandfathering);
– Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

– Equity instruments, subordinated loans and related premiums;
– Positive measurement reserves - OCI;
– Previous T2 instruments subject to transitional instructions (grandfathering);
– Deductions.

The new supervisory regulations envisage a transition period from 2014 to 2017, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

A recent interpretation circulated by the Supervisory Authorities of art. 63 of Regulation (EU) 575/13, on the requirements for including subordinated loans in Tier 2 capital, excluded all subordinated loans whose contractual redemption schedules commence before five years have elapsed from their issue dates. Implementing the indications received, the Parent Bank has not treated as own funds those subordinated loans with the above characteristics, being 3 subordinated loans issued in 2014; a further two instruments issued prior to 1 January 2012 have been retained at 80% in Tier 2 capital, since they are covered by the safeguard clauses mentioned above.

The «Transitional instructions regarding own funds» section of the Bank of Italy's Circular 285 allows banks an option to exclude from their own funds any unrealised gains or losses on exposures to central administrations classified as «Available-for-sale financial assets» pursuant to IAS 39. This option had to be exercised by 31 January 2014. The Parent Bank has opted not to include in its own funds the positive and negative reserves arising on exposures to central administrations that are classified as «available-for-sale financial assets», consistent with the approach settled pursuant to the Bank of Italy instruction dated 18 May 2010. This decision has resulted in not recognising as part of own funds capital gains of about 58 million, net of tax effect.

QUANTITATIVE INFORMATION

	31/12/2014
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,344,771**
Of which: CET1 instruments subject to transitional instructions	–
B. **Prudential filters of CET1 (+/-)**	**–**
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,344,771**
D. **Elements to be deducted from CET1**	**51,471**
E. **Transitional instructions - Impact on CET1 (+/-), including minority interest subject to transitional instructions**	**41,894**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,335,194**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**3,642**
Of which: AT1 instruments subject to transitional instructions	–
H. **Elements to be deducted from AT1**	**–**
I. **Transitional instructions – Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions**	**- 2,914**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**728**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**17,565**
Of which: T2 instruments subject to transitional instructions	17,765
N. **Elements to be deducted from T2**	**223**
O. **Transitional instructions – Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions**	**346,375**
P. **Total Tier 2 - T2 (M - N +/- O)**	**363,717**
Q. **Total Own funds (F + L + P)**	**2,699,639**

The composition of own funds takes account of the profit for the period to 30 September 2014, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

The consolidated capital for supervisory purposes reported at 31 December 2013, calculated under the previous rules (Basel II), is presented below:

Total TIER 1	**1,875,173**
Total TIER 2	**627,041**
Capital for supervisory purposes	**2,502,214**

2.3 Capital adequacy

QUALITATIVE INFORMATION

The capital ratios are calculated under the new Basel 3 rules. The regulation introduced by the Bank of Italy in Circular 285/2013 establishes the following minimum ratios for banking groups:

- CET 1 of 4.50%;
- Tier 1 of 5.5% (6% from 1 January 2015);
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions have been introduced:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; this is currently not implemented but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which is indicated below for 2014:

- CET 1 of 7%;
- Tier 1 of 8%;
- Total Capital Ratio of 10.5%.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, the Group must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

For larger EU banks, which includes the Banca Popolare di Sondrio Group, the European Central Bank has imposed (with a note of 23 October 2013) a 1% add-on to the CET 1 Ratio, the minimum value of which is therefore 8%, a stricter limit compared with the previous values.

At 31 December 2014, the parameters of the Group under the new regulations are as follows:

- CET 1 Capital ratio 9.75%;
- Tier 1 Capital ratio 9.76%;
- Total Capital ratio 11.28%.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	31/12/2014	**31/12/2013**	**31/12/2014**	**31/12/2013**
A. **Assets at risk**				
A.1 Credit and counterparty risk				
1. Standardised approach	35,182,339	31,838,208	20,686,939	21,572,775
2. Approach based on internal ratings				
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	170,600	–	162,835	–
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk	–	–	1,667,982	1,725,822
B.2 Loan adjustment risk	–	–	993	–
B.3 Regulation risks	–	–	–	–
B.4 Market risks				
1. Standard methodology	–	–	94,803	38,379
2. Internal models	–	–	–	–
3. Concentration risk	–	–	–	–
B.5 Operational risk				
1. Basic method	–	–	151,369	136,261
2. Standardised approach	–	–	–	–
3. Advanced method	–	–	–	–
B.6 Other calculation elements	–	–	–	–
B.7 Other precautionary requirements	–	–	1,915,147	1,900,462
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets	–	–	23,939,338	23,755,775
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	9.75	–
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	9.76	–
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)	–	–	11.28	–

The capital ratios at 31 December 2013, calculated in accordance with the previous (Basel II) regulations, are indicated below:

Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	**7,89**
Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)	**10,53**

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

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 Poplare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	The Chairman	1/1/2014-31/12/2014	31/12/2015	202	-	-	18
NEGRI MILES EMILIO	Deputy Chairman	1/1/2014-26/04/2014	26/04/2014	14	-	-	-
STOPPANI LINO ENRICO	Deputy Chairman	1/1/2014-31/12/2014	31/12/2016	109	-	-	12
PEDRANZINI MARIO ALBERTO (*)	Director	1/1/2014-31/12/2014	31/12/2016	153	-	-	111
MELAZZINI PIERO	Director	1/1/2014-31/12/2014	31/12/2016	53	-	-	82
BENEDETTI CLAUDIO	Director	1/1/2014-31/12/2014	31/12/2014	41	-	-	-
BIGLIOLI PAOLO	Director	1/1/2014-31/12/2014	31/12/2016	41	-	-	-
FALCK FEDERICO	Director	1/1/2014-31/12/2014	31/12/2015	41	-	-	-
FERRARI ATTILIO PIERO	Director	1/1/2014-31/12/2014	31/12/2014	40	-	-	-
FONTANA GIUSEPPE	Director	1/1/2014-31/12/2014	31/12/2014	40	-	-	-
GALBUSERA CRISTINA	Director	1/1/2014-31/12/2014	31/12/2015	46	-	-	-
MELZI DI CUSANO NICOLÒ	Director	1/1/2014-31/12/2014	31/12/2015	40	-	-	-
PROPERSI ADRIANO	Director	1/1/2014-31/12/2014	31/12/2014	40	-	-	-
RAINOLDI ANNALISA	Director	26/04/2014-31/12/2014	31/12/2016	27	-	-	-
SOZZANI RENATO	Director	1/1/2014-31/12/2014	31/12/2014	70	-	-	3
TRIACCA DOMENICO	Director	1/1/2014-31/12/2014	31/12/2015	60	-	-	-
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	1/1/2014-31/12/2014	31/12/2014	84	-	-	11
BERSANI PIO	Auditor	1/1/2014-31/12/2014	31/12/2014	61	-	-	20
VITALI MARIO	Auditor	1/1/2014-31/12/2014	31/12/2014	66	-	-	27
PEDRANZINI MARIO ALBERTO (*)	General Manager	1/1/2014-31/12/2014		-	106	60	945
MANAGERS WITH STRATEGIC RE-SPONSIBILITIES		1/1/2014-31/12/2014		-	55	130	1,018

(*) also Managing Director.

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the Parent 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 € 2.719 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.105 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.

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, managing director 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 Parent 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 Group 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 Group 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.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	81	9.811	3	186	–	–
Statutory auditors	812	162	28	4	–	–
Management	2	813	–	13	15	–
Family members	1,745	21,210	64	394	41	6,879
Subsidiaries	1,751,934	473,881	47,714	3,732	839,482	13,179
Associated companies	542,582	182,316	6,505	3,724	106,010	2,176
Other related parties	266,598	82,566	4,084	1,935	24,822	20,409

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 € 425 million to Alba Leasing SpA and for € 81 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 183 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 Group'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 and Switzerland.

A. Primary format

A.1 Distribution by business segment: income statement

The following sub-segments are discussed:

- *Enterprises*: 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 2014 and 2013.

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	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2013**
Interest income	671,051	556,548	–	316,802	1,544,401	-585,324	959,077
Interest expense	-196,279	-357,908	–	-399,291	-953,478	585,324	-368,154
Net interest income	**474,772**	**198,640**	**–**	**-82,489**	**590,923**	**–**	**590,923**
Fee and commission income	161,903	72,456	78,411	10,108	322,878	-856	322,022
Fee and commission expense	-8,823	-7,105	-4,831	-317	-21,076	-925	-22,001
Dividends and similar income	–	–	–	3,524	3,524	–	3,524
Net trading income	–	–	–	98,133	98,133	1,685	99,818
Net hedging profit (loss)	–	543	–	-414	129	–	129
Gains/losses from sales or repurchases	–	–	–	94,154	94,154	–	94,154
Net gains on financial assets and liabilities at fair value through profit or loss	–	–	–	5,187	5,187	–	5,187
Total income	**627,852**	**264,534**	**73,580**	**127,886**	**1,093,852**	**-96**	**1,093,756**
Adjustments to the net value of financial assets	-392,325	-70,262	–	-19,308	-481,895	–	-481,895
Net financial income	**235,527**	**194,272**	**73,580**	**108,578**	**611,957**	**-96**	**611,861**
Administrative expenses	-122,872	-150,856	-52,031	-81,904	-407,663	-49,610	-457,273
Provisions for risks and charges	7,250	-3,417	–	-1,899	1,934	–	1,934
Depreciation and net impairment losses on property, equipment and investment property	-4,220	-6,145	-2,111	-4,561	-17,037	–	-17,037
Amortisation and net impairment losses on intangible assets	-3,875	-5,398	-1,788	-2,296	-13,357	–	-13,357
Other operating income/expense	13,585	9,456	-199	1,301	24,143	49,706	73,849
Share of profit/loss of equity investments	–	–	–	6,715	6,715	–	6,715
Adjustments to goodwill	–	–	–	-1,112	-1,112	–	-1,112
Net gains on sales of investments	–	–	–	27	27	–	27
Gross profit	**125,395**	**37,912**	**17,451**	**24,849**	**205,607**	**–**	**205,607**

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2012**
Interest income	761,371	625,562	–	380,027	1,766,960	-748,846	1,018,114
Interest expense	-276,095	-413,336	–	-518,367	-1,207,798	748,846	-458,952
Net interest income	**485,276**	**212,226**	**–**	**-138,340**	**559,162**	**–**	**559,162**
Fee and commission income	157,272	69,900	72,047	7,432	306,651	-1,072	305,579
Fee and commission expense	-9,621	-6,253	-6,726	812	-21,788	-790	-22,578
Dividends and similar income	–	–	–	2,699	2,699	–	2,699
Net trading income	–	–	–	109,241	109,241	1,814	111,055
Net hedging profit (loss)	–	-301	–	256	-45	–	-45
Gains/losses from sales or repurchases	–	–	–	52,720	52,720	–	52,720
Net gains on financial assets and liabilities at fair value through profit or loss	–	–	–	5,387	5,387	–	5,387
Total income	**632,927**	**275,572**	**65,321**	**40,207**	**1,014,027**	**-48**	**1,013,979**
Adjustments to the net value of financial assets	-423,348	-54,055	–	-12,882	-490,285	–	-490,285
Net financial income	**209,579**	**221,517**	**65,321**	**27,325**	**523,742**	**-48**	**523,694**
Administrative expenses	-118,382	-142,157	-50,067	-82,714	-393,320	-47,855	-441,175
Provisions for risks and charges	-274	-2,575	–	-1	-2,850	–	-2,850
Depreciation and net impairment losses on property, equipment and investment property	-4,139	-6,096	-2,114	-4,707	-17,056	–	-17,056
Amortisation and net impairment losses on intangible assets	-3,535	-4,959	-1,650	-2,216	-12,360	–	-12,360
Other operating income/expense	14,287	10,485	503	287	25,562	47,903	73,465
Share of profit/loss of equity investments	–	–	–	1,620	1,620	–	1,620
Net gains on sales of investments	–	–	–	10	10	–	10
Gross profit	**97,536**	**76,215**	**11,993**	**-60,396**	**125,348**	**–**	**125,348**

A.2 Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 31/12/2014**
Financial assets	15,264,516	9,893,049	–	9,169,291	34,326,856
Other assets	–	–	–	1,016,116	1,016,116
Property, equipment and investment property	52,160	73,852	24,786	103,505	254,303
Intangible assets	3,899	5,517	1,851	10,305	21,572
Financial liabilities	7,158,873	22,568,657	–	2,405,243	32,132,773
Other liabilities	30,802	7,884	–	745,927	784,613
Provisions	69,734	87,091	21,716	33,223	211,764
Guarantees given	3,274,140	610,254	–	116,563	4,000,957
Commitments	927,964	220,545	95,228	71,557	1,315,294

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 31/12/2014**
Financial assets	15,366,246	10,426,936	–	5,796,599	31,589,781
Other assets	–	–	–	912,320	912,320
Property, equipment and investment property	50,398	70,572	23,446	101,546	245,962
Intangible assets	3,755	5,149	1,678	11,283	21,865
Financial liabilities	6,924,866	19,562,405	–	3,320,163	29,807,434
Other liabilities	46,262	6,783	–	704,717	757,762
Provisions	69,947	78,313	18,855	26,005	193,120
Guarantees given	3,550,449	489,436	–	194,107	4,233,992
Commitments	890,775	134,037	38,660	46,588	1,110,060

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: in addition to the results of the parent bank (76,925 thousand euro), «Factorit» also made a significant contribution of 43,406 thousand euro, which was just slightly less than in the prior year.

This segment contributes 61.0% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 15,265 million and € 7,159 million respectively.

With respect to total income, net adjustments for the impairment of financial assets represent 62.5% of the total, while administrative expenses absorb 19.6%.

Comparison with the prior year shows a significant increase in the segment result, mainly because of the Parent Bank's contribution with a rise of 65.8%, mainly attributable to a combination of following factors:

- net interest income essentially unchanged (-0.1%), mainly due to a marked increase in the spreads on lending, which offset the slight fall in financial assets, while the spreads were basically stable on deposits, which have increased although with much lower volumes;
- increase in fee and commission income (+5.0%), due in particular to the satisfactory growth in the contributions from guarantees given and collection and payment activities, as well as to the contribution made by the new «loan commission» charged on the arrangement of loans by the International unit;
- marked reduction in impairment adjustments against financial assets (-6.3%), due to significantly lower provisions and an increase in writebacks and out-of-period income, which more than offset a noticeable increase in losses;
- a significant increase in administrative expenses (+5.8%, of which other costs +6.9%, personnel expenses +4.7%);
- significant decrease in provisions for risks and charges (-339.9%).

Individuals and other customers: A fundamental contribution has come from the Swiss subsidiary, with a positive result in this area of € 21,348 thousand, a significant increase on the previous year (+51.4%).

This segment contributes 18.4% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 9,893 million and € 22,569 million respectively.

With respect to total income, net adjustments for the impairment of financial assets represent 26.6% of the total, while administrative expenses absorb 57.0%.

Comparison with the prior year shows a significant decrease in the segment result, mainly because of the Parent Bank's contribution with a decline of 83.3%, mainly attributable to a combination of following factors:

- a decrease in net interest income (-9.9%), due to satisfactory growth in direct deposits in a context of significant spread erosion, not offset by a sufficient rise in spreads on loans, which, even if rising, are still showing much lower volumes;
- a noticeable increase in fee and commission income (+2.6%), due in particular to the satisfactory rise in the contribution from collection and payment services;
- an increase in adjustments to financial activities (+39.9%), due to a significant increase in provisions;
- a significant increase in administrative expenses (+5.4%, of which other costs +5.7%, personnel expenses +5.1%);
- important increase in provisions for risks and charges (+443.4%).

Securities: fundamental contribution has come from the Swiss subsidiary, with a positive result in this area of € 10,592 thousand, substantially in line with the previous year and significantly higher than that obtained by the Parent Bank (€ 6,859 thousand).

This segment contributes 8.5% of overall results.

With respect to total income, administrative expenses absorb 70.7% of the total.

Comparison with the prior year reflects a significant increase in results, mainly due to the contribution of the Parent Bank, which reported a rise of 206.3%, mainly attributable to the following factors:

- significant increase in commission flows (+16.8%), due to the marked improvement in the results deriving from investment funds and the asset management sector;
- a significant increase in administrative expenses (+4.7%, of which other costs +4.2%, personnel expenses +5.1%).

Central functions: this segment contributes 12.1% of overall results.

The contribution of the Swiss subsidiary and of Factorit totalling 36,366 thousand euro is significant.

Comparison with the prior year highlights a marked improvement in results, essentially due to the contribution made by the parent bank, + 830.4%. This was largely due to sharply higher net interest income (due to a reduction in the internal transfer rate that mostly affected interest expense) and the gains realised in the disposal of securities held (+78.6%).

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.

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 31/12/2013**
Interest income	1,293,372	196,017	65,806	1,555,195	-596,118	959,077
Interest expense	-795,775	-135,473	-34,559	-965,807	597,653	-368,154
Net interest income	**497,597**	**60,544**	**31,247**	**589,388**	**1,535**	**590,923**
Fee and commission income	238,351	52,471	33,402	324,224	-2,202	322,022
Fee and commission expense	-12,652	-7,532	-2,339	-22,523	522	-22,001
Dividends and similar income	16,253	–	3	16,256	-12,732	3,524
Net trading income	88,458	–	11,389	99,847	-29	99,818
Net hedging profit (loss)	–	–	543	543	-414	129
Gains/losses from sales or repurchases	94,154	–	–	94,154	–	94,154
Net gains on financial assets and liabilities at fair value through profit or loss	5,187	–	–	5,187	–	5,187
Total income	**927,348**	**105,483**	**74,245**	**1,107,076**	**-13,320**	**1,093,756**
Adjustments to the net value of financial assets	-379,068	-99,944	-2,883	-481,895	–	-481,895
Net financial income	**548,280**	**5,539**	**71,362**	**625,181**	**-13,320**	**611,861**
Administrative expenses	-318,046	-40,289	-53,127	-411,462	-45,811	-457,273
Provisions for risks and charges	500	3,333	-1,899	1,934	–	1,934
Depreciation and net impairment losses on property, equipment and investment property	-13,351	-1,331	-2,355	-17,037	–	-17,037
Amortisation and net impairment losses on intangible assets	-11,854	-1,243	-1,372	-14,469	1,112	-13,357
Other operating income/expense	22,782	4,367	126	27,275	46,574	73,849
Share of profit/loss of equity investments	-2,493	–	–	-2,493	9,208	6,715
Net adjustments to goodwill	–	–	–	–	-1,112	-1,112
Net gains/losses on sales of investments	27	–	–	27	–	27
Gross profit	**225,845**	**-29,624**	**12,735**	**208,956**	**-3,349**	**205,607**

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2013**
Interest income	1,480,043	235,329	66,860	1,782,232	-764,118	1,018,114
Interest expense	-1,026,465	-159,407	-38,430	-1,224,302	765,350	-458,952
Net interest income	**453,578**	**75,922**	**28,430**	**557,930**	**1,232**	**559,162**
Fee and commission income	223,651	51,296	34,235	309,182	-3,603	305,579
Fee and commission expense	-12,906	-7,006	-4,498	-24,410	1,832	-22,578
Dividends and similar income	20,267	–	3	20,270	-17,571	2,699
Net trading income	100,595	–	9,337	109,932	1,123	111,055
Net hedging profit (loss)	–	–	-301	-301	256	-45
Gains/losses from sales or repurchases	52,720	–	–	52,720	–	52,720
Net gains on financial assets and liabilities at fair value through profit or loss	5,387	–	–	5,387	–	5,387
Total income	**843,292**	**120,212**	**67,206**	**1,030,710**	**-16,731**	**1,013,979**
Adjustments to the net value of financial assets	-448,369	-38,461	-3,455	-490,285	–	-490,285
Net financial income	**394,923**	**81,751**	**63,751**	**540,425**	**-16,731**	**523,694**
Administrative expenses	-305,917	-37,760	-53,409	-397,086	-44,089	-441,175
Provisions for risks and charges	725	-5	-3,570	-2,850	–	-2,850
Depreciation and net impairment losses on property, equipment and investment property	-13,157	-1,320	-2,579	-17,056	–	-17,056
Amortisation and net impairment losses on intangible assets	-9,823	-1,146	-1,391	-12,360	–	-12,360
Other operating income/expense	25,473	3,835	739	30,047	43,418	73,465
Share of profit/loss of equity investments	-6,563	–	–	-6,563	8,183	1,620
Net gains on sales of investments	10	–	–	10	–	10
Gross profit	**85,671**	**45,355**	**3,541**	**134,567**	**-9,219**	**125,348**

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2013**
Financial assets	28,477,540	2,359,517	3,489,799	34,326,856
Other assets	835,871	–	180,245	1,016,116
Property, equipment and investment property	215,359	16,630	22,314	254,303
Intangible assets	18,672	1,244	1,656	21,572
Financial liabilities	20,016,095	8,697,399	3,419,279	32,132,773
Other liabilities	743,907	9,979	30,727	784,613
Provisions	187,397	20,082	4,285	211,764
Guarantees given	3,061,961	734,655	204,341	4,000,957
Commitments	890,831	333,996	90,467	1,315,294

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2013**
Financial assets	25,496,187	2,431,299	3,662,295	31,589,781
Other assets	807,358	–	104,962	912,320
Property, equipment and investment property	210,227	16,355	19,380	245,962
Intangible assets	19,555	1,227	1,083	21,865
Financial liabilities	18,838,657	7,429,015	3,539,762	29,807,434
Other liabilities	728,671	10,014	19,077	757,762
Provisions	168,278	21,262	3,580	193,120
Guarantees given	3,295,178	762,410	176,404	4,233,992
Commitments	752,211	324,955	32,894	1,110,060

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «supervisory instructions for banks» 4th revision dated 17 June 2014

This information is available (in Italian) in the Corporate Information section of the website www.popso.it.

Certification pursuant to para. 5 of art. 154-bis of Decree 58/98 on the consolidated financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director 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 during the course of the period from 1 January 2014 to 31 December 2014.

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 2014:
– 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 of the Group;
– 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, 16 March 2015

The Managing Director Mario Alberto Pedranzini	The Financial Reporting Officer Maurizio Bertoletti

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Banca Popolare di Sondrio S.C.p.A.

1 We have audited the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2014, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 4 April 2014 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2014 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Banca Popolare di Sondrio Group as at 31 December 2014, the results of its operations and its cash flows for the year then ended.

4 The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of a directors' report on the financial statements and a report on the corporate governance and shareholding structure, published in the "*informativa societaria*" section of Banca Popolare di Sondrio S.C.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and shareholding structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and shareholding structure are consistent with the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2014.

Milan, 27 March 2015

KPMG S.p.A.

(signed on the original)

Paolo Valsecchi
Director of Audit

RESOLUTIONS OF THE ORDINARY SHAREHOLDERS' MEETING

of 18 April 2015 (at second calling)

AGENDA

1) *Presentation of the financial statements as of 31 December 2014: report of the Board of Directors and proposed allocation of 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»;*
4) *Approval of the Remuneration Report, as per art. 123-bis of Decree 58/98 (Consolidated Finance Act);*
5) *Determination of directors' emoluments;*
6) *Appointment of five Directors for the three-year period 2015-2017;*
7) *Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2015-2017; 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 2014 and the proposed allocation of the 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 2014, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 97,552,111. The Shareholders' Meeting also approved the allocation of profit for the year of € 97,552,111 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	€	9,755,211.10
– 30% to the statutory reserve	€	29,265,633.30

b) to pay a dividend of € 0.06 to each of the 453,385,777 shares in circulation at 31/12/2014 with dividend rights as from 1/1/2014, 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 € 27,203,146.62

c) to allocate the residual profit:
   – to the reserve for donations € 100,000.00
   – to the legal reserve, a further € 31,228,119.98

In accordance with the Stock Exchange calendar, the dividend was paid from 20 May 2015, going ex-coupon (no. 37) on 18 May 2015.

Point 2) on the agenda

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 – 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 2015 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 Euro 93,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 5% 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 Euro 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 Managing Director, 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 Meeting approved the document «Compensation Policies of the Banca Popolare di Sondrio Banking Group» and information on how these compensation policies were implemented in 2014.

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 (Consolidated Finance 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 2015-2017: Loretta Credaro, Attilio Piero Ferrari, Giuseppe Fontana, Adriano Propersi and Renato Sozzani.

Point 7) on the agenda

The Meeting appointed the following as members of the Board of Statutory Auditors for the period 2015-2017: Piergiuseppe Forni (Chairman), Donatella Depperu and Mario Vitali (Auditors), and Daniele Morelli and Bruno Garbellini (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
2012	7,098,208,844	22,390,051,929	27,490,789,964	1,711,323,846	25,822,369	0.033
2013	8,696,206,457	20,843,577,225	27,752,052,266	1,773,767,299	48,831,672	0.050
2014	11,078,365,152	20,535,826,086	29,329,977,518	2,221,418,922	97,552,111	0.060

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.

INDEX

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