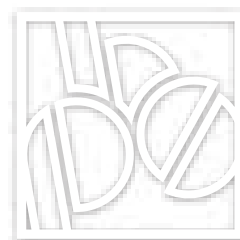




Banca Popolare di Sondrio



ANNUAL REPORT 2016



**Banca Popolare
di Sondrio**

2016 FINANCIAL
STATEMENTS
146th YEAR



Banca Popolare di Sondrio

Founded in 1871

ORDINARY SHAREHOLDERS' MEETING 29 APRIL 2017

Società cooperativa per azioni

Head office and general management: I - 23100 Sondrio SO - Piazza Garibaldi 16

Tel. 0342 528.111 - Fax 0342 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

Share capital: € 1,360,157,331 - Reserves: € 947,325,264

(Figures approved at the shareholders' meeting of 29 April 2017)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 24 June 2016:
 - Long-term: BBB
 - Short-term: F3
 - Viability Rating: bbb
 - Outlook: Negative
- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio scpa on 22 February 2017:
 - Long-term: BBB
 - Short-term: A-3
 - Individual Financial Strength Assessment: bbb
 - Outlook: Stable

BOARD OF DIRECTORS

Chairman	FRANCESCO VENOSTA*
Deputy Chairman	LINO ENRICO STOPPANI*
Managing Director	MARIO ALBERTO PEDRANZINI**
Directors	PAOLO BIGLIOLI CECILIA CORRADINI LORETTA CREDARO FEDERICO FALCK ATTILIO PIERO FERRARI GIUSEPPE FONTANA CRISTINA GALBUSERA * 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

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

GENERAL MANAGEMENT

General Manager	MARIO ALBERTO PEDRANZINI
Deputy General Managers	GIOVANNI RUFFINI MARIO ERBA MILO GUSMEROLI CESARE POLETTI

The Financial Reporting Officer	MAURIZIO BERTOLETTI
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* Members of the Chairman's Committee

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

ORGANIZZAZIONE TERRITORIALE DEL GRUPPO BANCARIO BANCA POPOLARE DI SONDRIO



**Banca Popolare
di Sondrio**

Fondata nel 1871

SPORTELLI

- 51 in provincia di SONDRIO oltre a 15 Tesorerie
- 2 in provincia di ALESSANDRIA
- 15 in provincia di BERGAMO oltre a 13 Tesorerie
- 1 in BOLOGNA
- 2 in provincia di BOLZANO oltre a 1 Tesoreria
- 32 in provincia di BRESCIA oltre a 18 Tesorerie
- 31 in provincia di COMO oltre a 29 Tesorerie
- 5 in provincia di CREMONA
- 2 in provincia di CUNEO
- 7 in provincia di GENOVA oltre a 1 Tesoreria
- 20 in provincia di LECCO oltre a 20 Tesorerie
- 2 in provincia di LODI
- 5 in provincia di MANTOVA oltre a 3 Tesorerie
- 38 in MILANO oltre a 9 Tesorerie
- 12 in provincia di MILANO oltre a 4 Tesorerie
- 17 in provincia di MONZA E BRIANZA oltre a 4 Tesorerie
- 2 in provincia di NOVARA
- 1 in PADOVA
- 1 in PARMA
- 7 in provincia di PAVIA oltre a 10 Tesorerie
- 3 in provincia di PIACENZA
- 38 in ROMA oltre a 2 Tesorerie
- 4 in provincia di ROMA oltre a 2 Tesorerie
- 2 in provincia di SAVONA oltre a 1 Tesoreria
- 2 in provincia di TORINO oltre a 1 Tesoreria
- 4 in provincia di TRENTO oltre a 1 Tesoreria
- 1 in TREVISO
- 18 in provincia di VARESE oltre a 7 Tesorerie
- 5 in provincia del VERBANO CUSIO OSSOLA
- 1 in VERCELLI
- 4 in provincia di VERONA
- 1 in VICENZA
- 1 nella Regione Autonoma Valle d'Aosta oltre a 2 Tesorerie

Uffici di rappresentanza e desk all'estero:

- ARGENTINA (BUENOS AIRES) • AUSTRALIA (PERTH E SYDNEY) • BELGIO (BRUXELLES) • BRASILE (BELO HORIZONTE E SAN PAOLO)
- BULGARIA (SOFIA) • CANADA (TORONTO E VANCOUVER) • CILE (SANTIAGO) • CINA (SHANGHAI) • COREA DEL SUD (SEOUL) • DANIMARCA (AARHUS) • EMIRATI ARABI UNITI (DUBAI) • FINLANDIA (HELSINKI) • FRANCIA (LIONE, MARSIGLIA E PERPIGNANO)
- GERMANIA (FRANCOFORTE) • GIAPPONE (TOKYO) • GRECIA (ATENE) • GUATEMALA (CITTÀ DEL GUATEMALA) • INDIA (MUMBAI)
- ISRAELE (TEL AVIV) • MALTA (LA VALLETTA) • MESSICO (CITTÀ DEL MESSICO) • MONGOLIA (ULAANBAATAR) • PERÙ (LIMA) • PORTOGALLO (LISBONA) • REGNO UNITO (LONDRA) • REPUBBLICA DI MOLDAVIA (CHISINAU) • ROMANIA (BUCAREST) • RUSSIA (MOSCA) • SERBIA (BELGRADO) • SINGAPORE (SINGAPORE) • SPAGNA (MADRID) • STATI UNITI D'AMERICA (CHICAGO E MIAMI) • SUD AFRICA (JOHANNESBURG) • THAILANDIA (BANGKOK) • TUNISIA (TUNISI) • TURCHIA (ISTANBUL) • UNGHERIA (BUDAPEST) • UZBEKISTAN (TASHKENT) • VIETNAM (HANOI)

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

Sportelli in:

- LUGANO Via G. Luvini
- LUGANO Via Maggio
- LUGANO Cassarate
- BASILEA
- BELLINZONA
- BERNA
- BIASCA
- CASTASEGNA
- CELERINA
- CHIASSO
- COIRA
- LOCARNO
- MARTIGNY
- NEUCHÂTEL
- PONTRESINA
- POSCHIAVO
- SAMEDAN
- ST. MORITZ
- ZURIGO

Principato di Monaco:
• MONACO



Factorit

GRUPPO Banca Popolare di Sondrio

Anticipazione, Garanzia e Gestione dei Crediti Commerciali delle Imprese

Unità operative a:

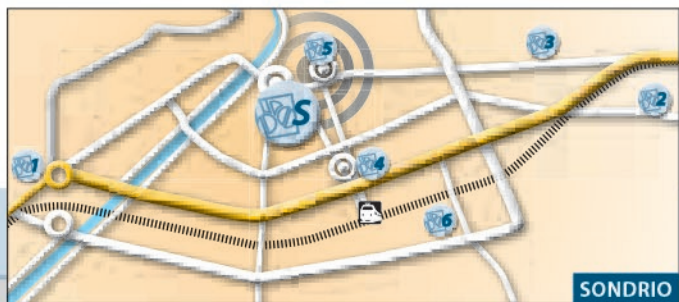
- MILANO • TORINO • PADOVA
 - BOLOGNA • SIENA • ROMA
- e oltre 400 corrispondenti esteri presenti sui principali mercati internazionali.
- Operativa presso gli sportelli della Banca Popolare di Sondrio e delle banche convenzionate.

PIROVANO

PASSO DELLO STELVIO
L'UNIVERSITÀ DELLO SCI
SNOWBOARD UNIVERSITY
L'UNIVERSITÀ DELLA MONTAGNA

2 7 6 0
metri
3 4 5 0



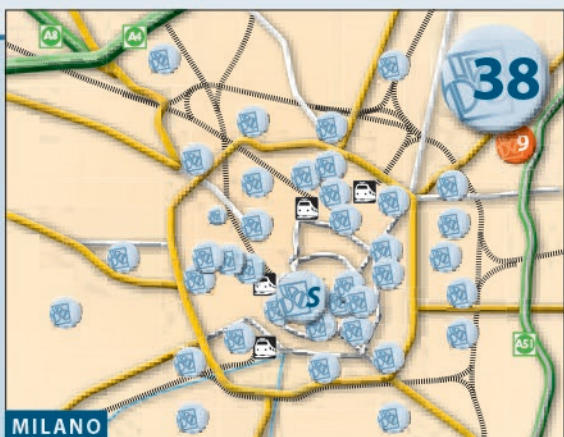
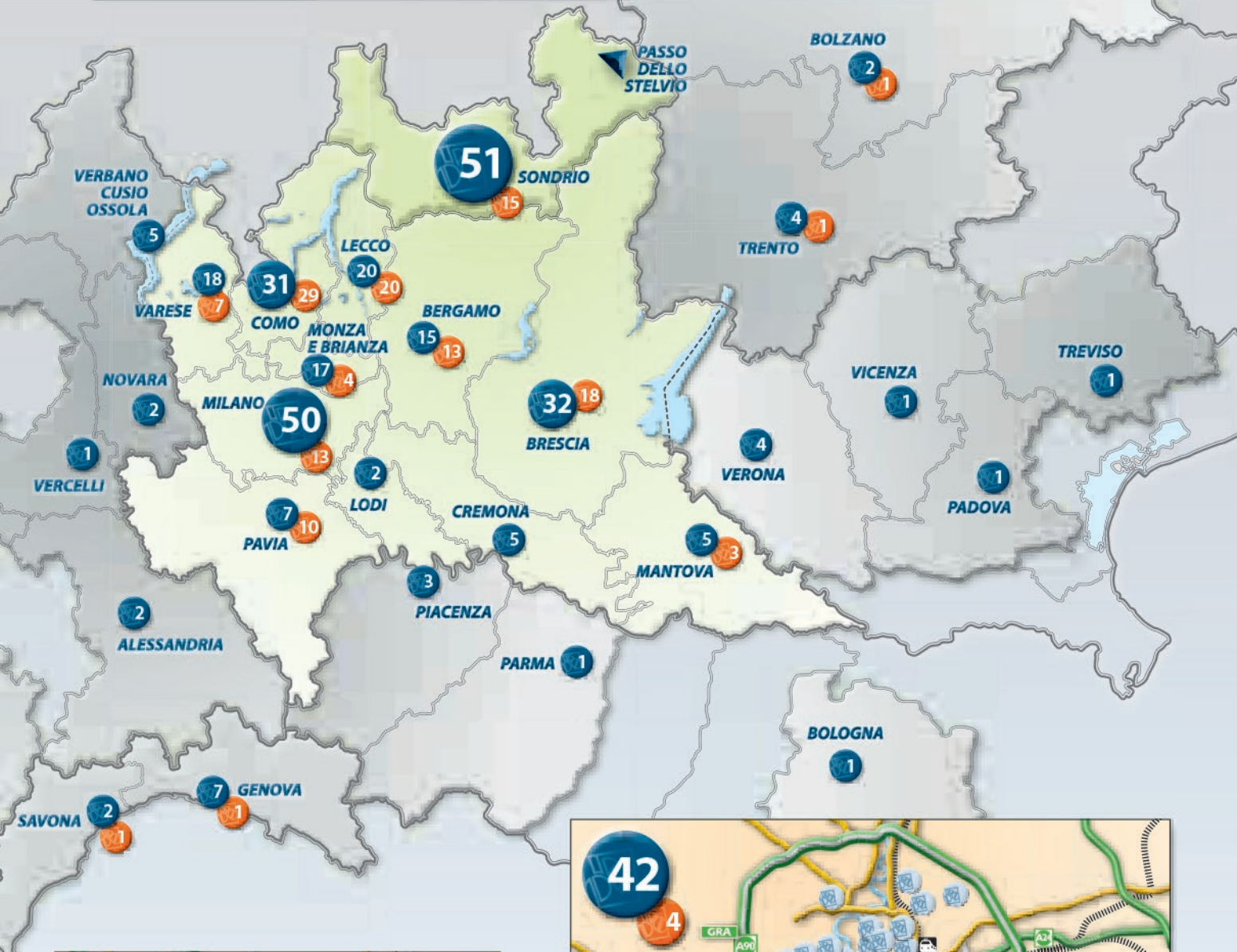


SONDRIO

Numero degli sportelli presenti in ogni provincia

Numero delle tesorerie

Sportelli presenti in città



MILANO



ROMA E PROVINCIA

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO

Founded in 1871

GENERAL MANAGEMENT AND HEAD OFFICE

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

FIELD OFFICES

ORGANISATION AND IT SYSTEMS: "F. Morani" Service Centre - via Ranée 511/1 - Berbenno di Valtellina (So) - fraz. San Pietro
 INTERNATIONAL UNIT: Iungo Maliero Luigi Cadorna 24, Sondrio
 COMMERCIAL UNIT - PUBLIC ENTITIES AND TREASURY OFFICES - SUPPLY OFFICE - TECHNICAL, HEALTH AND SAFETY DEPARTMENT: corso Vittorio Veneto 7, Sondrio
 PERSONNEL DEPARTMENT: corso Vittorio Veneto 36, Sondrio

VIRTUAL UNIT

corso Vittorio Veneto 7, Sondrio

BRANCHES AND TREASURIES

PROVINCE OF SONDRIO

ALBOSAGGIA via al Porto 11
APRICA corso Roma 140
ARDENNO via Libertà
BERBENNO DI VALTELLINA - fraz. **San Pietro** - via Nazionale Ovest 110
 BIANZONE piazza Ezio Vanoni 11
BORMIO
Head Office, via Roma 131 - ang. via don Evaristo Peccedi
Branch no. 1, via Roma 64
 BUGLIO IN MONTE piazza della Libertà 1
CAMPODOLCINO via Corti 67
 CASPOGGIO piazza Milano 13
 CEDRASCO via Vittorio Veneto 15
CEPINA VALDISOTTO via Roma 13/E
CHIAVENNA via Francesco e Giovanni Dolzino 67
CHIESA IN VALMALENCO via Roma 138
CHIURO via Stelvio 8
COLORINA via Roma 84
COSIO VALTELLINO - fraz. **Regoleo** - via Roma 7
 COSIO VALTELLINO - fraz. **Cosio Stazione** - piazza San Martino 14
DELEBIO piazza San Carporio 7/9
DUBINO - **Nuova Olonio** - via Spluga 83
 DUBINO via Valeriana 39
GORDONA via Scogli 9
GROSIO via Roma 67
 GROSIO - fraz. **Ravoleo** - via Pizzo Dosdè
GROSOTTO via Statale 73
ISOLACIA VALDIDENTRO via Nazionale 31
LANZADA via Palù 388
LIVIGNO
Head Office, via Sant'Antonio 135
Branch no. 1, via Sároch 728/730
 LIVIGNO via Dala Gesa 557/A
MADESIMO via Giosuè Carducci 3
MADONNA DI TIRANO piazza Basilica 55
MAZZO DI VALTELLINA via Santo Stefano 20
 MELLO piazza San Fedele 1
MONTAGNA IN VALTELLINA via Stelvio 336
 MONTAGNA IN VALTELLINA via Ciaci 36
MORBEGNO
Head Office, piazza Caduti per la Libertà 7
Branch no. 1, via V Alpini 172
NOVATE MEZZOLA via Roma 13
PASSO DELLO STELVIO località Passo dello Stelvio
PIANTEO via Colico 43
PONTE IN VALTELLINA piazza della Vittoria 1
SAMOLACO - fraz. **Era** - via Trivulzia 28
SAN CASSIANO VALCHIAVENNA via Spluga 108
SAN NICOLÒ VALFURVA via San Nicolò 82
SEMOGO VALDIDENTRO via Cima Piazzzi 28
SONDALO via Dr. Ausonio Zubiani 2
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16
Branch no. 1, via Bernina 1
Branch no. 2, via Tomaso Nani 32
Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25
Branch no. 4, piazzale Giovanni Bertacchi 57
Branch no. 5, Galleria Campello 2
Branch no. 6, via Giacinto Sertorelli 2
TALAMONA via Don Giuseppe Cusini 83/A
TEGLIO piazza Santa Eufemia 2
 TEGLIO - fraz. **San Giacomo** - via Nazionale
TIRANO piazza Cavour 20
TORRE SANTA MARIA via Risorgimento 5
TRONA via Valeriana 88/A
TRESENTA DI TEGLIO via Nazionale 57
 TRESIVIO piazza San Pietro e Paolo 24
VALFURVA - fraz. **Madonna Dei Monti**
 piazza Madonna del Carmine 6
VILLA DI CHIAVENNA via Roma 38
VILLA DI TIRANO traversa Foppa 25
VERCEIA via Nazionale 118/D

AUTONOMOUS REGION OF VALLE D'AOSTA

AOSTA corso Battaglione Aosta 79
PONT SAINT MARTIN via Emile Chanoux 45
SAINT-VINCENT via Duca D'Aosta 9

PROVINCE OF ALESSANDRIA

ALESSANDRIA corso Crimea 21
NOVI LIGURE corso Romualdo Marengo 59

PROVINCE OF BERGAMO

ALBANO SANT'ALESSANDRO via Vittorio Emanuele II 6
ALMÉ via Campofiori 36
BARIANO via Umberto I

BERGAMO

Head Office, via Brosetta 64/B
Branch no. 1, via Vittore Ghislandi 4
Branch no. 2, via Guglielmo D'Alzano 3/E
BERGAMO - Ospedale Papa Giovanni XXIII - piazza Oms 1
BONATE SOTTO via Vittorio Veneto - ang. via Antonio Locatelli
BREMBATE via Vittore Tasca 8/10
CARVICO via Giuseppe Verdi 1
CISANO BERGAMASCO via Giuseppe Mazzini 25
COSTA VOLPINO via Nazionale 92
GAZZANIGA via IV Novembre 3
 GHISALBA via Roma 41/43
GRUMELLO DEL MONTE via Roma 133
MAPELLO via Giuseppe Bravi 31
MOZZANICA piazza Antonio Locatelli
NEMBRO piazza Umberto I
OSIO SOTTO via Monte Grappa 12
ROMANO DI LOMBARDIA via Ballila 20
SARNICO via Giuseppe Garibaldi 1/C
SCANZOROSCIATE corso Europa 23
SERATE piazza Caduti per la Libertà 7
TRESCORE BALNEARIO piazza Cavour 6
TREVIGLIO via Cesare Battisti 8/B
 TREVIGLIO - Ospedale - piazzale Ospedale 1
VERDELLINO largo Luigi Einaudi 5
VILMINORE DI SCALVE piazza Vittorio Veneto 8

PROVINCE OF BOLOGNA

BOLOGNA via Riva di Reno 58/B

PROVINCE OF BOLZANO

BOLZANO viale Amedeo Duca D'Aosta 88 / Amedeo Duca D'Aosta Allee 88
MERANO corso della Libertà 16 / Freiheitsstrasse 16
MERANO - Comune di Merano - via Portici 192

PROVINCE OF BRESCIA

ANGOLO TERME piazza Caduti 3
BERZO DEMO via Nazionale 14
BIENNO via Giuseppe Fantoni 36
BORNO via Vittorio Veneto 25
BRENO piazza Generale Pietro Ronchi 4
BRESCIA
Head Office, via Benedetto Croce 22
Branch no. 1, via Crocifissa di Rosa 59
Branch no. 2, via Solferino 61
Branch no. 3, viale Piave 61/A
Branch no. 4, via Fratelli Ugoni 2
CAPO DI PONTE via Aldo Moro 26/A
CEVO via Roma 15
CHIARI via Consorzio Agrario 1 - ang. viale Teosa 23/B
COCCAGLIO via Adelchi Negri 12
COLLEBEATO via San Francesco d'Assisi 12
CORTE FRANCA piazza di Franciacorta 7/C
CORTENO GOLGI via Brescia 2
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12
Branch no. 2, piazza Patriotti 2
DESENZANO DEL GARDA via Guglielmo Marconi 1/A
EDOLO piazza Martiri della Libertà 16
ERBUSCO via Provinciale 29
ESINE via Chiosti 79
GARDONE VAL TROMPIA via Giacomo Matteotti 300
GIANICO piazza Roma 3
ISEO via Roma 12/E
LONATO DEL GARDA corso Giuseppe Garibaldi 59
LUMEZZANE - fraz. **Sant'Apollonio** - via Massimo D'Azeglio 108
MALONNO via Valle Camonica 6
MANERBA DEL GARDA via Valtenesi 43
MANERBIO via Dante Alighieri 8
MARONE via Zanardelli 5
MONTE ISOLA frazione Siviato 116
MONTICHIARI via Mantova - ang. via 3 Innocenti 74
ORZINUOVI piazza Giuseppe Garibaldi 19
OSPITALETTO via Brescia 107/109
PALAZZOLO SULL'OGGIO via Brescia 23
PIAN CAMUNO via Agostino Gemelli 21
PISOGNE via Trento 1
PONTE DI LEGNO piazzale Europa 8
PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84
REZZATO via Broli 49
SALE MARASINO via Roma 33/35
SALÒ viale Alcide De Gasperi 13
SALÒ via Giuseppe Garibaldi 21
SAREZZO via della Repubblica 99
TOSCOLANO MADERNO piazza San Marco 51
TOSCOLANO MADERNO viale Guglielmo Marconi 9
VEZZA D'OGGIO via Nazionale 80
ZONE via Ortì 1

PROVINCE OF CUNEO

ALBA viale Torino 4
CUNEO piazza Tancredi Duccio Galimberti 13

PROVINCE OF CREMONA

CREMA via Giuseppe Mazzini 109
CREMONA
Head Office, via Dante Alighieri 149/A
Branch no. 1, piazza Antonio Stradivari 9
PANDINO via Umberto I 1/3
RIVOLTA D'ADDA via Cesare Battisti 8

PROVINCE OF GENEVA

ALBA viale Torino 4
CUNEO piazza Tancredi Duccio Galimberti 13
BUSALLA via Vittorio Veneto 95
CAMOGGI via Cuneo 9
CHIAVARI piazza Nostra Signora dell'Orto 42/B - ang. via Doria
GENOVA
Head Office, via XXV Aprile 7
Branch no. 1, piazza Tommaso 7 rosso
Branch no. 2, via Sabotino 32/34 rossi
RAPALLO loc. Gen. A. Lamarmorà 4 - ang. via San Filippo Neri
SANTA MARGHERITA LIGURE piazza Giuseppe Mazzini 40

PROVINCE OF LECCO

AIRUNO via San Giovanni 11
ABBADIA LARIANA via Nazionale 140/A
BALLABIO via Ambrogio Confalonieri 6
BARZAGO viale Rimebranze 20
BARZIO via Milano 21
BELLANO via Vittorio Veneto 9
BOSISIO PARINI via San Gaetano 4
CALOLZOCORTE corso Europa 71/A
CASATENOVIO via Roma 23
CASSAGO BRIANZA via Vittorio Emanuele II 2
CASTELLO DI BRIANZA via Roma 18
COLICO via Nazionale - ang. via Sacco
COLLE BRIANZA via Cantù 1
DERVIO via Don Ambrogio Invernizzi 2
ESINO LARIO piazza Gulli 2
IMBERSAGO via Contessa Lina Castelbarco 5

PROVINCE OF LODI

LECCO
Head Office, corso Martiri della Liberazione 65
Branch no. 1, viale Filippo Turati 59
Branch no. 2, piazza XX Settembre 11
Branch no. 3, corso Emanuele Filiberto 104
Branch no. 4, viale Montegrappa 18
 LECCO - Comune di Lecco - piazza Lega Lombarda 1
 LECCO - Ospedale di Lecco - via dell'Eremo 9/11
LOMAGNA via Milano 24
MANDELLO DEL LARIO piazza Sacro Cuore 8
MALGRATE via Gaggio 14
MERATE via Don Cesare Cazzaniga 5
MERATE piazza Giulio Prinetti 6
MERATE - fraz. **Pagnano** - via Rimebranze 3
MERATE - Ospedale di Merate - largo Leopoldo Mandic 1
MONTE MARENZO via Colombara Vecchia 2
MONTECELLO BRIANZA via Provinciale 57

PROVINCE OF MONZA

MONZA viale Spadolini 1
NIBIONNO - fraz. **Cibrone** - via Montello 1
OGGIONO via Lazzeretto 50
PESCATO via Roma 98/E
PRIMALUNA via Provinciale 66
SUEGNO via Roma 10/12
VALREGHENTINO piazza Roma 2
VALMADRERA via San Rocco 31/33
VAARENNA via Corrado Venini 73

PROVINCE OF PAVIA

CODOGNO via Giuseppe Verdi 18/C
LODI via Francesco Gabbia 5
ALBIOLIO via Indipendenza 10
ALSERIO via Carcano 10
APPIANO GENTILE piazza della Libertà 9
ARREGNO piazza Guglielmo Testi 7
AROSIO piazza Montello 1
BELLAGIO via Valassina 58
BINAGO via Roma 9
BIZZARONE via Roma 14
BREGNANO via Giuseppe Mazzini 22/A
BRUNATE via Alessandro Volta 28
BULGAROGROSSO via Pietro Ferloni 5
CAMPIONE D'ITALIA piazza Roma 1/G
CANTÙ via Milano 47
CANZO via Alessandro Verza 39
CAPIAGO INTIMIANO via Vittorio Emanuele II 7
CARATE URIO via Regina 58
CARIMATE - fraz. **Montesolaro** - piazza Lorenzo Spallino
CARLAZZO via V° Alpini 59/A
CARUGO via Luigi Cadorna 32
CASNATE CON BERNATE via Roma 7
CASTELMARTE largo Armando Diaz 1

Banca Popolare di Sondrio

PROVINCE OF MANTOVA

CASTIGLIONE DELLE STIVIERE piazza Ugo Dall'ò 25
GAZOLDO DEGLI IPPOLITI via Guglielmo Marconi 74/76 ①

MANTOVA

Head Office, corso Vittorio Emanuele II 154
Branch no. 1, piazza Broletto 7
MARMIROLO via Tito Speri 34 ①
SAN BENEDETTO PO via Enrico Ferri 15 ①
SUZZARA piazza Giuseppe Garibaldi 4
VIADANA piazza Giacomo Matteotti 4/A

PROVINCE OF MILANO

ABBIATEGRASSO piazza Giuseppe Garibaldi 2
BASIGLIO piazza Monsignor Rossi 1 ①
BUCCINASCO via Aldo Moro 9
CERNUSCO SUL NAVIGLIO viale Assunta 47/49
CINISELLO BALSAMO via Giuseppe Garibaldi 86
COLOGNO MONZESE viale Emilia 56
LEGNANO via Alcide De Gasperi 10
MELEGNANO via Clateo Castellini 19
MILANO
Head Office, via Santa Maria Fulcorina 1
Branch no. 1, Porpora, via Nicola Antonio Porpora 104
Branch no. 2, Barona, viale Faenza 22
Branch no. 3, aza, corso di Porta Vittoria 4
Branch no. 4, Regione Lombardia, piazza Città di Lombardia 1
Branch no. 5, Bovisio, via degli Imbriani 54
Branch no. 6, Corvetto, via Marco d'Agrate 11
Branch no. 7, Caneva, via Monte Ceniso 50
Branch no. 8, Quarto Oggiaro, via M. Lessona - ang. via F. De Roberto
Branch no. 9, A.L.E.R., viale Romagna 24
Branch no. 10, Solari, via Andrea Solari 15
Branch no. 11, Università Bocconi, via Ferdinando Bocconi 8
Branch no. 12, Baggio, via delle Forze Armate 260
Branch no. 13, Repubblica, viale Monte Santo 8
Branch no. 14, Palazzo di Giustizia, via Colonnaletta 5 - ang. via C. Battisti
Branch no. 15, Murat, via Gioacchino Murat 76
Branch no. 16, Ortomercato, via Cesare Lombroso 54
Branch no. 18, Fiera, viale Ezio Belisario 1
Branch no. 19, Giambellino, via Giambellino 39
Branch no. 20, Sempione, via Antonio Canova 39
Branch no. 21, Politecnico, via Edoardo Bonardi 4
Branch no. 22, Santa Sofia, via Santa Sofia 12
Branch no. 23, Certosa, viale Certosa 62
Branch no. 24, Piave, viale Piave 1
Branch no. 25, Zara, viale Zara 13
Branch no. 26, Lodi, corso Lodi - ang. via S. Gerolamo Emiliani 1
Branch no. 27, Don Gnocchi, via Alfonso Capecelatro 66
Branch no. 28, Corsica, via privata Sanremo - ang. viale Corsica 81
Branch no. 29, Bicocca, piazza della Trivulziana 6 - edificio 6
Branch no. 30, De Angeli, piazza Ernesto De Angeli 9
Branch no. 31, Isola, via Carlo Farini 47
Branch no. 32, Venezia, viale Luigi Majno 42 - viale Piave 43
Branch no. 33, Porta Romana, corso di Porta Romana 120
Branch no. 34, San Babila, via Cino del Duca 12
Branch no. 35, Loreto, piazzale Loreto 1 - ang. viale Brianza
Branch no. 36, Monti, via Vincenzo Monti 41
Branch no. 37, Vercelli, corso Vercelli 38
Branch no. 38, Università Cattolica del Sacro Cuore, largo A. Gemelli 1
MILANO - CCIAA di Milano - via Meravigli 9/B ①
MILANO - Istituto Nazionale Tumori - via Giacomo Venezian 1 ①
MILANO - ASP Golgi Redaelli - via Bartolomeo D'Alviano 78 ①
MILANO - Bicocca - piazza dell'Ateneo Nuovo 1 - Edificio U 6 ①
MILANO - Istituto Neurologico - via Giovanni Celoria 11 ①
MILANO - I.U.L.M. - via Carlo Bo 1 ①
MILANO - Pio Albergo Trivulzio - via Antonio Tolomeo Trivulzio 15 ①
MILANO - Pirelli - via Fabio Filzi 22 ①
MILANO - Taramelli - via Torquato Taramelli 12 ①

PERO

SEGRATE via Mario Greppi 13
SEGRATE via Rodolfo Morandi 25
SEGRATE via Fratelli Cervi 13 - Residenza Botteghe ①

SESTO SAN GIOVANNI

Branch no. 1, piazza Martiri di via Fani 93
Branch no. 2, piazza della Resistenza 52

TREZZO SULL'ADDA

via Antonio Gramsci 10
TURBIGO via Alleanza Comunale 17 ①
VIZZOLO PREDABISSI via Pandina 1
- A.S.S.T. - Melegnano e della Matesana ①

PROVINCE OF MONZA E BRIANZA

ALBIATE via Trento 35
BELLUSCO via Bergamo 5 ①
BERNAREGGIO via Michelangelo Buonarroti 6
BRIOSCO piazza della Chiesa 5 ①
BOVISIO MASIAGO via Guglielmo Marconi 7/A
CARATE BRIANZA via Francesco Cusani 10
DESIO via Porticchetto - ang. via Pio XI
GIUSSANO via Cavour 19
LISSONE via Trieste 33
MACHERIO via Roma 17 ①
MEDA via Yuri Gagarin - ang. corso della Resistenza
MONZA
Head Office, via Galileo Galilei 1
Branch no. 1, via Alessandro Manzoni 33/3/A
NOVA MILANESE via Antonio Locatelli
SEREGNO
Head Office, via Cavour 84
Branch no. 1, via Cesare Fontoni 5
SEREGNO - Gelsia S.r.l. - Formenton - via Cardinal Minoretto 18/B ①
SEVESO via San Martino 20
VAREDO corso Vittorio Emanuele II 53
VILLASANTA - fraz. San Fiorano - via Amatore Antonio Sciesa 7/9
VIMERCATE piazza Papa Giovanni Paolo II 9

PROVINCE OF NOVARA

ARONA via Antonio Gramsci 19
NOVARA via Andrea Costa 7

PROVINCE OF PADOVA

PADOVA via Ponte Molino 4

PROVINCE OF PARMA

PARMA via Emilia Est 31/A

PROVINCE OF PAVIA

BELGIOIOSO piazza Vittorio Veneto 23 ①
BRONI via Giuseppe Mazzini 1
CANNETO PAVESE via Roma 15 ①
CASTEGGIO piazza Cavour 4
CILAVEGNA via Giuseppe Mazzini 2/8 ①
CORTEOLONA piazza Giuseppe Verdi 8 ①
MEDE corso Italia 2 ①

MORTARA

via Roma 23
PAVIA
Head Office, piazzale Ponte Coperto Ticino 11
Branch no. 1, corso Strada Nuova 75
PAVIA - DEA - via Privata Campeggi 40 ①
PAVIA - Policlinico San Matteo - viale Camillo Golgi 19 ①
RIVANAZZANO TERME piazza Cornaggia 41 ①
ROBBIO piazza della Libertà 33 ①
STRADELLA via XXVI Aprile 56 ①

VIGEVANO

piazza IV Novembre 8

VOGHERA

via Emilia 70

PROVINCE OF PIACENZA

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

PROVINCE OF ROMA

ARICCIA via Laziale 1 ①
CIAMPINO viale del Lavoro 56
FRASCATI via Benedetto Cairoli 1
GENZANO DI ROMA viale Giacomo Matteotti 14
GROTTAFFERRATA via XXV Luglio
MONTE COMPATRI piazza Marco Mastrofini 11 ①

ROMA

Head Office, Eur, viale Cesare Pavese 336
Branch no. 1, Monte Sacro, via Val Santerno 27
Branch no. 2, Ponte Marconi, via Silvestro Gherardi 45
Branch no. 3, Prati Trionfale, via Trionfale 22
Branch no. 4, Bravetta, piazza Biagio Pace 1
Branch no. 5, Portonaccio, piazza S. Maria Consolatrice 16/B
Branch no. 6, Appio Latino, via Cesare Baronio 12
Branch no. 7, Aurelia, via Baldo degli Ubaldi 267
Branch no. 8, Africano Vescovio, viale Somalia 255
Branch no. 9, Casal Palocco, piazzale Filippo il Macedone 70/75
Branch no. 10, Laurentina, via Laurentina 617/619
Branch no. 11, Esquilino, via Carlo Alberto 61/A
Branch no. 12, Boccea, circoscrizione Cornelia 295
Branch no. 13, Tuscolano, via Foligno 51/A
Branch no. 14, Garbatella, largo delle Sette Chiese 6
Branch no. 15, Farnesina, via della Farnesina 154
Branch no. 16, Monte Sacro Alto/Talenti, via Nomentana 925/A
Branch no. 17, San Lorenzo, piazza dei Sanitti 10/11
Branch no. 18, Infernetto, via Ermano Wolf Ferrari 348
Branch no. 19, Nuovo Salario, piazza Filatteria 24
Branch no. 20, Tuscolano/Appio Claudio, via Caio Canuleio 29
Branch no. 21, Nomentano, via Famiano Nardini 25
Branch no. 22, WFP - Sportello Interno - via Cesare Giulio Viola 68/70
Branch no. 23, Ostia, via Carlo Del Greco 1
Branch no. 24, San Clemente/Colosseo, via di S. Giovanni in Laterano 51/A
Branch no. 25, Parioli, viale dei Parioli 39/B
Branch no. 26, Tritone, via del Tritone 207
Branch no. 27, Prati, piazza Cavour 7
Branch no. 28, Prenestino/Torignattara, piazza della Marranella 9
Branch no. 29, FAO - Sportello Interno - viale delle Terme di Caracalla 1
Branch no. 30, IFAD - Sportello Interno - via Paolo Di Dono 44
Branch no. 31, Campus Bio-Medico di Roma - Policlinico, via A. del Portillo 200
Branch no. 32, Monteverde Vecchia, via Anton Giulio Barrilli 50/H
Branch no. 33, Trastevere, piazza Sidney Sonnino 40
Branch no. 34, Gregorio VII, via Gregorio VII 348 - ang. piazza Pio XI 40
Branch no. 35, Parione, corso Vittorio Emanuele II 139
Branch no. 36, CONSOB - Sportello Interno - via G. B. Martini 3
Branch no. 37, Trieste/Salaria, via Tagliamento 37
ROMA - Biblioteca Nazionale Centrale - viale Castro Pretorio 105 ①
ROMA - Università Foro Italoico - piazza Lauro De Bosis 15 ①

PROVINCE OF SAVONA

ALBISSOLA MARINA via dei Ceramisti 29 ①
SAVONA via Antonio Gramsci 54
VARAZZE via Goffredo Mameli 19

PROVINCE OF TORINO

CANDIOLLO via Torino 31/A ①
TORINO
Head Office, via XX Settembre 37
Branch no. 1, via Luigi Cibrario 17/A bis

PROVINCE OF TRENTO

ARCO via delle Garberie 31 ①
CLES piazza Navarrino 5
RIVA DEL GARDA viale Dante Alighieri 11
ROVERETO corso Antonio Rosmini 68 - ang. via Fontana
TRENTO piazza di Centa 14

PROVINCE OF TREVISO

TREVISO corso del Popolo 50 - angolo via Giuseppe Toniolo

PROVINCE OF VARESE

AEROPORTO DI MALPENSA 2000 Terminal 1 - FERNO
BESNATE via Libertà 2 ①
BISUSCHIO via Giuseppe Mazzini 80
BRUSIMPIANO piazza Battaglia 1/A ①
BUSTO ARSIZIO piazza Trento e Trieste 10
CARNAGO via Guglielmo Marconi 2

CASTELLANZA

corso Giacomo Matteotti 2
CUGLIATE FABIASCO via Pagliolo 25 ①
GALLARATE via Torino 15
GAVIRATE via Guglielmo Marconi 13/A
LAVENA PONTE TRESA via Luigi Colombo 19
LONATE POZZOLO via Vittorio Veneto 27
LUINO via XXV Aprile 31
MARCHIROLO via Cavalier Emilio Busetti 7/A
PORTO CERESIO via Giacomo Matteotti 12 ①

SARONNO via San Giuseppe 59
SESTO CALENDE piazza Giuseppe Mazzini 10
SOLBIATE OLONA via Vittorio Veneto 5
SOMMA LOMBARDO via Milano 13

VARESE

Head Office, viale Belforte 151
Branch no. 1, piazza Monte Grappa 6
Branch no. 2, via San Giusto - ang. via Malta
VARESE - Comune di Varese - ang. via Luigi Sacco 5 ①
VEDANO OLONA via Giacomo Matteotti - ang. via Cavour 12 ①
VIGGIU via Saltro 2 ①

PROVINCE OF VERBANO-CUSIO-OSOLA

CANNOBIO viale Vittorio Veneto 2/bis
DOMODOSSOLA piazza Repubblica dell'Ossola 4
GRAVELLONA TOCCE corso Guglielmo Marconi 95
VERBANIA - Intra, piazza Daniele Ranzoni 27
VERBANIA - Pallanza, largo Vittorio Tonolli 34

PROVINCE OF VERCELLI

VERCELLI piazza B. Mazzucchelli 12

PROVINCE OF VERONA

BARDOLINO via Mirabello 15
PESCHIERA DEL GARDA via Venezia 40/A
VERONA corso Cavour 45
VILLAFRANCA DI VERONA corso Vittorio Emanuele II 194

PROVINCE OF VICENZA

VICENZA corso Santi Felice e Fortunato 88

TEMPORARY BRANCHES

MILANOCITY FIERA - piazzale Carlo Magno - pad. 3 piano quota +7.1
NUOVO POLO FIERISTICO - corso Italia Est
Strada Statale del Sempione 38 - Rho/Però tel. 02 4542082

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- BELGIUM (Brussels) - BRAZIL (Belo Horizonte and Sao Paulo)
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(Ulaanbaatar) - PERU (Lima) - PORTUGAL (Lisbon) - REPUBLIC
OF MOLDOVA (Chisinau) - ROMANIA (Bucharest) - RUSSIA
(Moscow) - SERBIA (Belgrade) - SINGAPORE (Singapore) - SOUTH
AFRICA (Johannesburg) - SOUTH KOREA (Seoul) - SPAIN (Madrid)
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- UNITED ARAB EMIRATES (Dubai) - UNITED KINGDOM (London)
- UNITED STATES (Chicago and Miami) - UZBEKISTAN (Tashkent)
- VIETNAM (Hanoi)

BANCA POPOLARE DI SONDRIO (SUISSE) SA

SWITZERLAND

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

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Lugano, via Giacomo Luvisi 2a tel. +41 58 8553000
fax +41 58 8553015

HEAD OFFICE

LUGANO via Maggio 1 tel. +41 58 8553100

BRANCHES AND AGENCIES

LUGANO - LUGANO Cassarate - BASEL - BELLINZONA - BERN -
BIASCA - CASTASEGNA - CELERINA - CHIASSO - CHUR - LOCARNO -
MARTIGNY - NEUCHÂTEL - PONTRESINA - POSCHIAVO - SAMEDAN -
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www.pirovano.it - info@pirovano.it

"LUIGI CREDARO" LIBRARY

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www.pops.bibliotecaredaro.it - info@pops.bibliotecaredaro.it

THE BANKING GROUP IN THE HEART OF THE ALPS

Banca Popolare di Sondrio

BPS (SUISSE)

Factorit

Pirovano Stelvio



A MAGIC REALISM

What emotions do I have looking at the paintings of Paolo Punzo, and how can I illuminate them in words, trying to capture the essential aspects? I recognise myself in these paintings, in these flowers, in these trees, in these mountains, in these cities (Bergamo and Merano) transfigured in their urban, and emotional, dimension and I try to extract meanings and associations from them. What do these flowers and these trees tell me, immersed in colours that in their glow communicate the painter's hopes and melancholy? They make me think of what Giacomo Leopardi wrote about flowers and trees, of plant life in general, in his *Zibaldone*. «Enter a garden of plants, herbs, flowers. Even though you want to laugh. Even in the mildest season of the year. You cannot look anywhere without finding suffering. All that family of plants is in a state of sufferance, some more, some less. There the pink one is offended by the sun, which gave it life; it wrinkles, languishes, wilts. There that lily is being sucked cruelly by a bee, in its most sensitive, most vital parts»; and again: «That plant is too hot, this one's too cool; too much light, too much shade; too moist, too dry. The one suffers uncomfortably and finds obstacles and obstruction in growing and stretching; the other does not find support, or gets tired and struggles to get there. Throughout the garden you cannot find a single seedling in a perfect state of health».

Yes, those painted by Paolo Punzo make me think of these flowers and these trees: sometimes filled with light and sometimes with shade, sometimes when they are flourishing, sometimes when they are in decline. The trees, and the flowers, even those on the seashore, are painted in their fragile and ephemeral beauty, and they speak of melancholy, and of tenderness. These are emotions that (also) lap Bergamo and Meran, caught in their different urban tones: closed and immersed in the light, that of Merano, open in the twilight, that of Bergamo, which especially in the basilica and in the monastery of St. Augustine, which are in Bergamo Alta, finds its highest and most moving expression in the splendour of silence and harmony. They are impressions that leave echoes of astonishment and peace in the heart; but how do my emotions change by looking at the paintings that have mountains as their leitmotiv?

They are not mountains likely to be mirrored in Thomas Mann's Enchanted mountain with his inebriating emotional experiences and with his disturbing, bewitched fascinations; and they are not even the mountains that from the house I live in can be seen shining in their timeless snow and in their vertiginous altitudes, such as those of Monte Rosa: unattainable, and immobile in their silence. The mountains painted by Paolo Punzo (perhaps) do not have this solemnity, but they also affect your imagination with their icy coldness and astonished enchantment. They are mountains that have a different language from that of Monte Rosa, and yet this does not make them distant one from the others in their shared glow and in their common source of contemplation of the infinite.

In the anguish that overcomes us when looking at the mountains painted by Paolo Punzo, Monte Disgrazia in particular, I seem to see reflected in them all the anxieties of the painter's soul, which he liberates, painting them with this feverish passion of the soul. They are paintings that you do not forget, being accompanied by emotional echoes that get renewed without end. They are luminous pictures of various types, impregnated with realism, certainly, but of a magical realism, which redeems the realistic dimension. But other emotional experiences come from the paintings of Paolo Punzo, and in particular those centred on the high altitude mountains where we feel adrift in loneliness and astonishment, silence and bewilderment. The great loneliness and inexhaustible cascades of anguish that very high mountains provoke in us are accompanied by the melancholy that comes from flowers, plants and the sea. They are paintings that immerse themselves in the infinite narrative of emotions: serene and nostalgic emotions, emotions cracked by melancholy and torn by anguish. They are pictures capable of transmitting emotions, making them shine in their wounded beauty and grace; they are also pictures that invite us to look inside ourselves, into our inner life, trying to glimpse the horizons of our life's sense when confronted with the magnitude and Leopardian suffering of nature.

Eugenio Borgna

Head Physician Emeritus of Psychiatry at the Ospedale Maggiore of Novara

The seasons of Paolo Punzo

He was baptised Paolino Mario Punzo in 1906, but when, just over twenty years old, he decided to become a painter, he renamed himself Paolo Punzo and with this name everyone soon thought of him as the “painter of mountains”. And that is still how we know him today.

However, every so often we find ourselves in certain lush seascapes or delicate urban views with his unmistakable signature at the bottom and that tends to wrong-foot us all of a sudden. Punzo did this?! This “painter of mountains”!? And what’s he doing on the Ligurian coast or in the streets of Morbegno, Bergamo or Merano?

The “painter of mountains” cliché is hard to die, also because, for decades when he was still alive, there was never a Punzo exhibition without the newspapers immediately pulling out that definition of him, starting with the title. And we are not talking only of provincial newspapers, but of the national daily, the *Corriere della Sera*, which was perhaps the main authoritative vehicle of that cliché, without necessarily having that intention.

To tell the truth, re-reading today the articles that Vittorio G. Rossi, Leonardo Borgese, Fulvio Campiotti, Salvatore Gotta and the great Dino Buzzati dedicated to him on several occasions, there was always an appreciative mention of his marine or urban landscapes, but in the end it is always “the painter of mountains” that imposes itself and takes over.

And for good reason, we would add. Because Punzo wanted to be and was above all a painter of mountains, which most of his work is dedicated to. Because he did not look at mountains from afar, but climbed them as a mountaineer. And because it was the CAI, the “Italian Alpine Club” which Punzo remained tied to throughout his life, that officially sanctioned that image by organizing his first two major exhibitions in Sondrio and Milan in 1935; and it was the CAI that saw in his epic landscape painting, celebratory of the summit and ice, the most authentic image of the fascist and mussolinian mystique of the mountain, of which CAI was then the instrument, and mountaineering as a struggle “with the summit and the alp”, a triumph of strength and will over a grandiose and hostile nature.

But it was not the CAI that decreed his success, but the public that crowded his exhibitions, and that in his paintings appreciated above all the realistic magic with which Punzo was able to render, only by painting, the tactile evidence of rock and snow, the profile of a mountain or the rise of a whole group of peaks, each time recreating that emotion in front of the spectacle of high-altitude nature that only painting from real life manages to give, thanks to a mountaineer-painter who has climbed with 25 kilos of rucksack and tripod and bivouacked among the rocks and ice peaks in search of the right place and light to fix an image of great atmospheric intensity, and without sunglasses as they would have altered the colours.

It is this emotion condensed in the “truth” of representation – i.e. the exact opposite of any spiritualist and superheroic mysticism of the mountain – which Punzo wants the spectator to relive and that will determine his popularity and success well beyond fascism in the Fifties and Sixties, when his paintings sold like hot cakes not only among mountain enthusiasts, but also among middle-class city dwellers, in Milan and the rest of Lombardy. As Letizia Scherini wrote, in this way they «recreated at home the emotion of the horizons of their summer and winter holidays, fake windows hung on the wall, wide open to mountain

views with well-known profile» (*The mountains of Paolo Punzo: the Alps of the Valtellina and Valchiavenna*, Sondrio, Credito Valtellinese, 2001).

Both during fascism and in the post-war period, Punzo was always at the margins of the official artistic environments, following his own personal route that resembled the nineteenth-century tradition of Lombard naturalism and that of painters such as Longoni or Segantini, who had chosen the mountain as their favourite place of work. Also for Punzo, as for Segantini, the mountains of the Maloja, the Valtellina Alps will become the scene of their paintings. The painter set up an old hunting lodge in Valmalenco on Lake Palù, then a tiny hermitage at Chiareggio at the foot of Monte Disgrazia, and lastly in '44 he adapted as his haven an old stable under the northern wall of the Tresero, still known today as the “painter’s bothy”, just like Segantini on the Schafberg. But while with Segantini the mountain takes on symbolic and cultural meanings and the alpine world is expanded to take in peasants’ work and man-nature relationship until it becomes a symbol of maternity, with Punzo there is no people, no pastures, no animals, no shadow of symbolism or intellectual elaboration, there is only the mountain and its summit in their atmospheric purity and nakedness, where there vibrates a pleasingly visual emotion that transmits, for a moment, a breath of poetry.

At the beginning of the 1950s, however, there is a turning point in Punzo’s painting. The mountain is no longer the only subject, but new interests appear and grow: still life, urban landscapes, seascapes.

It is a turning point that is closely related to his biography. At this point the artist lives in Milan, dedicating himself increasingly to his extraordinary collection of mediaeval wooden sculptures; he often returns to Bergamo to the places of his childhood; he spends time in Merano where his brother Carlo lives and spends a few months of the year in Liguria: and he begins to get a taste for travelling: Africa, Turkey, Latin America.

This is how the “other Punzo” is born, the Punzo that surprises and disorients his audience and his admirers, a less realistic and more intimate Punzo, more relaxed in his brushwork, freer in the use of colour, more open to stylistic experimentation. We have some examples in this exhibition. In *Flowers on the windowsill*, painted in '49, the nature inside the home is more alive than the scrawny winter plants outside. The summer view of Morbegno in '56 exploits all the effects of the board on which it is painted for a burnt landscape that is thirsty for water. The *Prato della Fara and the Sant’Agostino complex in Bergamo Alta* offers us for the first time a chiarista Punzo who in the evanescent chromatics of the painting hints at the fantasized memory of his childhood. The views of Merano, on the other hand, have a vivacity of colour that is almost *Fauve*.

The Ligurian landscapes, where a human figure sometimes appears, are of a refined intellectual construction. His *Flowers*, painted in '64, are an almost formless explosion of colour, while his *Stem with yellow flowers* has an exotic delicacy of infinite poetic suggestiveness.

There are no more mountains in these paintings, but there is more poetry. There is no longer the mountaineer, but the artist has remained. A Punzo, certainly, less well-known and perhaps less appreciated by the general public, but ultimately perhaps more real.

Franco Monteforte

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 € 942,519,617

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, 28 April 2017 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, 29 April 2017 to discuss the following

AGENDA

- 1) Presentation of the financial statements as of 31 December 2016: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions;
- 2) Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;
- 3) Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act);
- 4) Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;
- 5) Appointment to perform the legal audit of the accounts – pursuant to arts. 13, para. 1, and 17, para. 1, of Decree 39 dated 27 January 2010, as respectively amended by arts. 16 and 18 of Decree 135 dated 17 July 2016, by art. 16 of Regulation (EU) 537/2014 of the European Parliament and of the Council of 16 April 2014 - for the period 2017-2025 and approval of the related fees;
- 6) Determination of directors' emoluments;
- 7) Appointment of five Directors for the three-year period 2017-2019.



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 177,603 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 Legislative 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 ten other shareholders. Proxy forms are available at all branches of the Bank and on its website www.popso.it/assemblea2017. 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 Legislative 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 Legislative 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 «eMarket STORAGE» authorised storage mechanism «www.emarketstorage.com» and on the Company's website at www.popso.it/assemblea2017 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 2017-2019

With reference to point 7) on the agenda for the Ordinary Shareholders' Meeting - Appointment of five Directors for the three-year period 2017-2019 - the text of art. 35 of the Articles of Association is presented below.

””””

Art. 35

Presentation of 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.

Lists have to be presented by at least 500 shareholders, with the requisites laid down in art. 13.

One or more shareholders with the requisites laid down in art. 13.2 and who have a total interest of not less than 0.50% in the share capital can also present lists. The members must indicate the number of shares held in total and certify that share holding.

The notice of calling was published, as required by law, on the Company's



website at www.popso.it/assemblea2017 and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 23 March 2017.

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

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. Candidates should also declare if they have the requisites of independence as per art. 33.2 and, if they do, this is mentioned in the lists. Any lists 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. 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, paragraph 3, of the articles of association states that: «The composition of the Board of Directors must ensure gender balance in accordance with current regulations.»

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.

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/assemblea2017

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.

Sondrio, 17 March 2017

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/assemblea2017 and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 23 March 2017.

Note. The figures in this report are in euro; all changes expressed as percentages refer to comparable data from the end of 2015, unless otherwise specified. Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units.

DIRECTORS' REPORT ON OPERATIONS

SUMMARY OF RESULTS

Shareholders,

After exiting what was undoubtedly the most lasting and worrying crisis in the period since the Second World War, the world economy has experienced further difficulties in finding a sound growth path. This is evidenced, in part, by the conflicting dynamics of international trade, which is the primary indicator of the progress made towards globalisation. Indeed, there are still many unresolved economic, financial and political problems on the table. The last mentioned are reflected in the crises afflicting numerous areas of the planet, with knock-on effects in the more advanced countries that include targeted terrorist activity.

Looking more locally, the moderate recovery of the European economy consolidated over the year, albeit with differences between countries. It should in fact be recognised that, even in the most challenging years, some countries – notably Germany – were able to avoid most of the difficulties.

In terms of the here and now, while continuation of the highly expansionary monetary policy has undoubtedly facilitated the recovery, each national economic system remains responsible for making the most of the situation. Italy does seem to have made some progress, but the size and number of the obstacles to growth – from the gigantic public debt to the elephantine bureaucracy – that merely listing them induces fear.

The domestic banking system saw some light – not much – and many shadows. An improvement in the macroeconomic situation meant that there was less need for prudential provisions, but the chickens came home to roost towards the end of the year, highlighting long deferred issues that required government intervention to stabilise one of the country's largest and oldest banks, the oldest in fact.

Against this difficult background, our bank was able to maintain healthy and profitable operations. Net profit, the most meaningful summary indicator, amounted to 80.048 million, -20%, and would have been much higher except for the requirement, as in the prior year, to contribute towards resolving the outstanding banking crises.

The positive operating results – 2016 was the 146th year of profits – provide the best assurance of the ability of the bank to generate sustained self-financing and remunerate the providers of capital.

Direct funding rose by 5.16% to 28,002 million, while lending increased to 21,332 million, +6.55%, in further confirmation of the support guaranteed to the economy.

Operationally, the compression of interest rates weighed both on debt securities, with yields on government bonds actually negative for short-term maturities, and on the spread between lending and funding rates, which is now at an all-time low. The results of financial activities were positive, albeit



RESULTS IN BRIEF

(in millions of euro)	2016	2015	% Change
Balance sheet			
Loans and receivables with customers	21,332	20,021	6.55
Loans and receivables with banks	2,760	2,002	37.86
Financial assets	7,938	8,455	-6.12
Equity investments	487	489	-0.26
Total assets	33,588	32,018	4.90
Direct funding from customers	28,002	26,627	5.16
Indirect funding from customers	26,888	26,635	0.95
Direct funding from insurance premiums	1,266	1,100	15.11
Customer assets under administration	56,156	54,362	3.30
Other direct and indirect funding	5,873	4,537	29.44
Equity (excluding profit for the year)	2,255	2,234	0.91
Income statement			
Net interest income	415	479	-13.40
Total income	776	937	-17.24
Profit from continuing operations	106	144	-26.77
Profit for the year	80	100	-20.00
Key ratios (%)			
Cost/income ratio	52.57	41.97	
Net interest income/Total assets	1.24	1.50	
Net financial income/Total assets	1.53	1.68	
Net interest income/Total income	53.52	51.15	
Administrative expenses/Total income	57.21	46.37	
Profit/Total assets	0.24	0.31	
Non-performing loans/Loans and receivables with customers	3.58	3.65	
Loans and receivables with customers/Direct funding from customers	76.18	75.19	
Capital ratios (%)			
CET1 Capital ratio	11.15%	10.50%	
Total Capital ratio	13.91%	13.80%	
Free capital	1,206	1,196	
Other information			
Number of employees	2,676	2,646	
Number of branches	337	333	

BPS (SUISSE)



the Swiss subsidiary has managed to position itself effectively on the market and by adapting its strategy to ongoing changes has achieved its goals

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BPS (SUISSE)

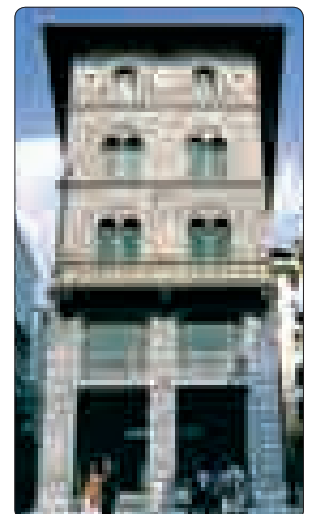


The appendix to the annual report is devoted to the architect Francesco Castelli, better known under the pseudonym of "Borromini".

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Fax +41 58 8553115

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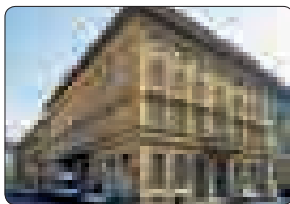


Factorit



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Factorit ranks among the leading companies in the sector, being the 5th Italian operator, 1st among its direct competitors, being the factors that belong to medium-sized banking groups



Factorit
GRUPPO Banca Popolare di Sondrio

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Via Cino del Duca 12
Tel. +39 02 58150.1
Fax +39 02 58150.205

www.factorit.it | info@factorit.it

Branch offices in:

- MILANO • TORINO • PADOVA
- BOLOGNA • SIENA • ROMA

Member of Factors Chain International with over 400 foreign correspondents in the most important international markets.

Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.

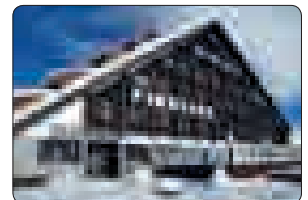


Pirovano Stelvio

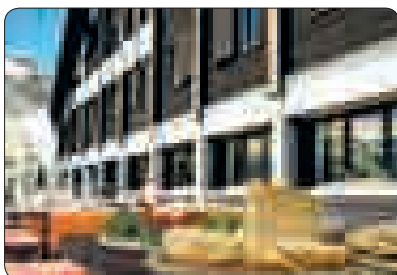


good results were achieved from the efforts made to support tourism in the Stelvio Pass, which also helped spread the image of the bank

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



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Albergo Quarto Pirovano
Stelvio Pass
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below those achieved in the prior year. There was a marked reduction in new provisions against loans, even while maintaining the particularly prudent policies that have increased the coverage of impaired loans.

BPS stock, traded on the FTSE Italia All Share market operated by Borsa Italiana, fell in price by 24.66% over the year, which was somewhat less than the 38.20% decline in the banking sector as a whole.

There are now 182,797 shareholders.

The key statistics summarised below are the fruit of the intense efforts made by our staff, comprising 2,676 persons.

Total assets came in at 33,588 million, +4.90%.

Net interest income was 415.2 million, -13.40%; net fee and commission income reached 249.511 million, -0.11%. Total income amounted to 775,810 million, -17.24%.

The success of efforts to contain spending renders even more deplorable the charges imposed to help resolve the above-mentioned banking crises, while loan adjustments benefited greatly from the upturn in the economic cycle.

Banca Popolare di Sondrio (SUISSE) SA and Factorit spa contributed to the expansion and upgrade of the range of services offered by the Banking group.

TERRITORIAL EXPANSION

When it comes to territorial expansion, we are used to swimming against the tide.

Over the past decades, when buying branches – perhaps for a high price – was fashionable, we worked step by step to build our own strong network, without duplications. Now that many are closing their branches, often with serious job losses, we continue to expand in a steady and careful manner.

The positive results achieved, in terms of market share and profitability, confirm that prudent management, streamlined operations and business initiative continue to be winning attributes: they do not become unfashionable, even now when the pace of change is accelerating.

New technologies have opened new channels of communication and business between banks and customers; users are making more regular, intensive and effective recourse to the countless opportunities offered by the various IT networks; these days, everything processed appears on the screen of a computer or smartphone.

We are already immersed in this reality, with tools, applications and programs that enable us to dialogue interactively with our customers. For some time now, we have been investing in virtual banking in the awareness that the future will not wait. This approach enables us to reach new categories of customer: from young people who may have already benefited from using our «Carta ateneo+» at their Universities, to the communities of users for which we provide nationwide services.

We are just as determined to evolve our branch network towards an

innovative model, in which branches are empowered to manage and finalise the key moments in their personal relations with customers, which are then able to operate easily using their preferred channels.

In this light, we opened new branches in Vicenza, Treviso, Varazze, Busalla and Cologno Monzese during the year, raising the total to 337 after the closure of Milan branch 17, which was no longer needed.

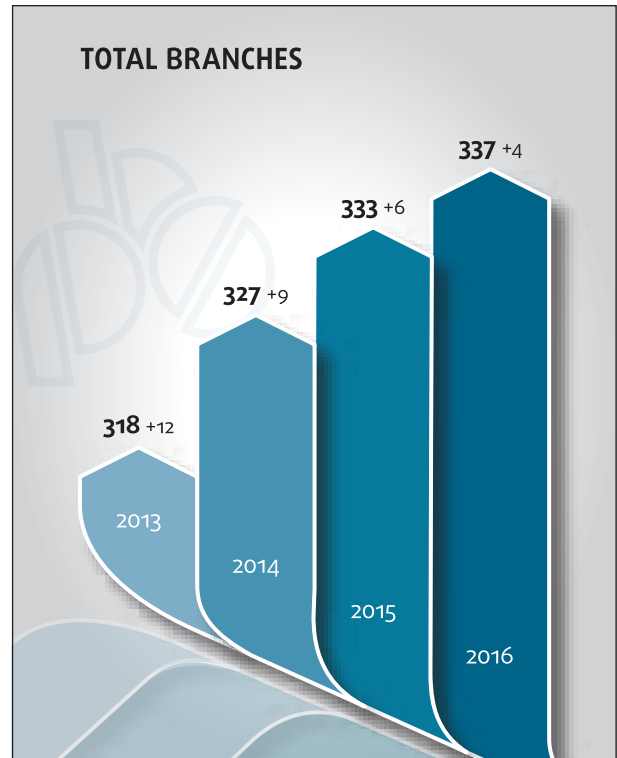
After opening in Padua in mid-2015, expansion has continued in the Veneto centres of greatest interest. As a provincial capital, Vicenza is a town with almost 115,000 residents, at the heart of a metropolitan area estimated to hold 300,000 inhabitants. Due to its artistic wealth, Vicenza is an important destination for international cultural tourism, being known as the «home of Palladio» due to the numerous buildings there that were designed by the great architect towards the end of the Renaissance. All this contributes to making the town rather dynamic, with lively commercial, hotel and restaurant facilities. The territory as a whole is also marked by the large number of small and medium-sized enterprises that are active. The most representative sectors include engineering, textiles and gold. Not by chance, Vicenza is also known as the City of Gold and this role is confirmed by the VicenzaOro Fair, which is among the most important at an international level. More than one third of Italian gold exports are produced by local firms.

Again in Veneto, we have also opened in Treviso, another provincial capital with more than 83,000 inhabitants.

This province extends down towards the Venice lagoon, across essentially flat terrain, and up to the foothills of the Alps. Over the decades, the Treviso area made a decisive contribution to building the image of the North-East as a powerhouse of manufacturing at national level. In fact, leading industrial districts serve such industries as furniture, stainless steel, footwear and sports clothing. Nevertheless, agriculture has also retained an important role. The province is in fact famous for its wines, which have conquered international markets (Conegliano and Valdobbiadene).

The heritage of Treviso is marked by its considerable civil and religious artistic wealth with several important museums, while the network of canals creates a picturesque environment in the town centre. Vibrant commercial facilities are complemented by the cultural contribution made by the University hub, with centres established by the Universities of Padua and Venice-Cà Foscari, as well as by Venice's Department of Architecture.

The openings in Varazze (SV) and Busalla (GE) have increased the number of branches in Liguria to 9. Dating back to Roman times, Varazze is





we have planned, step by step, an efficient branch network;
the peripheral units continue to feed a process of expansion that is measured and attentive

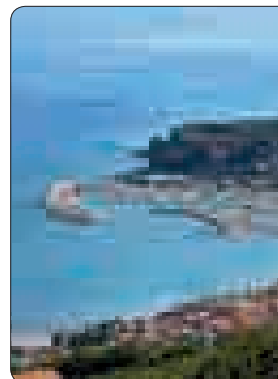
VICENZA



TREVISO



VARAZZE (SV)



Territorial expansion

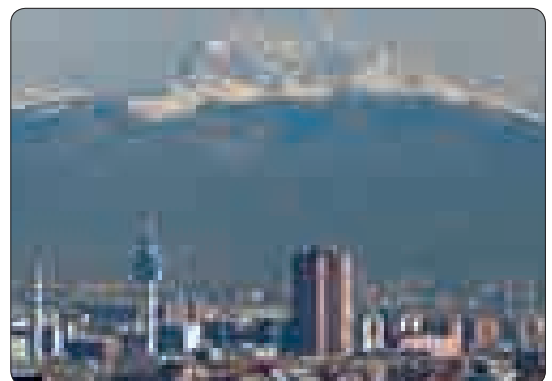


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BUSALLA (GE)



COLOGNO MONZESE (MI)



now a town with more than 13,000 inhabitants and a clear focus on tourism, well supported by its hotels and restaurants, as well as a marina for small boats. This is one of the leading and most favoured destinations of its kind on the entire Italian riviera. With a capacity of about 800 boats, the marina offers all necessary port services.

The treasury branch established in the town from 2013 has helped to build awareness and enhance the reputation of our bank. This has laid the groundwork for our rapid and effective inclusion in the local economic fabric.

Busalla, with almost 6,000 residents, is the principal centre in the Scrivia Valley. This natural corridor between Genoa and the Padana plain has around 30,000 inhabitants.

The transport infrastructure is currently insufficient to support both the commercial traffic linked to the Port of Genoa and the flow of tourists to and from the Ligurian riviera. This area has experienced significant economic growth in recent decades, with numerous factories including some on an industrial scale.

Cologno Monzese (MI), with almost 48,000 inhabitants, is one of the most important and active business centres linked directly to Milan. Like other adjoining municipalities, with Sesto San Giovanni as a prime example, the area experienced strong economic until the 1970s due to the presence of major industries. After which a period of profound transformation began, with a focus on the development of the service sectors. Notably, the town is home to the most important studios of the Mediaset TV networks, which have helped to attract other operators linked to the world of cinema and media in general. Cologno enjoys a good network of communications with Milan, where many inhabitants work.

The territorial presence of our bank also includes 142 treasury branches and 533 ATMs, following an increase of 5 during the year.

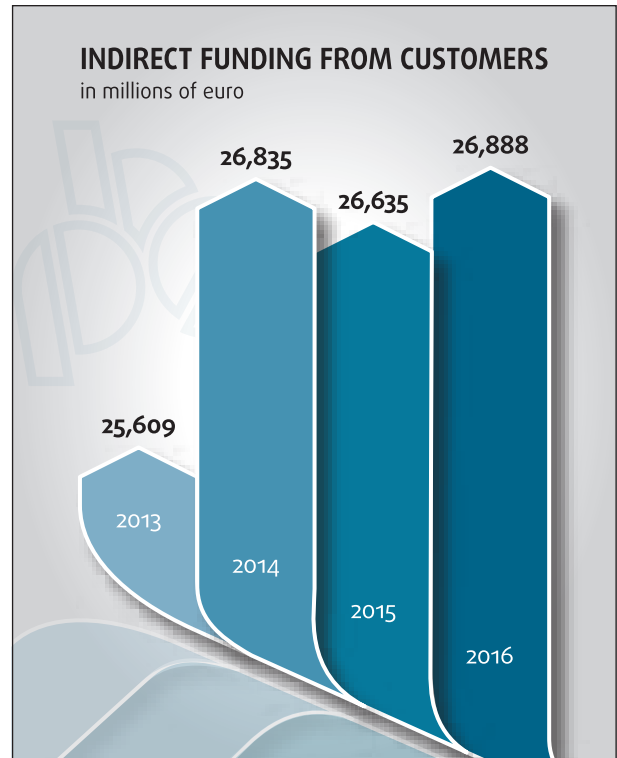
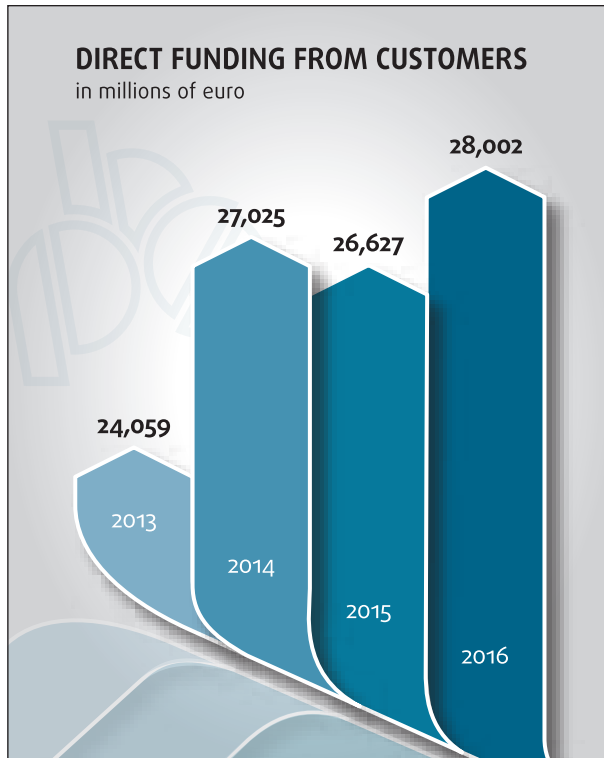
FUNDING

Market liquidity has remained somewhat high. As a result, rates have touched new lows. Indeed, they were guided lower by the yields on public debt, with short-term maturities often in negative territory. This is undoubtedly an unexplored continent; some might actually think of it as a way to erode savings.

Without venturing into discussions for giants, we can certainly say that continuation of the highly expansionary monetary policy has caused a degree of disorientation among savers. Efforts to identify remunerative investments have resulted in a focus on the asset management sector, while more liquid instruments have been favoured by the negligible rate differential with respect to those at medium/long term, whose yields have fallen back markedly.

This complex situation, compounded by the presence of significant uncertainties, has certainly not favoured the growth of bank funding, which in fact continued to contract overall in 2016.

Against this background, we benefited once again from the trust placed in us by our customers: direct deposits came in at 28,002 million, +5.16%.



DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	2016	%	2015	%	% Change
Savings deposits	413,676	1.48	434,997	1.63	-4.90
Certificates of deposit	3,264	0.01	5,395	0.02	-39.50
Bonds	3,007,763	10.74	2,943,488	11.05	2.18
Repo transactions	610,237	2.18	727,070	2.73	-16.07
Bank drafts and similar	78,108	0.28	64,150	0.24	21.76
Current accounts	22,878,197	81.70	20,572,945	77.27	11.21
Time deposit accounts	355,475	1.27	1,253,473	4.71	-71.64
Current accounts in foreign currency	655,666	2.34	625,603	2.35	4.81
Total	28,002,386	100.00	26,627,121	100.00	5.16

TOTAL DEPOSITS

(in thousands of euro)	2016	%	2015	%	% Change
Total direct funding from customers	28,002,386	45.14	26,627,121	45.21	5.16
Total indirect funding from customers	26,887,999	43.35	26,634,547	45.22	0.95
Total direct funding from insurance premiums	1,265,888	2.04	1,099,735	1.87	15.11
Total	56,156,273	90.53	54,361,403	92.30	3.30
Due to banks	2,249,796	3.63	2,077,164	3.53	8.31
Indirect funding from banks	3,622,959	5.84	2,460,008	4.17	47.27
Grand total	62,029,028	100.00	58,898,575	100.00	5.31

There are of course many reasons for this positive trend, from the commercial effectiveness of our products to the skill of our relationship managers, but we believe that the overriding reason can be found in our prudent and profitable approach that, facts in hand, is seen to create wealth. The confidence of our customers, a fundamental value for any bank, is founded on this.

This is further evidenced by the growth in our bonds, by contrast with the banking system as a whole, following the successful issue of covered bonds in early April. Against an offer for a nominal amount of 500 million, the demand quickly rose to about three times that figure. This bears witness to the high level of solidity that national and international investors recognise in Banca Popolare di Sondrio.

Indirect funding from customers amounts to 26,888 million, +0.95%, at market values. Direct funding from insurance premiums increased to 1,266 million, +15.11%.

Total funding from customers therefore amounts to 56,156 million, +3.30%.

Deposits received from banks have risen by 8.31% to 2,250 million. As in the prior year, this balance includes refinancing operations with the European Central Bank totalling 1,100 million, as explained in the chapter on «Treasury and trading operations». Securities under administration for banks have increased from 2,460 a 3,623 million, +47.27%.

Total deposits from customers and banks therefore amount to 62,029 million, +5.31%.

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, current accounts in euro and foreign currency rose to 23,534 million, +11.02%, and make up 84.04% of all direct funding. As mentioned, bonds increased by 2.18% to 3,008 million, going against the general trend of the system. Time deposit accounts have fallen to 355 million, -71.64%. Repo transactions also fell to 610 million, -16.07%; savings deposits decreased at a slower pace to 414 million, -4.90%. Certificates of deposit dropped to 3 million, -39.50%, and remain entirely marginal. Bank drafts amounted to 78 million, +21.76%.

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

LENDING

The international background supporting the attempts of the Italian economy to catch the growth train was perhaps not especially helpful.

Numerous elements created head winds and clouded the prospects: among the many crises causing great concern around the globe, the situation in the Middle East and Brexit are just two of those that stand out in particular. Despite this and uncertainties and stumbles along the way, the Italian economy did achieve some measurable progress.

Lending rates at historical lows have certainly been helpful to both firms and households. First-home mortgage demand from the latter has indeed been lively. The banking system – already in the spotlight for some time – has felt the opposite effects, not only due to the challenging transitions faced by certain players, but also to the more general difficulty of generating income while monetary policy remains highly expansionary. That said, the improvement in the macroeconomic situation has significantly reduced the flow of new impaired loans.

Our bank has tackled this situation by focusing on the rigorous selection of borrowers and the proper remuneration of the risks accepted, in the conviction that our careful support of the economy in the territories served must be accompanied by the growth of profitability.

The management of impaired loans – which, significantly, have contracted slightly overall – has placed emphasis on increasing the coverage of provisions in accordance with the long-established prudent policies of the bank. In the meantime, we have also continued to strengthen the organisational functions responsible for this area and the related operational processes.

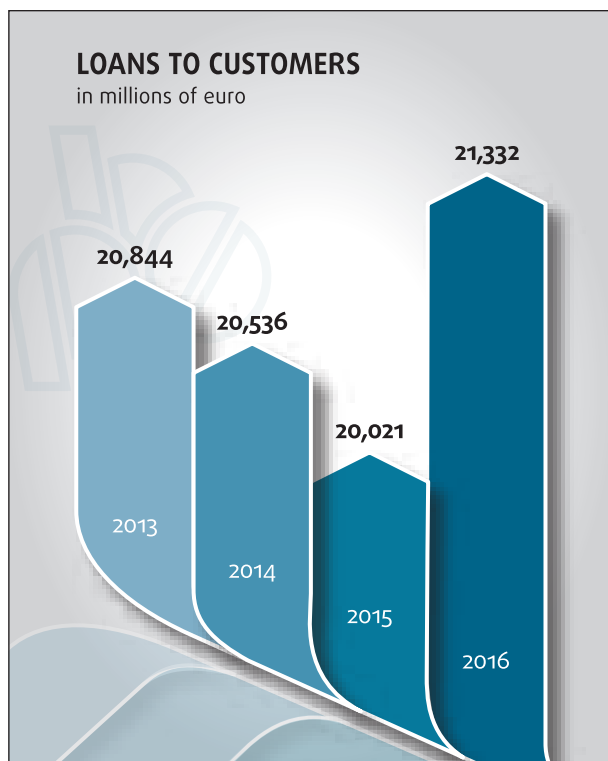
Loans total 21,332 million, up by 6.55% with respect to the prior year. The trend fluctuated during the year: slowing in the early months and more lively during the last quarter. The ratio of loans to direct deposits is 76.18% compared with 75.19% last year.

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

The change in other unsecured loans was significant: +34.40% to 6,471 million, being 30.33% of the amount due from customers. By contrast, mortgage loans increased by 0.44% to 6,373 million or 29.87% of total

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	2016	%	2015	%	% change
Current accounts	4,902,282	22.98	5,244,072	26.19	-6.52
Foreign currency loans	920,686	4.32	1,066,732	5.33	-13.69
Advances	353,736	1.66	383,719	1.92	-7.81
Advances subject to collection	197,294	0.92	217,489	1.09	-9.29
Discounted portfolio	4,537	0.02	6,459	0.03	-29.76
Artisan loans	40,513	0.19	36,047	0.18	12.39
Agricultural loans	26,950	0.13	25,867	0.13	4.19
Personal loans	219,897	1.03	199,710	1.00	10.11
Other unsecured loans	6,470,526	30.33	4,814,422	24.04	34.40
Mortgage loans	6,372,591	29.87	6,344,706	31.68	0.44
Non-performing loans	763,817	3.58	730,321	3.65	4.59
Repo transactions	698,937	3.28	706,060	3.53	-1.01
Fixed-yield securities	360,145	1.69	245,802	1.23	46.52
Total	21,331,911	100.00	20,021,406	100.00	6.55



lending. This line item includes loans assigned but not derecognised of 1,387 million in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. Current account overdrafts have decreased from 5,244 to 4,902 million, -6.52%. Personal loans rose to 220 million, +10.11%. Fixed-yield securities total Euro 360 million at the end of 2016, compared with 246 million previously (+46.52%). They derive from the securitisation of loans to customers made by Banca della Nuova Terra spa and Alba Leasing spa. Foreign currency loans declined to 921 million, -13.69%; Advances eased to 354 million, -7.81%; Advances subject to collection were also lower at 197 million, -9.29%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, were slightly down, from 706 to 699 million, -1.01 %.

Total impaired loans amount to 2,288 million, -0.44%, representing 10.73% of loans and receivables with customers, compared with 11.48% at the end of 2015. This slight decrease is nonetheless significant because it was achieved while applying our unchanged highly prudent policies for the classification of lending and the related provisions.

Writedowns of impaired loans totalled 1,965 million, representing 46.20% of the gross amount, compared with 44% at the end of 2015 and 42.50% at the end of 2014. The table gives an overview of impaired and performing loans.

Net non-performing loans amount to 764 million, +4.59%, corresponding to 3.58% of total loans and receivables with customers, compared with 3.65% at 31 December 2015. Although higher, the rate of increase was slower than in the prior year, when the rise was 20.02%, and the total remains significantly lower in percentage terms with respect to the banking system as a whole. 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 1,288 million, +12.47%, representing 62.77% of the gross amount compared with 61.05% last year. This coverage is among the highest in the banking system. 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 73.01%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, that the debtor is deemed unlikely to settle in full, without recourse

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2016	31/12/2015	(+/-)	% change
Impaired loans	Gross exposure	4,252,881	4,103,695	149,186	3.64
	Adjustments	1,964,985	1,805,602	159,383	8.83
	Net exposure	2,287,896	2,298,093	-10,197	-0.44
- Non-performing loans	Gross exposure	2,051,538	1,875,221	176,317	9.40
	Adjustments	1,287,721	1,144,901	142,820	12.47
	Net exposure	763,817	730,320	33,497	4.59
- Unlikely to pay	Gross exposure	1,945,538	1,745,076	200,462	11.49
	Adjustments	642,153	592,764	49,389	8.33
	Net exposure	1,303,385	1,152,312	151,073	13.11
- Past due and/or impaired overdrawn	Gross exposure	255,805	483,398	-227,593	-47.08
	Adjustments	35,111	67,937	-32,826	-48.32
	Net exposure	220,694	415,461	-194,767	-46.88
Performing loans	Gross exposure	19,169,723	17,859,225	1,310,498	7.34
	Adjustments	125,708	135,912	-10,204	-7.51
	Net exposure	19,044,015	17,723,313	1,320,702	7.45
Total loans and receivables with customers	Gross exposure	23,422,604	21,962,920	1,459,684	6.65
	Adjustments	2,090,693	1,941,514	149,179	7.68
	Net exposure	21,331,911	20,021,406	1,310,505	6.55

by the bank to the collection of guarantees or similar forms of protection. These have risen to 1,303 million, +13.11%, corresponding to 6.11% of total loans and receivables with customers, compared with 5.76% in the previous year. The related adjustments totalled 642 million, +8.33%, with coverage of 33.01% compared with 33.97% at the end of 2015.

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 221 million, -46.88%, and represent 1.03% of total loans and receivables with customers compared with 2.08% in the previous year. The related adjustments amounted to 35 million, -48.32%.

In addition to the adjustment of impaired loans, provisions against performing loans totalled 126 million, -7.51%, representing coverage of 0.66% compared with 0.76% in the previous year. This reduction in coverage mainly correlates with the improvement in asset quality.

Adjustments totalled 2,091 million overall, +7.68%.

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 67 million, local or state-owned enterprises for 623 million and various other entities for 5 million.



The lake of the Manzina, 1941

Oil on board, cm. 100x120

Signed and dated at the bottom left "P. Punzo 1941"

«As a painter, depicting high mountains well, with style and dignity, is itself a difficult task. ... The mountain, dear Punzo, is also deceitful in its lights, effects and colours; it takes very little indeed to give in to rhetoric, falsehood and bad taste. ... In you there is a balance between the aficionado of the peaks and the lover of good painting. ... You are able to believe that you are a good objective portraitist of the face of the mountain, a simple favourite of the general public. Instead, there are things that you have that truly teach you how the mountain is, with its humble grandeur, with its divine and modest colours, with its marvellous style because it is hidden, wonderful because you feel it more than see it, in the same way that you feel but do not see God».

Leonardo Borgese, *Caro Punzo*,
"Corriere della Sera", 1956

A blue stretch of water between still grassy banks occupies the entire foreground of the composition. It is the small lake of the Manzina at 2,800 metres of altitude in Upper Valfurva. In the background, there is a protective barrier formed by the snowy pyramid-shaped peak of the Tresero, with the lower part in the shade and the upper part in the sun. In real life, the wide Val dei Forni runs between the lake and the Tresero, but the close perspective adopted here by Punzo merges, so to speak, the two levels and gives the Tresero massif, helped by the canny play of light and shade, a scenic evidence that ends up absorbing all of the observer's attention and attracting to itself the cosy tranquillity of the small lake over which Tresero stands as a sentinel.



The Bernina Range, 1951

Oil on canvas, cm. 70x100

Signed and dated on the lower right "P. Punzo 951"

A green pasture strewn with erratic boulders in the foreground acts as a viewing terrace on the mountains of the Bernina Range, represented with great precision in the background for the entire horizontal development of the composition. From the left, the two peaks of the Gemini, then the mass of the Roseg, the Scerscen, the Bernina Peak and the Cresta Güzza, crowning the great Scerscen glacier. Further away, the snowy peaks of the Palù.

They are the mountains that Punzo has often represented one by one and that are brought together here in this scenic view, offering a visual display a bit like a postcard.

The green of the alpine pasture and the rocks in the foreground have not only an introductory function, but they are a chromatic counterpoint to the severe high altitude world celebrated in the background, whose remoteness is masterfully emphasized by the wide detachment of the horizontal valley that you can sense is there in the centre and that, with consummate craft, Punzo does not fail to depict.

«Punzo's work could be divided into two major categories.

On the one hand, he paints as a mountaineer for mountaineers: he renders perfectly the magnificent architecture of the mountain in its general structure or in certain details that only the keen mountaineer really loves and is please to recreate.

On the other hand, we find the artist who freely expresses his exquisite sensitivity, revealing the entire soul of things: whether it's the spectral immobility of the peaks ...; or the profound colour mutations of alpine lakes; or the aristocratic heap of the Pizzo Roseg which, placed almost to crush it on the bastions of the Scerscen glacier, rises from the curved spring of the Sella Pass in support of the Bernina Range, and the lord of all the Rethics really did appear to me through the veiled, but not spoiled, atmosphere of a winter sky».

Bruno Credaro,

Paolo Punzo, the painter of mountains, "La Valtellina", 1935

TREASURY AND TRADING OPERATIONS

Stock markets

The year opened with a deep correction in international stock markets, especially in Europe and Japan, due to a series of global factors: from the slowdown in Chinese growth to the general collapse of commodity prices, led by oil; from the crisis of confidence in European banks to the geopolitical tensions, with epi-centres in Syria and the Ukraine. Background expectations of an inversion in US monetary policy also fuelled fears and uncertainties.

Next came Brexit to attract the attention of investors while, in the latter part of the year, the referendum in Italy and – above all – the US elections resulted in considerable apprehension. The outcome scenario most feared by the markets did not, however, have an adverse impact on stock prices.

Quite the reverse, with a decisive continuation of the upward trend that began in the summer after the fears linked to Brexit had eased.

The performance over the year of the world's principal stock exchanges varied considerably: Dow Jones Eurostoxx 50 Index, +0.70%; MSCI World Index, +6.77%; Standard & Poor's 500 Index, +9.54%; Nikkei Index, +0.42%; FTSE Mib Index, -10.20%.

In the international bond markets, long-term government yields experienced two differing trends during 2016. In particular, the early downward trend was later replaced by a marked upturn that had an adverse effect on the markets. Conditions until the summer offered numerous elements in support of the prices for international fixed-income securities.

Monetary policy was also supportive, both in Europe, where the ECB reinforced the expansionary efforts, and in the USA, where restrictive moves were repeatedly deferred. The results of the UK referendum strengthened this trend, with the rate for ten-year Treasuries contracting to an historical minimum of around 1.40% (from 2.20% at the end of 2015) and, similarly, that for Bunds dropping to about -0.20%.

The scenario changed during the last quarter on expectations of higher US rates, which were confirmed with a rise of 25 basis points in December and, by contrast, on the unexpected outcome of the US elections. This resulted in the so-called Trump effect, with expectations of an expansionary economic and fiscal policy that would influence both inflation and public borrowing. As a consequence, the yield on ten-year treasuries climbed above 2.60%. The correction of the Bunds was less marked and they closed the year around 0.20%. In Italy, ten-year BTPs tracked the international trends, with the yield closing the year at 1.60%.

Given the expansionary monetary policy in Europe, the yields on securities maturing within three years tracked downwards, with German two-year securities yielding an historical minimum of -0.80%, while the equivalent Italian bonds paid -0.20%.

With regard to our transactions in financial instruments with customers, the bank's central and branch teams have worked to expand and enhance their investment advisory services, which are considered strategic ahead of the entry into force of MiFID 2 next year. Our people have worked with

professionalism, propriety and prudence, as confirmed by the particularly low number of complaints received, which were all dealt with promptly.

The following comments relate to: the interbank market and corporate liquidity; the proprietary portfolio and its components. Treasury operations, which drew on the abundant liquidity of the bank and the system, were as intensive as ever with an overall focus on deposits having the same characteristics as those made in recent years, namely very short-term maturities (overnight, tomorrow-next and spot-next). During the year, the bank worked actively in the e-MID and New MIC markets, and also carried out a high volume of repo transactions in the MMF market, which benefits from guarantees given by the Clearing House.

The net interbank position was 510 million positive at the end of 2016, compared with 75 million negative at 31 December 2015.

The change was due to the good liquidity position of the bank, given the inflow of funds from customers and the reduction in the overall size of the securities portfolio.

At year end, there was one long-term refinancing operation outstanding with the ECB (TLTRO II) for 1,100 million, which was arranged on 23 June 2016. The operations arranged in September and December 2014, totalling 1,098 million, were repaid on that date. The new operation will expire on 24 June 2020, with an early redemption option from 27 June 2018.

Ignoring this operation (TLTRO II), the net interbank position at the end of 2016 would have been 1,610 million positive.

The exposure to liquidity risk is monitored both in the short term, taking a three-month view every day, and over the long term with a monthly check.

The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are considerably higher than the established minimums. The Bank has a substantial portfolio of refinancable assets that, net of the haircuts applied, total 7,733 million, of which 5,342 available and 2,391 committed.

The portfolios of financial assets at the end of 2016 total 7,938 million, -6.12%. The following schedule analyses these assets and indicates the change between years:

FINANCIAL ASSETS

(in thousands of euro)	2016	2015	% change
Financial assets held for trading (HFT)	1,014,377	1,851,494	-45.21%
<i>of which, derivatives</i>	90,547	103,487	-12.50%
Financial assets carried at fair value (CFV - Carried at Fair Value)	163,116	158,698	2.78%
Available - for - sale financial assets (AFS - Available For Sale)	6,643,535	6,319,478	5.13%
Held-to-maturity investments (HTM - Held to Maturity)	117,023	125,777	-6.96%
Total	7,938,051	8,455,447	-6.12%

Consistent with the past, the portfolio mostly comprises domestic government securities, although the amount has contracted considerably following disposals, especially of securities about to mature. The intensive volume of trading during the year, in line with the comparative period, with a particular emphasis on the HFT and AFS portfolios. The good market tone, especially in the first part of the year, facilitated the disposal of securities, mostly government bonds, with the realisation of substantial disposal/trading profits. At the same time, similar new securities with a limited duration were purchased.

The ECB's expansionary policy has caused the yields on public debt securities to fall to historical minimums, being zero or even negative in the case of shorter maturities. In order to obtain better yields, securities with less short maturities have been purchased, thus raising the average duration to just over 4 years.

As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2016 these portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 6,759 million.

Financial assets held for trading

Financial assets held for trading (HFT), as shown in the following table, amount to 1,014 million and have decreased by 45.21%.

(in thousands of euro)	2016	2015	% Change
Floating-rate Italian government securities	398,469	810,126	-50.81%
Fixed-rate Italian government securities	54,438	492,905	-88.96%
Bank bonds	197,623	213,316	-7.36%
Bonds of other issuers	23,196	19,034	21.87%
Bonds of other issuers in currency (USD)	14	-	-
Securitisations	27,507	31,265	-12.02%
Variable-yield securities and mutual funds	222,583	181,361	22.73%
Net book value of derivative contracts	90,547	103,487	-12.50%
Total	1,014,377	1,851,494	-45.21%

The composition of the HFT portfolio remains simple and transparent.

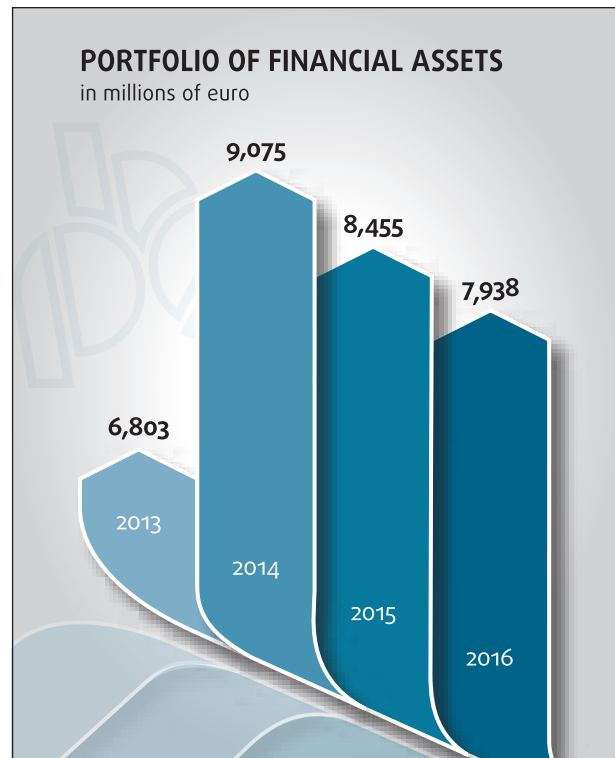
Italian government securities are preferred, representing 44.65% of the portfolio despite the reduction to 453 million from 1,303 million previously.

The profit from trading has contracted sharply, while considerable volatility during the year resulted in significant net unrealised losses.

The overall profit from managing the HFT portfolio was 12,589 million, compared with 45,585 million in 2015. This reflects a loss from trading in securities of 18,488 million and a profit of 31,077 million from currency, exchange and derivative transactions. Analysing «net trading income» in detail with regard to fixed-yield securities as a whole, net trading losses totalled 1.045 million, while unrealised gains and losses amounted to 4.233 million and 0.415 million respectively. Then we have to add profits of 4.601

million and net losses of 25.862 million on variable-yield securities and mutual funds. In 2015, the following results were generated by the securities element of the portfolio: net profits of 20.113 million; unrealised gains of 9.658 million; unrealised losses of 20.492 million.

As mentioned, the HFT portfolio continues to comprise CCTs, 398 million representing 39.28% of the total. Corporate bonds amount to 221 million, down by 11 million, of which 198 million relate to bank issues, mostly covered bonds. Securities that are part of securitisations are all senior and have decreased to 28 million. Fixed-income government securities have declined to 54 million, -88.96%, following the sale of BTPs and BOTs. Shares and quotas in UCITS have increased to 223 million, +22.73%. Derivatives have fallen by 12.50% to 91 million and comprise: derivatives on debt securities and interest rates, 62 million; derivatives on variable-yield securities, stock indices, currency, gold and precious metals, 29 million.



Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV) amount to 163 million, +2.78%, and almost entirely relate to various types of funds and sicavs. The increase essentially reflects the year-end valuations.

Available-for-sale financial assets

Available-for-sale financial assets (AFS) total 6,644 million, +5.13%. The increase reflects the different dynamics of the various components. Among these, Italian government securities have decreased by 9.57% to 5,440 million because, with a view to diversification, they have been replaced in part by fixed-income Spanish and French government securities totalling 815 million.

In accordance with the usual operational guidelines, this portfolio holds part of the liquidity invested largely in Italian government securities, partly to replace similar securities within the HFT portfolio that are sold or redeemed. The objective is to contain, at least in part, the effect on the income statement of the volatility present in the financial markets. The bond component has been increased slightly to 55 million, with the purchase of fixed-income corporate and financial securities from various issuers. Variable-yield securities are basically unchanged at 102 million, while the units in UCITS have increased to 232 million, +17.85%. The considerable disposals resulted in significant

profits, albeit much lower than in the comparative period. 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 valuation reserves against available-for-sale financial assets have decreased by 39.456 million, net of tax effect, thus reducing the positive valuation reserves from 112.940 million to 73.484 million.

Impairment tests were performed on those equity investments with negative valuation reserves resulting 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 5,499 million, relating to government securities and corporate bonds; units in UCITS of 59 million and shares of 17 million; in addition, positive changes in fair value came to 29 million. Other increases of 119 million mainly relate to the recognition of trading profits, coupons, discounts and the period element of the amortised cost adjustment. The decreases were recognised on the sale of debt securities, 5,125 million, and shares, 10 million. Additionally, refunds amounted to 100 million and impairment adjustments totalled 25.189 million. Of these, 13.950 million related to the quotas held in Fondo Atlante, to which the bank is committed for up to 50 million. This fund was established to help stabilise the banking system and has intervened in the crises faced by Banca Popolare di Vicenza and Veneto Banca. A further 6.315 million reflects the write-down of the investment in Release spa, while the remainder related to listed and unlisted shares and units in UCITS. Adverse fair value adjustments amounted to 10 million. Other decreases of 127 million related to coupons, the elimination of capital gains already recognised in equity, trading losses and the negative components of the amortised cost adjustment.

(in thousands of euro)	2016	2015	% change
Floating-rate Italian government securities	1,421,013	1,513,876	-6.13
Fixed-rate Italian government securities	4,018,660	4,501,533	-10.73
Foreign government securities	815,246	-	-
Bank bonds	23,283	-	-
Other bonds	32,039	5,362	497.52
Variable-yield securities	101,366	101,909	-0.53
Mutual funds in euro	231,928	196,798	17.85
Total	6,643,535	6,319,478	5.13

Held-to-maturity investments

The portfolio of held-to-maturity investments (HTM) amounts to 117 million, a decrease of 6.96% that was a consequence of redemptions. Investments comprise prime bonds and government securities, a large part 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 2016, the above securities amount to 29 million, following redemptions, with a similar fair value, compared with 52 million in the prior year, -43.67%.

Asset management

Once again, the asset management sector achieved substantial net inflows. The current scenario, with rates close to zero and customers needing professional help in order to identify suitable investments, has facilitated this further growth. With regard to the types of investment, there continues to be preference for foreign products and for flexible instruments or bonds.

Our bank has confirmed its ability to compete actively in this specific market. In fact, the volume of business during 2016 grew in line with the general trend and the aggregates have been strengthened even further. The assets managed in various forms totalled 4,381 million at the end of 2016, up by 7.67% since 31 December 2015, of which 2,107 million, +8.42%, relates to the mutual funds managed by Arca SGR; 795 million, +25.34%, to other types of UCITS, including the Popso (SUISSE) Investment Fund Sicav; 1,478 million, -0.84%, in assets managed by the central organisation of the Bank.

EQUITY INVESTMENTS

The portfolio of equity investments was essentially unchanged during the year. In addition to the other members of the Banking group, these investments principally relate to the suppliers of products and services that functionally support the commercial activities of the Bank.

These investments are therefore held on a stable basis, assisted by the desire of the Bank to provide the companies concerned with work and financial support in the context of viable operating plans. The following comments essentially relate to our subsidiaries.

Equity investments totalled 487 million at 31 December 2016, down by 1.2 million, -0.26%, due to the write-down of Pirovano Stelvio spa and Banca della Nuova Terra spa and the coverage of the 2015 loss incurred by Pirovano Stelvio spa.

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

Although general conditions were not easy, the Swiss subsidiary was able to position itself effectively in the reference market. The objectives were met by adapting its strategies to the changes in progress and a net profit of CHF 12.068 million was reported. The reduction of 14.39% compared with the previous year is explained by the adverse conditions in the bond market, the lower rate spread in the interbank market and the low volatility of the Swiss franc.

Despite a slight reduction in total funding from customers, direct deposits actually improved a bit. The satisfactory growth in loans to customers, +6% to CHF 3,723 million, was achieved while continuing to apply the usual prudential and conservative rules.

The mortgage component, almost entirely represented by home loans, continues to dominate this total: CHF 3,288 million, +8%.

The activities and responsibilities of the branch network have been the subject of intensive reorganisation, in order to make commercial activity more effective and increase the intensity of customer interactions. This does not preclude the opening of new branches within the Confederation.

Factorit spa (60.5%). This company finances and manages, with or without guarantees, domestic and international trade receivables.

The process of filing with the new Register of financial intermediaries pursuant to art. 106 TUB was completed during the first half of the year and, with effect from 23 May 2016, Factorit officially holds «Combined Register» number 52.

Consistent with the objectives for the current year and the 2016/2018 three-year plan, this subsidiary has focused on increasing volume and lending, without losing sight of the quality of the loans administered and the profitability of the portfolio managed.

In particular, commercial action involved focusing more on corporates and larger customers; expanding penetration in the area of trade receivables and tax credits due from the public administration; taking effective steps to develop the market for the production and distribution of energy; proposing new products, including the discounting of summary account sheets (DCR) for the pharmacy sector; taking account of the territorial presence of the reference banking networks, especially those of the Parent Company and member banks, and concentrating commercial efforts on the economically more significant areas (Lombardy and Northern Italy in general). In this regard, the «Lombardy Branch» was strengthened during the second half of 2016, with the more efficient allocation of dedicated resources and the addition of professionals experienced in customer management and development.

Factorit ranks among the leading companies in the sector, being the

5th Italian operator (1st among its direct competitors, being the factors that belong to medium-sized banking groups), with a 5.2% share of turnover.

The year closed with a net profit of 3.2 million. The marked reduction with respect to the prior year was partly due to the contraction of both the interest margin and commission income, given the current market rates, but more particularly to the increase in the net adjustments made to financial assets from 2.9 million in 2015 to 18.6 million in 2016, as a result of the greater provisions made.

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

Despite continuation of the crisis in summer skiing during the 2016 season, which once again closed with a loss, there was an upturn in visitors due to the good weather conditions that resulted, after years of decline, in a reversal of the trend.

Good results were achieved from the efforts made to support tourism in the Stelvio Pass, which also promoted the image of the bank. The strategy of the subsidiary, which encompasses cycling, trekking, «discovery» of the Stelvio National Park and eno-gastronomic experiences as valid additional ways to enjoy the mountain life, is increasingly shared by other hotel operators in the area.

The relaunch of the Stelvio Pass as a destination includes a focus on the old road, especially given the decision made by ANAS to keep it open throughout the entire year from 2017, which will include making major safety improvements especially on the Alto Atesino side.

Given these prospects, Stelvio and Pirovano Stelvio spa can now be seen as an opportunity that goes beyond mere public relations.

Sinergia Seconda srl (100%). This is a real estate company. This subsidiary mostly provides operational support linked to the property requirements of the Bank and the Banking group. The properties held are mostly rented on market terms and conditions to members of the Banking group.

Based on contractual agreements, Sinergia Seconda srl also manages and maintains the rented units.

The company's results are positive.

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

As part of the programme for the issue of covered bonds implemented by the bank in compliance with current regulations, the objective of this vehicle company is to purchase blocks of construction and mortgage loans from banks, which are held as fully-separate assets with respect to those owned by the company.

To the extent of its responsibilities, the company manages the assets concerned as a safeguard for subscribers of the securities issued.

Its results reflect an essentially break-even situation.

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

It owns part of a condominium in central Sondrio, with a large area



Monte Disgrazia, 1962

Oil on board, cm. 60x100

Signed and dated at the bottom left "P. Punzo 62"

«Will you ever take me up Monte Disgrazia or the Palù? Punzo my friend, I've never been to those legendary places, those sublime mountains, those paradises. But I can claim to know them quite well thanks to your many paintings and pictures, drawings and sketches.

Today – let's be honest – there are many people who, in words, despise the genre and add, shaking their head and feeling sorry for you: "There's no point in doing views and landscapes, now that we have photography...". Rubbish!

I make no mistake in saying that your smallest landscape will always be worth more than any famous photo, whether black and white or colour.

And I would add that, apart from the unquestionable general truth that painting will always be superior to any mechanical achievement, painting mountains is special; it is and will remain admirable, if for no other reason for the difficulties facing those who attempt it».

Leonardo Borgese, *Caro Punzo*,
"Corriere della Sera", 1956

Of the high alpine landscapes painted by Punzo, this is certainly one of the most spectacular. The two small groups of fir trees in the foreground, on the right and left, open like a theatre curtain on the glacier of Monte Disgrazia, which rises up in an imposing way with its pinnacles and peaks like a cathedral of nature.

The great rocky dorsal, which in the centre divides the glacier of Monte Disgrazia from the so-called Canalone del Virgine which rushes down to the valley, acts as a focal point of the entire composition.

It is the majesty of high altitude nature that fascinates Punzo and that he strives above all to render it through faithful reproduction as true as possible in the smallest details, such as the distant mountain profile in the background that falls completely into the genuine visual experience of the mountaineer and the high-altitude hiker on the slope of the Ventina Pass, a classic viewpoint on the Disgrazia Massif, where Punzo took this view.

**The lake of the Cassandra**

Oil on board, cm. 32x37

Signed on the lower right "P. Punzo"

The strong suggestiveness of this small view of the largest of Cassandra's little lakes, beneath the Pass of the same name in front of Monte Disgrazia, mainly lies in the refined elegance of its colour shading, all played in the range of grey and green that unites the sky and the immobile surface of the water where it is reflected along with the thousands of shining reflections of the rocks and mountains in the background that culminate in the peak of Postalesio and that of the Corni Bruciati (Burnt Horns) that make up the magnificent backdrop this small lake.

The exquisite poetic quality of the image is also associated with its historical meaning that gives us the geological shape of the landscape before the great decline of the glacier in the 1990s, which has changed its physiognomy.

«The lake is cut sharply into the living rock, a natural granite bowl with the mountain in the background throwing pallid reflections of snow into the amethyst green waters, without ripples».

Alma Pinchetti Patroni,
The painter Paolo Punzo,
"Il Giornale dell'arte", 1962

of ground floor space. The company leases most of this space, together with office equipment, to Equitalia Nord spa, a tax collection subsidiary of Equitalia spa.

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 11.80% of total loans to customers and banks and financial assets and 2.17% 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 2016, the Bank's corporate bodies decided the following transactions of greatest significance:

- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; granting of a revolving facility for commercial guarantees in favour of non-residents of € 65,000,000 repayable on demand; renewal of lines of credit totalling € 2,105,916,197 repayable on demand; resolutions of 23/4/2016;
- Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 100,000,000 repayable on demand; renewal of lines of credit totalling € 2,315,000,000 repayable on demand; resolutions of 29/6/2016;
- Alba Leasing spa, associated company; renewal of lines of credit totalling € 470,528,202 repayable on demand; resolution of 6/10/2016;
- Factorit spa, subsidiary; granting of a financial credit limit for commercial guarantees to be given to residents of € 100,000 repayable on demand; resolution of 17/11/2016;
- Alba Leasing spa, associated company; granting of an overdraft facility of € 400,000,000 repayable on demand; renewal of lines of credit totalling € 48,028,202 repayable on demand; resolutions of 20/12/2016;
- Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 35,000,000 repayable on demand and a revolving

facility for guarantees in favour of residents of € 10,000,000 repayable on demand; resolutions of 20/12/2016;

- Factorit spa, subsidiary; revolving facility for advances up to € 400,000,000, available until revoked; resolution of 29/12/2016;
- Release spa, associated company; renewal of lines of credit totalling € 157,000,000 repayable on demand; resolution of 29/12/2016.

In addition, as part of the programme for the issue of covered bonds authorised by the Board of Directors in 2014, on 29 January 2016 and 31 October 2016, the bank assigned to Popso Covered Bond srl two portfolios of performing mortgages granted directly by the bank amounting to 576 million and 226 million respectively.

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 2016 balance sheet or results with regard to the related-party transactions carried out during 2015; in any case none were atypical, unusual or not on market terms.

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

During 2016 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.

With regard to the remuneration paid by the bank and its subsidiaries and associates to Directors, Statutory Auditors, the General Manager and Managers with strategic responsibilities, and to their investments in the bank and its subsidiaries, reference is made to the compensation report prepared pursuant to art. 84 quarter of the Consob Regulation issued in Decision 11971 dated 14 May 1999 and subsequent amendments.

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

Our mission as a bank serving our territories is fully reflected in the work performed by the International unit. The professionalism accumulated in the sector of international relations, the wealth of experience acquired, the effective procedures available, the precious network of contacts and relations established throughout the world represent a veritable fortune that we make available to all firms that recognise internationalisation as an opportunity for growth that cannot be missed.

This applies to large enterprises that, by their nature, focus on the development of markets, and – perhaps more importantly – to the many small and medium-sized firms that find it hard to initiate cross-border activities on their own.

Our work effectively promotes the productive systems in the territories served, which is particularly useful at a time when an international approach has represented the winning strategy to tackle the persistent crisis in demand from the domestic market. In this regard, the start of relations with foreign operators not only makes new commercial outlets available, but also generates important benefits for the economic system as a whole. Firms have to compete with larger and more experienced operators, as well as with different visions and organisational models. The resulting discussions and contamination are positive in themselves, acting to stimulate product innovation and improve the efficiency of production units.

In this light, our One-stop shop for internationalisation has continued to provide high-level services to customers during the various phases of their international business activities, while our innovative platform deals rapidly and efficiently with the processing of collections and payments made anywhere in the world, given our direct relations with almost 2,000 banks in about 160 countries.

The development of structured and customised trade finance solutions has sought to tackle effectively the commercial risks inherent in transactions with foreign counterparties, in exchange and interest-rate fluctuations and in commodity prices.

We also organised a range of events dedicated to internationalisation that naturally attracted the attention of the more dynamic and aware firms.

These ranged from the organisation of specialist conventions – than could even be attended by videoconference – to meetings on individual countries held by professionals who work there. Many geographical areas were covered: from China to Brazil, from Switzerland to Austria, from Iran to numerous African countries. As usual, participants were able to interact directly with the speakers in order to explore the business opportunities more deeply and receive customised help.

Interested firms have also had the opportunity to meet foreign economic operators, both during international manifestations and at targeted events attended by foreign counterparties determined to find new sources of supply in Italy.

The international development of a firm of course requires appropriate internal skills and knowledge; to this end, we have also run training programmes at interested companies in order to develop the professionalism necessary to tackle the wider horizons and manage risk more effectively.

Upon request, we even assigned advisers to provide dedicated direct support to the companies concerned.

As a consequence of our active participation over the years in the «Coopération Bancaire pour l'Europe» European Economic Interest Group, we provide counterparties with a foothold in Brussels in order to identify and explore the more attractive European funding programmes, to apply for the right to submit international tenders and to establish consortia for the presentation of transnational projects.

The range of products and services available draws on numerous prestigious partnerships that have been tried and tested over time. In addition, our customer support activities continue to use effective tools for the communication and dissemination of knowledge. For example, «Business Class», our monthly electronic newsletter, talks about the latest in international trade and is kept constantly updated in the «estero» (international) section of our website www.popso.it.

We have renewed our membership of the Global Compact project. Under this initiative, supported directly by the United Nations, we make a commitment to Global Compact to adopt business practices designed to safeguard the universally-recognised principles on human rights, work, the environment and anti-corruption. As an «active participant», we have notified the New York office of the results obtained over the past year, consistent with our code of ethics and the cooperative spirit of our bank.

Global Compact

COMMERCIAL SERVICES AND PROJECTS

The quality of a bank is measured, in part, by its ability to offer efficient and advanced services to customers. The responsible offices are well supported by specialist companies with considerable experience, several of which are associates. They dedicate their resources and energy to analysing and – where



possible – foreseeing requests and market changes, packaging new products and services and adapting those that already exist to meet the requirements of even the most sophisticated counterparties.

This commercial activity – carried out both centrally, with information campaigns about the new products and services, and by drawing on the guaranteed support of the branch network – therefore plays an important role in organising and building awareness about the extensive catalogue, thus helping users to choose those most appropriate to their needs.

We would now like to tell you about our main initiatives during the year.

SCRIGNOInternet Banking

SCRIGNOInternet Banking, our on-line bank, accessible from computers, tablets and – via dedicated apps – from smartphones and the Apple Watch, continues to grow steadily and deliver highly satisfactory results in terms of use and business volumes.

The constant evolution of this service, designed to build our electronic relations with customers, supplements and enhances the personal, fiduciary relationship pursued via the physical network and the central role played by the branches in providing help and advice.

As ever, the objectives of the commercial range are to safeguard savings and identify products that balance security with adequate returns.

Even with market rates at historical minimums, we were still able to present new products in 2016 that diversified the range of investment opportunities.

Arca Fondi SGR
Arca Vita

Arca Fondi SGR has professionally updated and extended its range with the following new funds: «Arca Risparmio», «Arca Impresa Rendita», «Arca Cedola 2021 Plus», Plus II, III and IV, «Arca 2022 Reddito Valore Globale», «Arca 2022 Reddito Valore Globale II», «Arca Cedola Corporate 2021», «Arca Cedola Corporate 2021 II», «Arca 2021 Reddito Multivalore» VIII, IX, X and XI.

On the insurance front, the placement of policies written by Arca Vita and Arca Vita International has continued with success.

MULTIplus

«MULTIplus» has been created to provide an «all-inclusive service» to customers, enabling them to understand immediately the cost of their current account and the related services. The charge for this complete and flexible product is determined dynamically, based on the products and services chosen by the customer and how they are used. Alongside this, the «MULTIplus HI-TECH» initiative offers interest-free finance, solely to holders of the «MULTIplus» account, for the purchase of Apple products.

Our institutional website *popso.it* opens an attractive window onto our products and services, enabling users to browse in a modern environment that is easy to use, even by those with impairments and disabilities of various kinds.

PIV - Prestito Ipotecario Vitalizio

On the lending side, the commercial range was extended towards the end of 2016 by the new Prestito Ipotecario Vitalizio (PIV): this innovative loan is dedicated to persons over 65 and is guaranteed by a first mortgage on a residential property. The loan has been designed to meet the specific financing needs of this type of customer.

RISK MANAGEMENT

Constant attention is dedicated to the timely recording and accurate measurement of risks: knowing how to assess – in a balanced, critical and responsible manner – your ability to sustain the risks accepted over time is one of the most important lessons taught to banks by the repeated crises experienced in recent years.

As recommended by the European supervisor and consistent with the ever-more demanding regulatory framework, our commitment to refine – in quantitative and qualitative terms – the tools available for the control of risk therefore remains extremely high.

Even the general organisation of risk management activities has to keep up with the times. In this regard, the teams dedicated to the monitoring of risk were reorganised during the year, with a view to adopting a more advanced model that involves greater specialisation and draws more extensively on the professionalism and accumulated experience of personnel.

In meeting these needs – in the context of a culture founded on collaboration and interaction between the various organisational units, which is the «key» to the way we work – the Risk Control office has taken a different form. On the one hand, the office no longer has responsibility for business planning processes, capital management and the structuring of collateralised funding operations, which have been reassigned; on the other, the duties typically associated with the control of second-level risk have been spread among a larger number of organisational units.

Given its importance, the control of credit risk has been amplified and now involves four separate offices that are organisationally supported by a staff function with a coordination and governance role.

Another organisational unit responsible for the management of non-lending risks is active in the development of tools and methodologies for the analysis of market, rate, operational, reputation and liquidity risk, which it uses to monitor constantly the related exposures. An autonomous validation unit is, in turn, responsible for checking the quality and reliability of the models used to estimate the parameters for the measurement of risk, with a special focus on the proper calibration of our internal rating systems.

A special office, operating with an overview of the significant risks accepted, is responsible for supervising the determination and monitoring of risk objectives, the assessment of capital adequacy and the performance of stress tests on the resilience of the Group's equity and financial position in the face of adverse scenarios.

Alongside the above offices, two further specialist units are dedicated, respectively, to making the voluminous disclosures and reports to the authorities and external agencies, and to interacting with the Supervisory Bodies including, in particular, the Joint Supervisory Team of the European Central Bank.

This increase in the level of specialisation has resulted in a non-trivial rise in employment, thereby helping to expand the capacity, intensity and quality of the work performed. In parallel with this strengthening of the

organisation, considerable progress has also been made in developing the «tools of the trade», being the methodologies and processes used for the management of risk.

The Risk Appetite Framework, which in substance establishes risk limits that should not be exceeded, has been thoroughly revised to make it more sophisticated, detailed and aligned with other significant business processes: operationally, risk appetite provides a logical basis for proper business planning and an essential point of reference for healthy decision making.

In turn, the ICAAP (*Internal Capital Adequacy Assessment Process*) and the ILAAP (*Internal Liquidity Adequacy Assessment Process*) also employ increasingly complex processes and considerations that are founded on the use of ever more refined simulations and risk modelling techniques.

The above tools are now also more integrated with the «Recovery Plan», which is a document required by European regulations on the resolution of banking crises that seeks to define ex ante the actions to be taken in the event of a crash.

The risk management function made a massive effort to perform the stress tests required of the principal European banks by the Supervisory Bodies during the first half of 2016, in order to determine the ability of the system to cope with unfavourable economic and financial conditions. Intensive work was required to deliver the documents requested by the somewhat challenging deadlines set by the Authorities; at the end of the exercise, comforting results confirmed the stability of the Group.

Lastly, the innovations made in the various areas that comprise the overall system of governance and risk management are now being steadily incorporated in the official policy documents, which are now being revised accordingly.

Credit and counterparty risks

Major efforts were made over the past year to enhance the efficiency of the organisational controls and procedures that support the management of «problem» loans – thorn in the side of many European banks, especially those located in the so-called «peripheral countries» –, with a view to improving the predictive ability of the system for recognising anomalous positions and, at the same time, increasing the incisiveness of the action taken to bring them into line.

A massive amount of work was dedicated to full implementation of an innovative system of rules, processes and tools for the analysis and monitoring of positions. This system is able to identify signs, as far in advance as possible, of a deterioration in loan quality and therefore to classify risk exposures more correctly, in compliance with the criteria established at regulatory level.

This work involved the operational activation of a new organisational model for the management of anomalous loans based on the establishment of a dedicated office that comprises specialist units for each customer segment. Under this new organisation, the controls applied adopt a differentiated approach: more specialist for «*Corporate*» counterparties; more standardised

for «Retail» customers, with the presence of a central unit that checks the effectiveness of the management processes and corrective actions implemented by the bank, which include support from external debt collectors.

Another team of specialists is responsible for the centralised management of problem positions in the «Large Corporate» segment and those involved in debt restructuring programmes.

All these teams provide support to and work in close cooperation with the branches and area management, both with regard to the classification of loans and for the direct management of relationships that have anomalous characteristics. They also monitor the effectiveness of the actions taken to contain the migration of positions from performing to non-performing status.

At the same time, work is also being carried out on the tools, methodologies and software platforms used to support the monitoring, classification and recovery of loans, with a view to aligning the technical infrastructure with the new form of organisation and integrate it more effectively with the other indicators currently employed to predict the deterioration of borrowers.

Work has also continued on the complete overhaul of the rating models by dedicated technical-specialist personnel, partly with a view to their recognition for the purpose of quantifying the first-pillar capital requirement for credit risk under the AIRB (*Advanced Internal Rating-Based*) approach envisaged in the prudential regulations.

The most significant action has involved refining the models that estimate the probability of default (PD) assigned to «Retail» counterparties, those relating to the «Private Individuals», «Small Economic Operators» and «Small Business» segments, and the release of a new model for the «Retail non-profit institutions» segment. Following the adoption of a new internal definition of *Default* that is more consistent with the definition applied at regulatory level, we have also recalibrated the PD models for the various «Corporate» counterparties («Large Enterprises», «SMEs», «Public Enterprises», «Non-resident, non-financial companies», «Corporate non-profit institutions»).

With regard to the other risk factors assessed using internal methods, a new model has been developed for estimating the exposure at default (EAD) parameter associated with «Retail» customers; new methodological logic has been developed for determining the loss given default (LGD) parameters applied to «Corporate» and «Retail» customers, and the danger rate (DR) parameter – component of the LGD expressing the likelihood of «Past due, impaired» and «Unlikely-to-pay» positions becoming «Non-performing» – has also been updated.

Consistent with this, loan management procedures have been harmonised, the IT infrastructure used for processing activities has been upgraded, the systems for the checking of data quality have been refined and the supporting documentation has been updated. In general terms, we have promoted a more pervasive and knowledgeable use of ratings within key decision-making processes, which is facilitated by the great awareness of staff about this important topic. All of the work described above improves the

**Ortles, 1962**

Oil on canvas, cm. 70x100

Signed, dated and titled lower right "P. Punzo '962 - ORTLES".

On the back: "IV roadhouse with Trombinin (Canclini) for Finanza"

The painter had his most frightening adventure on the day he arrived under the Madaccio Pass, roped together with the guide Giuseppe Canclini, known as "Trombinin", and holding under his arm a picture that he had just finished with Thurwieser and Trafoier. He met his friend Giuseppe Pirovano, the famous "Piro", and his wife Giuliana, both heading for Livrio, which was also the painter's destination. To Canclini it did not seem true that he was to hand over his client to Pirovano and Punzo accepted enthusiastically, convinced that he would continue for Livrio roped together like any tourist. But "Piro" was ropeless and limited himself to making steps with his ice axe, followed by Giuliana and the miserable artist who, clinging to his painting, was afraid at every step that he was going to roll down the mountain. He then consoled himself at a bothy when he was able to sell his painting to a friend of Pirovano and prolong his pictorial tour of the mountains».

Flavio Campiotti, *The painter of mountains*, "Corriere della Sera", 1968

A brief terrace of snow in the foreground introduces us to the high peaks, the snowy slopes and the glaciers of the Ortles range in the high altitude scene of the Stelvio that stretches to the right all the way to the horizon under a sky loaded with clouds that reverberate a cold violet light on the rocks and the snow before fading into infinity in a distant glow.

This is one of the most significant examples of Paolo Punzo's epic high-altitude landscape painting, of late-Romantic extraction. This scenery of glaciers and high peaks in direct dialogue with the sky, which makes the soul of the mountaineer throb in heroic exaltation and sublime vertigo, is the energetic blend of much of Punzo's work. There is a titanic impulse to the sky in these rough giant ice-covered rocks that challenge the mountaineer's courage and exalt the artist.

The painting is linked to an interesting episode narrated by Fulvio Campiotti in the *Corriere della Sera* in October 1968, also mentioned in the brief note that can be read on the back of the canvas.



The Sciora range and the Nord del Cengalo e del Badile

Oil on board, cm. 62x69

Signed on the lower right "P. Punzo"

Few artists, like Punzo, know how to render the tactile evidence of rock and granite in the far-off profile of the mountains and are able to describe their rugged conformation with a clever play of light and shadow. Punzo here uses the entire rich sampler of his composition skills to achieve a strong visual impact. The summary description of the alpine pasture in the foreground, with broad synthetic brush strokes that hint at more than describe, prepares for the clear detachment with which in the background the artist, instead, describes with topographical scrupulousness the spectacle of the peaks and pinnacles that unfolds panoramically, like a Gothic cathedral, within a majestic scenario, brought closer in terms of perspective to exalt its grandeur.

Thus we can see, from left to right, the Sciora di Fuori, the Pioda di Sciora, the Ago di Sciora, the Sciora di Dentro, the Bondasca Glacier, then the Pizzi Gemini, the presummit and summit of the Cengalo and finally the Badile with its unmistakable North corner that closes the scene on the right.

Punzo emphasizes the Sciore range, undoubtedly more scenic and spectacular, with its sharp illuminated summits in front of us, leaving the Cengalo-Badile range dimmer and in shadow on the right, even though it is actually much more impressive, but it ends up here acting as a supporting actor.

«Punzo, the painter of mountains, Punzo, a character who was authentic, vibrant, humble and enthusiastic all at the same time ... he brought us his wild rocks of the Valfurva and Valbondasca – that picture of the Sciora range just after a storm is excellent – and his snows of the Engadine on a holiday morning, but he also brought us green landscapes and blue seascapes. Demonstrating to friends that his “specialization” did not mean limitation. The pines of the Tigullio have the same vivid true presence as the northeast wall of the Badile».

Dino Buzzati, *Punzo, painter of mountains*, “Corriere della Sera”, 1968

quality of the assessments made about the creditworthiness of customers, which should become increasingly precise, selective and predictive, and – in the final analysis – helps to contain the impairment of loans.

Market risks

The changes in the market risks to which our proprietary financial portfolios are exposed are monitored daily.

The analysis is supported by the statistic Value-at-Risk (VaR) methodology and a system of operational limits based on comparing the exposure to risk with the maximum loss on financial instruments and currency transactions deemed tolerable. These parameters are converted into more detailed daily loss limits that also take account of the economic results generated by the portfolios.

This system of limits, applied separately to the «trading portfolio» and the «bank book», was revised significantly towards the end of the year, partly as a result of the improvements made to the tools and measurement techniques used.

These principally included: more refined analysis of the risk factors affecting the debt security exposures, enabling us to distinguish the components of «general risk» reflecting fluctuations in the market for risk-free yields from those reflecting the «risk premium» associated with the circumstances of the issuer and/or the characteristics of the financial instrument held («credit spread risk»); strengthening the battery of stress tests carried out each month; extension to the Banking group of the logic used to calculate VaR and the related system of limits, which was previously only applied at individual level. «Sovereign risk» is given special treatment, as a separate category of risk that is paid constant attention, not least due to the weighting of the Italian public debt with respect to our total assets.

Interest-rate risk

The systems used to monitor and manage interest-rate risk were developed further during the year. The pre-existing methodology (*Sensitivity Analysis in Full Evaluation*), used each month to measure the risk of loss deriving from the impairment of assets and/or the increase in liabilities caused by unexpected changes in market rates, has been supplemented by a new internal model (*Repricing Analysis*) that simulates, with the same frequency, the sensitivity of net interest income to significant shifts in the rate curves affecting, under «inertial» conditions, all income-earning assets and interest-bearing liabilities in the balance sheet.

The risk indicator produced by that model has been integrated with the pre-existing system of control limits and thresholds, thus strengthening our overall ability to monitor the risk.

The two methodologies mentioned above are accompanied by a special way of modelling «demand items» – another important aggregate for our bank –, whose financial characteristics are analysed using statistical tools

that help to assess their persistence profile and the elasticity of the rates applied given changes in market conditions. This behavioural model is monitored constantly and the parameters used for making estimates are updated every six months.

The development work carried out on the processing platforms during 2016 have made it possible to carry out stress testing systematically every month. Implementation of the new so-called «*pre-payment*» analysis has also made it possible to quantify the risk deriving from the exercise by customers of their option to repay early the loans granted (option risk).

Liquidity risk

Further enhancements have been made to the way that the short and long-term liquidity positions are monitored for operational and supervisory purposes. With regard to the first aspect, prudential consideration is now also given to the possible impact of a gradual tightening of monetary policy by the European Central Bank.

In addition to the review of the ILAAP (*Internal Liquidity Adequacy Assessment Process*), significant changes have been made to the internal indicators used to monitor liquidity and to the related supervisory thresholds and, with these, to the IT tools used for processing and reporting purposes. Among the most significant innovations, a specific parameter has been introduced to measure the market liquidity risk associated with the portfolio of available-for-sale securities.

A new tool has also been introduced for the monitoring of intra-day liquidity, with a view to identifying the sources and applications of liquidity in real time, as well as to calculating the indicators identified by the Basel Committee that, from 2017, must be reported every month.

The entry into force from 1 April 2016 of «Commission Implementing Regulation (EU) 2016/313 of 1 March 2016» has given rise to additional reporting requirements: in fact, as a consequence, the bank must use specific forms to report the required Additional Liquidity Monitoring Metrics to the Supervisory Authorities every month. The purpose of these metrics is to monitor at Group level the concentration of our funding and securities portfolio, as well as the cost of funding and our ability to renew the funding that matures.

The internal system of stress tests is currently being updated in order to further enhance its effectiveness, in line with domestic and international best practices.

Operational and IT risks

The management of operational risk involves, on the one hand, identifying and recording the economic losses incurred as a result of risk events (*Loss Data Collection*) and, on the other, estimating the risks that the bank might face as part of its business operations (*Risk Self Assessment*).

These two control tools were significantly upgraded during the year,

partly via the adoption of more advanced software, in order to ensure the more methodical and precise analysis of changes in the risk profile, in accordance with the best practices adopted by the banking system.

Loss data collection involves active collaboration from both head office and branch personnel who, in their daily activities, contribute to the prevention and management of operational risk. In substance, the process involves recording both monetary values and qualitative information about the loss events that occur in their areas, with a view to specifying how, when, where and why the event occurred, so that mitigating action can be taken. In this regard, the data available was checked extensively during 2016, resulting in the expansion of the information held and the further detailing of past events to include the external legal costs incurred and the provisions made for the related legal disputes.

The process of estimating prospective risk involves preparing specific qualitative questionnaires for subsequent completion by experts from the various operational units, with a view to interpreting their perceptions of the potential operational risks faced; this process is also used to obtain good suggestions about controls and the mitigating action that can be taken.

With regard to the measurement aspects, the methodology for a new internal model was defined during the year. This is being further developed and refined in order to obtain periodic estimates of the exposure to operational risk, by applying special statistical techniques (*Operational VaR*) that draw on the historical and prospective data obtained from the processes described above.

Once again, the exposure to IT risk was assessed by the dedicated business functions using a methodology that associates the sources of possible risk with all the existing controls available, in order to assess the level of the so-called «residual» risk. Their work addressed the governance of our IT systems, extending the focus to the outsourcing of IT activities, the related infrastructure and processing resources, the availability of knowledge, skills and human resources, and the management of «IT incidents», being events that might degrade the quality of the services provided, or even shut them down.

As unfortunately highlighted in the news regarding threats related to the use of ICT services, there has been an upturn in cyber risks linked to the refinement of fraudulent and other techniques used to attack business IT systems. The bank has focused on the crime aspects in order to enhance prevention and the defensive measures taken.

Overall, the risk analysis highlighted that the technical and organisational countermeasures already in place, or introduced recently, are consistent with and responsive to expectations, and together ensure an adequate level of control over IT risk.

The usual annual comprehensive test of the Business Continuity plan was completed successfully at the end of November 2016; this was the tenth carried out over time. As in the past, the test checked the key functions of the processes that support the bank's financial, payment and collection services, as well as those relating to the development of IT applications.

The test covered the performance of critical processes at alternative locations, simulating such risk scenarios as the destruction of or inability to access facilities housing the operational units or critical equipment, as well as the non-availability of infrastructure and significant documentation.

Key persons were able to work properly and interact with colleagues, external counterparties and customers, just as they do every day in their normal working environment. The checks also covered the functioning of the fire-prevention and back-up power systems.

Similar checks covered the IT components included in the disaster recovery plan, to mitigate the risk that critical IT systems might become unavailable.

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 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. These tests were also carried out together for the principal IT platforms used, involving the network equipment and dedicating particular attention to the performance of applications tests, as well as the traditional systems checks. Lastly, specific tests were carried out with the principal technology counterparties with which the bank works.

Reputation and money laundering risk

New methodologies were identified and implemented during the year in order to monitor the bank's most important asset, our reputation.

In this regard, a new experiential approach to the assessment of reputation risk has been defined and tested, combining the structured processing of reputation-related information with an examination of possible risk factors.

The methodology implemented each year, based on the processing of internal sources of information and the systematic monitoring of the media, is designed to identify scenarios that might adversely affect the reputation of the bank, with a view to analysing their significance and, if necessary, take appropriate action to monitor, prevent and attenuate the related risks.

In order to prevent the risk of money laundering and the financing of terrorism, the bank remains on constant high alert without sparing investment or resources.

Building on the daily controls in place and the risk self-assessment that the anti-money laundering functions of supervised entities were requested to carry out by the Bank of Italy, the relevant internal controls were further strengthened during 2016 in terms of adequate verification, the profiling of risk, the monitoring of customer activity and the anomalous use of cash. Special attention was also paid to the most problematic economic sectors and to transactions with counterparties resident in «Countries at risk», being those subject to embargo or deemed not equivalent to EU countries in terms of their anti-money laundering regimes.

Overall, the controls in place are both detailed and robust, but nevertheless require constant adaptation to take account of the changing dynamics that influence the risk of committing money laundering crimes in the territories served by the bank.

Regulatory non-compliance risk

In the context of a broader project to strengthen controls, the Compliance Unit radically revised its approach and the matters addressed during the year, adopting a «widespread compliance» operational model on the basis that the supervisory instructions make the Unit responsible for monitoring the regulatory compliance aspects of all banking activities (without prejudice to the specific responsibilities of other second-level control functions).

The updated model was approved at the Board meeting on 29 June 2016, which also issued the new «General regulation governing non-compliance risk» and the new «Regulation governing the Compliance Unit». At the same time, the Compliance Unit adopted a new «Operating manual for the management of non-compliance risk», which details how to implement in practice the model for the management of non-compliance risk outlined in the General regulation.

Specifically, the purpose of the «widespread compliance» model is to satisfy the above-mentioned regulatory requirement via direct Compliance Unit supervision of core topics – especially those related to the safeguarding of consumers (investment services, transparency, usury, privacy etc.) and to the regulation of conflicts of interest (related parties, relevant parties, compensation policies etc.) – and via the provision of support for certain identified «specialist control units» and «compliance contacts» that are also part of the bank's organisational structure.

In particular, the «specialist control units» are directly responsible for the governance of their respective regulatory areas, given that the reason for their existence is to manage and control non-compliance risk; the interactions of these units with the Compliance Unit are formalised in specific service agreements. The specially-appointed «compliance contacts» collaborate with the Compliance Unit on regulatory matters for which the latter is directly responsible.

Adequacy of the system of internal controls

The Internal Audit Department, which reports directly to the Board of Directors in order to ensure its independence, has the delicate task of assessing the functioning of the bank's overall system of internal controls via constant observation of the proper conduct of operations and the changes in risk.

Applying its established methodology and essentially following the audit plan devised at the start of the year, during 2016 the Department carried out third-level checks on the units responsible for monitoring risk – comprising the second-level control functions already mentioned (addressing risk, compliance and anti-money laundering), as well as, among the specialist control functions, the activities of the Financial Reporting Officer – and on

the business processes and organisational units considered particularly significant in terms of the potential exposure to risk, including the activities of the other companies belonging to the Banking group. The objectives of the above work were to assess the adequacy of the organisational structure and the effectiveness of the controls in place to mitigate risk and, where necessary or appropriate, to recommend corrective organisational and/or operational actions.

This audit activity was directly supported by the traditional inspection work carried out by a dedicated organisational unit within the Internal Audit Department in relation to the branch network (involving both branch visits and remote checks supported by the use of specific indicators) and head office units; taken together, the purpose of these inspections is to check on the proper conduct of operations and on compliance with the internal and supervisory regulations, as well as with current legislation.

Consistent with its mandate, the Department also assisted and participated directly in the work of the Control and Risks Committee (part of the Board), the Board of Statutory Auditors and the Supervisory Body established pursuant to Decree 231/2001; frequent, constructive discussions were also held with exponents of the Supervisory Authority (the Joint Supervisory Team of the ECB).

Reviewing the business areas covered by audit work during the year just ended, it is clear that the scope of action of the Department focused first on the overall governance of risk, with checks in particular on the management of liquidity and the interest-rate risk faced by the bank book, as well as checks on the overall implementation of the Risk Appetite Framework (RAF). The Department was also involved in the processes for determining the adequacy of capital (ICAAP – Internal Capital Adequacy Assessment Process) and liquidity (ILAAP – Internal Liquidity Adequacy Assessment Process).

The audit work carried out in the area of strategic planning was important too, addressing the close link between the monitoring of risks and the definition of business objectives, as were the checks made on the Recovery Plan to ensure that the processes involved are robust, given that they must be compatible and consistent for obvious reasons.

Given the delicate macroeconomic conditions, specific attention was dedicated to the lending process, with analysis of various phases: investigation and approval, the environmental monitoring of exposures, and the classification and write-down of impaired loans.

The monitoring of IT systems continued during 2016, with the involvement of a specialist EDP auditor. Controls in this area have been revised for consistency with the new regulatory instructions, with particular reference to the supervision of business continuity, the operational processes and activities that have been outsourced, IT security and, more generally, the management of IT risk.

This overview of activities is completed by coverage of the regulatory compliance work performance including, in particular, the regulations designed to tackle money laundering and the financing of terrorism (Decree 231/2007) and those governing safety in the workplace (Decree 81/2008).

With regard to the principal projects launched by the bank, the Internal Audit Department participated actively in the work to validate our internal rating systems in application of the AIRB approach, with a view to checking the consistency of the activities carried out with the related regulatory requirements, providing an independent assessment of the principal project macro-areas and monitoring their progress.

HUMAN RESOURCES

Italy is navigating in troubled waters, faced with many uncertainties and difficulties that make it difficult to identify and pursue a path capable of restarting the economic engine, that is stalled after a long period of crisis. Against this problematic background, many banks have chosen the route of mergers, rationalisation and cost containment, some more voluntarily than others. Increasingly, among the sacrifices made on the altar of efficiency, banks have downsized their commercial networks and staffing, which are seen as a burden to be shed in order to «get into shape» for the market.

We do not share this vision, primarily because, at Popolare di Sondrio, expansion of the branch network and employment have always been the subject of stringent checks and balances designed to avoid redundancy and unproductive costs.

Additionally, we are also convinced that, as a bank, we only exist because of our people.

Regardless of their function, they are responsible for presenting the commercial range, customising service and strengthening and enriching, in human and professional terms, the working relationships established with our customers. Our people are our distinguishing factor and represent a decisive competitive advantage. We are proud of our personnel and pleased by the many compliments we receive about them.

The human resources department is tasked with ensuring the quality of our personnel. Dedicated and committed, the department carries out the delicate task of selecting and training staff, motivating them and supporting them as they grow. This is a big task, as described in the following paragraphs.

At year end, the Bank employed 2,676 persons – up by 30, +1.13% -, of which 76% work within the branch network and the remaining 24% at the central offices.

The average age of our employees, 40 years and 3 months, and their average length of service, 16 years and 3 months, have increased by 4 and 7 months respectively.

In a world that is constantly evolving, there is growing demand for human resources with the skills to tackle the new challenges set by the market. Personnel selection therefore takes account of the new operational requirements and supervisory instructions, not least those on the governance of capital and risk.

The human resources function directly schedules an intensive programme of training that is updated each year to cover the new products and services offered, as well as to educate and update employees about the

new regulations affecting their work. These activities are also evolving to place greater emphasis on developing the ability of staff to manage their commercial relations with customers.

Training is provided as a combination of classroom and multimedia courses. During 2016, classroom sessions were attended by 1,564 collaborators, who received a total of 34,958 man-hours of training, while the multimedia courses taken by 2,548 employees accumulated another 66,811 man-hours of training.

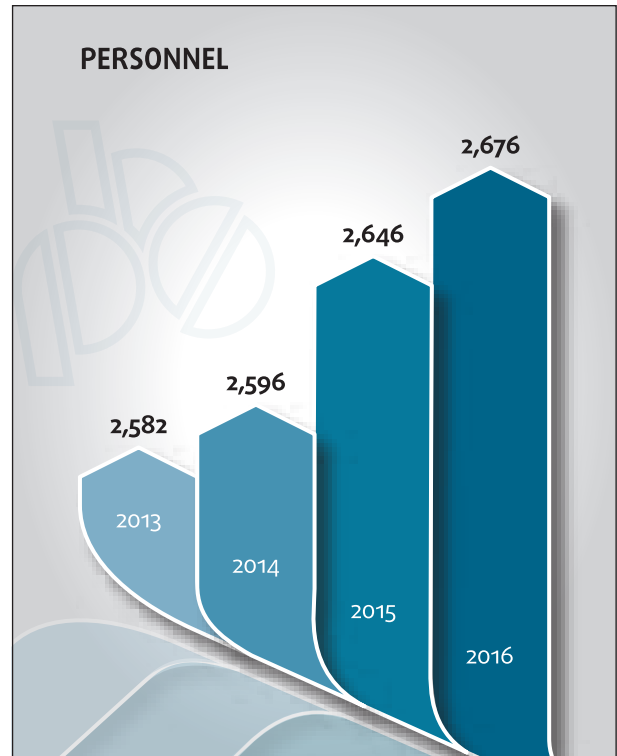
As in the past, particular attention was dedicated to the courses on sector regulations, such as privacy, anti-money laundering and insurance broking. Training in this last area was also directed towards obtaining the related sales licence pursuant to Isvap (now Ivass) Regulation 5 dated 16 October 2006.

The ability to combine classroom and multimedia courses means that topics can be addressed based on specific needs. On this basis, significant classroom hours were dedicated to lending – the initial investigation, guarantees, the management and control of credit granted, the analysis of businesses in difficulty -; the provision of treasury services; the management of after-sales activity in the area of investment advice. The multimedia courses tend to focus on such subjects as privacy, transparency, compliance, prevention of usury, the culture and governance of risks and anti-money laundering.

During the year, a total of 179 new recruits received basic training. Again via a combination of classroom and multimedia courses, they completed sessions on various topics, such as governance of the employment relationship, branch activities, safety at work, banking regulations and techniques, bank products and services, introduction to lending, the securities markets and international business.

The important collaboration with technical schools and universities active in the territories served by the bank enabled 220 students to complete internships at our branches and central offices.

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



PROMOTIONAL AND CULTURAL ACTIVITIES

Alongside the development of our primary activities, we are also keen on initiatives designed to build awareness about our origins and the territories served, the customs and traditions of the people who live there, and the related historical and economic aspects. We also strive to document in



Alpine landscape with stream, 1966

Oil on canvas, cm. 60x70

Signed and dated at the bottom right "966 P. Punzo"

«It is the privilege of a few to recreate with just the resources of art that complex of feelings awakened in the soul by multiform alpine visions.

Which technically is made even more difficult by the rapid changes in the light, precisely in high mountains, which requires not just vigorous interpretation, but also prodigious speed of visual insight.

All of these obstacles, which reduce the true mountain painters to a very few, in our opinion have been overcome by Punzo with rare skill».

Bruno Credaro,
Paolo Punzo, the painter of mountains,
 "La Valtellina", 1935

When lower down the slopes, Punzo's rendering of nature becomes less solemn and more domestic, and the brushstroke captures in a synthesis of colours the farthest elements of the landscape, which in the foreground become more descriptive. As in this alpine landscape where, in the silence of an alpine valley, you almost seem to feel the water of the torrent flowing through the stones of the riverbed, coming to meet us.

All around, there are the signs of an incipient autumn with the larches that begin to turn yellow and the first snow on the shaded bank in the foreground, which reaches into the stream, intertwining with the water in a dense dialogue in the loneliness of the natural scene, shut in without sky or horizon.

The image is somewhat conventional, but the lowered perspective maximizes concentration on the few elements of nature: the trees, the snow, the stones, among which, as we said, the water flows with tactile and almost audible evidence.



The Bitto at Morbegno, 1956

Oil on board, cm. 48x100

Signed and dated at the bottom left "P. Punzo 56"

The partly dried-up riverbed of the Bitto in the foreground makes a panoramic appearance in the composition for its whole width, dividing the white and sunny houses on the right bank from the foliage of the fir trees on the left.

It is a dried-up riverbed, at the centre of which there is the blue stream of water that fills some pools here and there and whose parched whiteness seems to reverberate off the surrounding houses.

The riverbed is thirsty for water, like all of nature in this summer landscape of the low valley that stretches from the houses of Morbegno along the edge of the burn to the Costiera dei Cech on the other side, which is also sunny and parched, naked and almost devoid of vegetation.

publications and pictures the landscapes of our territories and to preserve the memory of those persons of yesteryear who, born or raised there, have left their mark in any field, whether cultural, entrepreneurial, economic, political or other.

This is our duty and we will continue in this way.

Recognitions are always well received: they highlight the benefits and fruits of effort and stimulate a desire to improve. We are no different.

Last year, as part of the «Milano Finanza Global Awards», we received the «Premio Guido Carli/Lombard» as the «best Italian bank for the promotion of the cooperative spirit». In the context of the 2016 «Future Bancassurance Awards», the EMF-Group recognised our senior management «for the development of the year of the Bancassurance business in both the Life and non-Life sectors» and commended the bank «for its ability to sell customised non-life insurance products».

We are famous for our interest in art and culture in general, and we willingly dedicate time and resources to these sectors.

Our periodical, *Notiziario*, elegant but with a modest name, was launched in 1973 to present articles on many subjects – often by prestigious contributors – every four months.

This past year was no different. Among the many words published in 2016, the April edition of the magazine opened with a long report, comprising several articles rich in sentiment and emotion, in memory of its founder: our much missed Honorary Chairman, Piero Melazzini, who passed away on 30 November 2015.

The members who attended the annual meeting held on 23 April 2016 were given a book of photographs covering «The wild Alps. The mountains and their animals». This publication is easy to read with attractive pictures, describing in detail the natural beauty of the alpine chain. The members who attended the meeting held on 17 December received a facsimile set comprising the «Minutes of the general meeting held on 3 March 1872» and the first «Articles of Association» of the People's Cooperative Bank of the Province of Sondrio.

These antique documents confirm the continued validity and applicability of the principles on which our bank was founded.

Traditionally, the «Reports» of the parent company and our Swiss subsidiary are enriched with cultural inserts. In particular, the 2015 annual report of the bank includes a feature on Bartolomeo Pinelli (artist: 1781-1835). The cultural section of the Report of BPS (Suisse) SA – 2015 edition – was dedicated to the Swiss teacher and pedagogue of Italian origin, Johann Heinrich Pestalozzi (1746-1827), who contributed to fight against illiteracy in Switzerland, which was rife at the time.

To mark the 92nd World Savings Day we promoted a series of meetings with Roberto Ruozi, retired professor of Milan's Bocconi University, who dedicated his entire day on 11 November to Sondrio.

In the morning, at the Policampus, he talked to hundreds of senior pupils and their teachers about the «Situation, challenges and prospects of banking activities in Italy».

In the evening, he held an interesting conference in our Fabio Besta Hall on the «Banking Mosaic», which is the inspired topic of his book. The auditorium was crowded and well informed.

«Invitation to the Palace» is an ABI initiative intended to grant access to the many works of art owned by banks and show off the architectonic beauty of their buildings. Popolare di Sondrio, which has supported this initiative from the start, participated in the fifteenth edition on 1 October 2016 with good results.

Guided tours included the head office, our Luigi Credaro Library located nearby – which was very active during 2016 in terms of visitors and the loan of books – and the Stelvio Pass branch, which includes space dedicated to the Carlo Donegani Museum that displays interesting Italian and Austrian war relics dating back to the first World War.

Pirovano, our subsidiary in the Stelvio Pass known as the «Ski and Mountain University», is a sort of magnet for amateur and professional sporting events, and for the summer holidays of those who want to spend a relaxing and comfortable time at altitude, in harmony with nature and combining long walks with various snow sports. Among the many events, the August «Green Weekend» organised by Il Giorno is worthy of mention. This newspaper also celebrated its 60th anniversary there at the end of September-start of October, in combination with the «Three days on skis» event promoted together with Sci Club Rimini Ski & Snowboard. The «XVth Pirovano Interbank Meeting» was held in mid-October, attended by 27 companies and 13 banks. Hotel Quarto Pirovano was visited by thousands of drivers registered with the «40th International Rally: Stelvio International Metzeler» held from 30 June to 3 July.

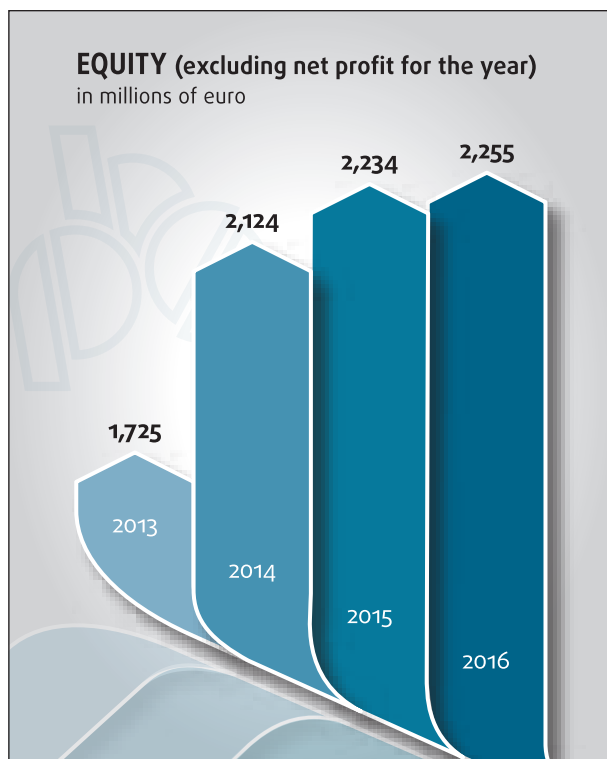
For many years, the Upper Valley has hosted the Stelvio-Mapei Run, which we help to organise. The 2,500 athletes ran along the winding roads from Bormio to the Stelvio Pass, resulting in a celebration of sport, friendship and healthy competition.

Turning to «Popsoarte» www.popsoarte.it, a number of virtual exhibitions were organised during the year, featuring works by distinguished artists that belong to our collections. The spotlight was focused on a number of interesting topics: «Nineteenth century romantics», «From the Valtellina landscapes to The Betrothed» and «Italian art in the twentieth century».

Among the new year gifts made available to customers, comprising diaries and almanacs, the wall calendar attracted curiosity for its attractive illustrations, as well as for its lengthy introduction entitled «From the Alps to Europe – Banca Popolare di Sondrio from 1871 until now», which covered the history of our bank.

In terms of solidarity and charitable works, the «Solidarity Current Account» has made it possible to allocate significant amounts to AISLA, UNICEF, AVIS, AIRC and ADMO, which are all admirable organisations that perform precious work for the community.

Lastly, the Group Staff Association continued to present worthwhile cultural, touristic and sporting initiatives throughout the year.



EQUITY

Inclusive of the valuation reserves and profit for the year, shareholders' equity at 31 December 2016 amounts to 2,334.786 million, up by 0.272 million and essentially stable after the distribution of dividends and the reduction of the valuation reserves.

The share capital, which consists of 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.

The equity reserves rose to 803.541 million, +9.25%, due to the allocation of a significant portion of the 2015 profit for the year. In this regard, note that the Parent Company's Shareholders' Meeting of 23 April 2016 approved the result for 2015 and the distribution of a dividend of 0.07 euro for each of the 453,385,777

shares outstanding at 31 December 2015.

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 37.357 million, down 56.11% from the positive balance of 85.112 million reported at the end of 2015. This marked reduction was mainly due to the adverse effect of charges made to the income statement following the disposal of AFS securities.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force pursuant to Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 changed the lower limits for the capital ratios, which are currently 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. Following the SREP decision of 20 November 2015, the European Central Bank raised the level of capital required to guarantee appropriate coverage of the Group's risks. In particular, the minimum Common Equity Tier 1 ratio for 2016 was raised to 9.25%, but no increases were made to the general regulatory requirements for the Tier 1 Capital Ratio and the Total Capital Ratio.

In particular, based on the SREP (*Supervisory Review and Evaluation Process*), the ECB is empowered to set specific capital and/or liquidity coefficients for each bank subject to EU supervision, as well as to express further qualitative and quantitative considerations and recommendations: the Bank of Italy carries out similar activities for the less significant banks under its direct supervision.

In December, the ECB informed the bank about the decision of the Supervisory Board on the new minimum ratios for 2017 applicable from 1 January.

The new minimum capital ratios to be met by the Banking group are indicated below:

- Common Equity Tier 1 ratio of 7.25%, being the sum of the Pillar 1 regulatory minimum (4.50%), the Capital Conservation Buffer (1.25%) and an additional Pillar 2 requirement (1.50%);
- Total Capital ratio of 10.75%, being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (1.25%) and an additional Pillar 2 requirement (1.50%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank.

In addition to these two ratios, Pillar 2 Guidance has been added from the current year, providing a forward-looking indication for the change in the capital of the Group. This parameter is confidential, by contrast with the two minimum requirements, and – based on guidelines issued by the ECB – is not deemed relevant for the determination of distributable dividends.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,150.636 million at 31 December 2016.

Set out below are the Group's adequacy requirements at 31 December 2016 and the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	11.09%	9.25%
Tier 1 Capital Ratio	11.12%	8.50%*
Total Capital Ratio	13.58%	10.50%*

* minimum requirements.

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 3,020 million, 432 million more than its consolidated equity, which amounted to 2,588 million. Further details are provided in Part F «Information on equity» of the notes.

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 2015:

- *capital/direct funding from customers*
8.34% v. 8.77%
- *capital/customer loans*
10.95% v. 11.66%
- *capital/financial assets*
29.41% v. 27.61%
- *capital/total assets*
6.95% v. 7.29%

– *net bad loans/capital*
32.71% v. 31.28%

BPS stock

Following the excellent performance achieved in 2015 (+34.11%), the price of BPS stock, traded on the market organised by Borsa Italiana, was dragged down by the general poor performance of the banking sector. The fall was limited to 24.66%, as BPS is one of the most defensive stocks in the sector. In fact, the FTSE Italia All Shares Bank plummeted 38.20%, while the FTSE Mib declined by about 10.20%.

In short, as shown by the price chart, the stock price fell from 4.152 euro at the end of 2015 to 3.128 euro at the end of 2016. The price slide steadily from the start of the year, touching a minimum of 2.086 euro on 6 July, while there was a gradual recovery during the second half until the close at 3.128 euro, which was essentially half way between the July minimum and the prices at the end of 2015.

The crisis that has afflicted the banking sector for several years became even more evident during 2016; in addition, the systemic difficulties faced by Italy were further strained by a number of specific factors, such as the crises that overtook a number of major domestic banks.

The shareholder base has decreased with respect to the prior year: there were 182,797 shareholders at the end of 2016, down by 2,682 over the year from 185,479 previously. This phenomenon was also experienced by other cooperative banks.

The bank held 3,650,000 treasury shares at the end of 2016, with a book value of 25.322 million. This was unchanged with respect to the end of 2015, since no transactions took place during the year.

BPS stock



Our Shareholders





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.

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, as shown is greater detail in the following tables, has been assessed by the rating agencies Fitch Ratings and Dagong Europe Credit Rating.

These ratings refer to the date of update of the assessments by Dagong Europe Credit Rating on 22 February 2016 and to the periodic review by Fitch Ratings on 24 June 2016.

FITCH RATINGS – issued on 24 June 2016

	RATING
LONG - TERM	
It is a measure of the probability of default and reflects the bank's ability to repay medium/long-term loans. It is expressed on a scale from AAA to D, for a total of 11 levels.	BBB
SHORT - TERM	
It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within the next 13 months. The scale includes seven levels (F1, F2, F3, B, C, RD and D).	F3
VIABILITY RATING	
It aims to assess what the bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from aaa to d, for a total of 11 levels.	bbb
SUPPORT	
It reflects Fitch's assessment of the probability that an external body would provide support to the bank, if it needed it. The scale has five levels from 1 (best) to 5 (worst).	5
SUPPORT RATING FLOOR	
It reflects Fitch's assessment of the minimum level below which it will not lower the long-term rating of the issuer in the event that it found itself in financial difficulty, given the propensity of potential supporters (government or institutional owner) to help the bank in such circumstances. The scale of values associated with this assessment reflects that of a long-term rating. A further possible score, represented by the "No Floor" (NF), indicates that according to Fitch it is unlikely that aid could come from an external source (probability of support lower than 40%).	No Floor
OUTLOOK	
It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative».	Negative

DAGONG EUROPE CREDIT RATING – issued on 22 February 2016

RATING

LONG - TERM

It is a measure of the probability of default and reflects the bank's ability to meet its financial obligations. It is expressed on a scale from AAA to D, for a total of 10 levels.

BBB

SHORT - TERM

It measures the ability of the organisation to which the rating is assigned to meet payments due in the short-term. The scale includes six levels (A-1, A-2, A-3, B, C and D).

A-3

INDIVIDUAL FINANCIAL STRENGTH ASSESSMENT

It aims to assess what the bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from aaa to d, for a total of 10 levels.

bbb

OUTLOOK

It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative».

Stable

INCOME STATEMENT

More than others, three factors influenced the progress of the banking business during 2016: the continuation of historically low rates, with a consequent squeeze on the related margin; the marked volatility of the financial markets, which affected net trading income; the improved macroeconomic situation, which improved the quality of loans. In addition to these elements, a fourth of a different kind has emerged that is now more recurring than exceptional. We refer, of course, to the requests to make major contributions – basically additional taxation under another name – in order to save crisis-hit banks.

Our bank has worked in the difficult and complex operating environment described, demonstrating once again our ability to adapt to the changing economic conditions. This, together with an innately prudent assessment of the operating conditions faced, has enabled us to deliver a net profit for the year of 80.048 million. Our performance would have been even better, had it not been for the recognition of standard contributions of 11.170 million to the National Support Fund, as well as the special contributions of 26.355 million needed to assist the well-publicised action taken to save 4 banks that had collapsed. All of the above in addition to the routine payments made to the Interbank Deposit Protection Fund totalling 6.370 million.

The 20% decline in net profit, from 100.064 million in the comparative period, should also be considered in the light of the excellent results obtained from securities trading in 2015, when conditions in the financial markets were extremely favourable.

In confirmation the downward trend seen in the prior year, net interest income declined by 13.40% to 415.200 million, from 479.465 million in the comparative period. This was also partly due to the contraction of the rate spread.

Net interest income



View of Merano, around 1955

Oil on canvas, cm. 38x48
Signed on the lower right "P. Punzo"

Punzo began to visit Merano, where his brother lived, frequently from the 1950s. This small alpine city therefore becomes the subject of a group of urban views that, next to the floral subjects, show the other face of Punzo, which in the postwar period tends to lose the label of mountain painter to experience new methods and subjects in painting. An example is this happy view of a historical corner of Merano, where Punzo is freer and more relaxed in his brushstrokes and in his use of colour.

The South Tyrolean town is pictured in one of its most typical views, with its churches, towers and houses in the foreground, flooded with sunshine, in front of which the branches of flowering trees dance like dervishes. The mountain slope, which is the background, is barely hinted at without any naturalistic concern, but only to make the central scene of the houses in the sun stand out even better; in fact, they stand out very well also thanks to the lowered perspective of the horizon. But it is the branches of the trees in the foreground that dictate the rhythm of the whole composition and almost project their vitality onto it.



Houses in the greenery of Merano with Esso station, around 1955

Oil on canvas, cm. 28.5x38.5

Among the views of Merano from the 1950s, one that stands out is this unique painting in which Punzo shows that he wants to investigate all aspects of this South Tyrolean city, from the historical to the modern. And it is precisely the signs of incipient modernity in the Alps that he captures in this view. The Esso petrol station is just hinted at, for the rest remaining wrapped in the greenery of the lush vegetation in which the house behind it, a house of traditional alpine architecture, is immersed. The greenery, in turn, branches out over the rooftops, from the tree on the right in the foreground, getting thicker in the wood that acts as a backdrop to the house and ends up forming the lap on which it lies. In this way, the petrol station is absorbed by nature and tradition, and the whole image acquires a symbolic value of synthesis between modernity and tradition in the South Tyrolean urban environment.

Interest income fell by 17.73% to 579.229 million. This was affected by the historically low rates that, in some cases, were actually negative. Continuation of the expansionary monetary policy, implemented over an extended period by the European Central Bank, is reflected in the coupons paid on debt securities and, to an even larger extent, in the rates charged to customers and to prime customers in particular.

Interest expense fell by 26.96% to 164.029 million. This decrease, however, was not sufficient to contain the reduction in net interest income. In this regard, it is necessary to observe that the rates paid on customer accounts really cannot be reduced any further. Additionally, the funding obtained from customers – which greatly exceeds lending – has resulted in the need to place excess funds in financial investments that, in turn, have ever lower or even negative yields, as already mentioned.

Net fee and commission income was essentially in line with the prior year at 249.511 million, -0.11%.

It is worth emphasising the reduction in commissions for order collection and loans granted, while commissions related to asset management and insurance products showed a positive dynamic.

Dividends collected amounted to 18.191 million, +11.79%.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 92.908 million compared with 191.913 million in the comparative period, -51.59%. Although this decline was substantial in both absolute and percentage terms, the result is still very respectable given that, as mentioned, conditions in the financial markets were particularly favourable in 2015.

The net trading income of the HFT portfolio amounted to 12.589 million, compared with 45.585 million, - 72.38%. The drop was principally due to the marked contraction of this portfolio in recent years, due to its repositioning by the bank in favour of AFS securities, which resulted in a reduction in the profit from trading in securities from 20.113 million to 3.556 million; additionally, there was an increase in net unrealised losses from 10.834 million to 22.044 million. The derivatives element fell from 10.441 million to 8.553 million. Exchange gains and differences declined from 25.865 million to 22.524 million, -12.92%, given that the exceptional volatility experienced in 2015 was not repeated.

The net result from the sale or repurchase of AFS financial assets, loans and financial liabilities was 76.011 million, compared with 140.033, million, due mainly to the disposal of Italian government securities. The results from assets carried at fair value amounted to 4.307 million, down 31.56%.

Income from banking activities totalled 775.810 million, down 17.24%. Within this aggregate, the weighting of net interest income increased from 51.15% to 53.52%.

In a context marked by a perceived economic recovery accompanied by a prolonged phase of interest rates at historical minimums, the improved quality of lending has translated into a reduced need for write-downs and adjustments.

Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 260.808

**Income from
banking activities**

million compared with 400.488 million (-34.88%). Of this, 232.177 million relates to amounts due from customers, representing a decrease of 39.13% from 381.403 million in the comparative period. This outcome, which benefits from the improvement in the general economic climate, also reflects constant refinement of the work performed by the bank when granting loans and subsequently managing them. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has fallen from 1.90% to 1.09%. Adjustments for the impairment of securities rose from 8.203 million to 25.189 million. This amount includes 13.950 million to write-down the units in Fondo Atlante, which are held in the AFS portfolio. Fondo Atlante, established to help stabilise the banking system, has taken action to assist Banca Popolare di Vicenza spa and Veneto Banca spa. Their continued poor results made a reduction in the carrying amount of the units held by the bank inevitable, even though Quaestio Capital Management SGR Spa did not write-down their NAV as of 31 December 2016. In addition, a provision of 6.315 million was recorded to adjust the carrying amount of the investment held in Release spa, as well as other shares and mutual funds held in the AFS portfolio whose original

SUMMARY INCOME STATEMENT

(in thousands of euro)	2016	2015	(+/-)	% change
Net interest income	415,200	479,465	-64,265	-13.40%
Dividends	18,191	16,273	1,918	11.79%
Net fee and commission income	249,511	249,790	-279	-0.11%
Results of financial activities	92,908	191,913	-99,005	-51.59%
Total income	775,810	937,441	-161,631	-17.24%
Net adjustments to loans and financial assets	-260,808	-400,488	139,680	-34.88%
Net financial income	515,002	536,953	-21,951	-4.09%
Personnel expenses	-177,362	-176,848	-514	0.29%
Other administrative expenses	-261,786	-253,442	-8,344	3.29%
Other operating income/expense	60,239	64,850	-4,611	-7.11%
Net accruals to provisions for risks and charges	-1,280	-2,134	854	-40.02%
Adjustments to property, equipment and investment property and intangible assets	-27,624	-25,865	-1,759	6.80%
Operating costs	-407,813	-393,439	-14,374	3.65%
Operating profit (loss)	107,189	143,514	-36,325	-25.31%
Net gains (losses) on equity investments and other investments (+/-)	-1,670	585	-2,255	-385.47%
Profit (loss) before tax	105,519	144,099	-38,580	-26.77%
Income taxes	-25,471	-44,035	18,564	-42.16%
Profit (loss)	80,048	100,064	-20,016	-20.00%

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

The allocation of revenues from investments in Pension and similar obligations has been reclassified from "Personnel costs" to "Other operating income/expense".

carrying amounts were objectively impaired in comparison with their current market prices.

Adjustments to other financial transactions amounted to 3.442 million, compared with 0.916 million in the prior year.

Net financial income therefore comes to 515.002 million, -4.09%.

Rationalisation and cost containment are a constant part of operations, especially in this phase of very low margins.

Operating costs, which are subject to continuous monitoring and control, amounted to 407.813 million, +3.65%.

The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has risen to 52.57%, from 41.97% in the prior year, while the ratio of operating costs to total assets has eased to 1.21% from 1.23%. Looking at costs in more detail, administrative expenses – stated after reclassifying the provision deferring income related to post-employment benefits – amounted to 439.148 million, +2.06%; of these, personnel costs rose from 176,848 to 177.362 million, +0.29%; other administrative expenses increased from 253.442 to 261.786 million.

Among these, there was a further increase in the contributions made to the Support and Guarantee Funds, from 39.442 million to 43.911 million.

With regard to routine costs, there was a marked increase in expenditure on consultancy, legal fees, interbank networks and searches.

The net provisions for risks and charges amounted to 1.280 million compared with 2.134 million, -40.03%.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 27.624 million, +6.80%.

Other income – stated after reclassifying the provision deferring income related to post-employment benefits and net of other operating expenses – amounted to 60.239 million, -7.11%.

Net losses from equity and other investments amounted to 1.670 million, reflecting writedowns of 1.680 million – 0.340 million for Pirovano Stelvio spa and 1.340 million for Banca della Nuova Terra spa – and profits from the disposal of other investments totalling euro 10 thousand. There was a net profit of 0.585 million in the prior year.

Profit for the year

Profit before income taxes therefore totalled 105.519 million, -26.77%. After deducting income taxes of 25.471 million, the profit for the year was 80.048 million, compared with 100.064 million in the previous year, -20%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 24.14% compared with 30.56% in the previous year.

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 over the past year was to satisfy the demand for banking products and services – especially loans – from our customers and, above all, from our shareholders. This is our mission as a cooperative bank and, as always, we have acted accordingly, giving attention not only to the needs of individuals, but also to the more general requirements of the communities to which they belong. This means working with a vision that seeks to make best use of the resources and specific characteristics of each territory, thereby reflecting their nature and desires, as well as enhancing our mutual interests. We take the opportunities for work offered by the various counterparties, while they benefit from operating in a healthy and profitable environment. These guiding principles of identity, solidarity and support are also written into the Statute for the Valtellina Community.

Loans to customers amounted to 21,332 million, +6.55% on the previous year. This statistic highlights the scale of the financial support provided to households and businesses.

Among other things, 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. The same is true for the support provided for property renovations, which seek to save energy and, of course, upgrade. 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. The objective is to facilitate the provision of casual work to young people by improving the flexibility of businesses.

In terms of funding, customers were given all necessary support, including expert advice, when choosing between the various investments. This reflects our absolute transparency and respect for the propensity to accept risk of each person.

Our catalogue includes ethical financial instruments and supplementary pension products too, which are essential these days in order to assure an adequate level of retirement income.

Direct deposits came in at 28,002 million, +5.16%. This confirms the validity of our commercial proposals and, above all, the trust placed in the bank as a result of the concrete efforts made to safeguard savings.

Entities and institutions are among the principal recipients of our specialist services. Our offer – delivered through dedicated desks, traditional branches and, more and more frequently, 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.

There are 182,797 shareholders at the end of the year. The wide membership confirms our ability to involve new partners in our work. A simultaneous increase in the number of member-customers is a concrete reflection of the way we implement the founding principles of the cooperative banking movement, which identifies the members as the most important and stable core of customers.

Art. 2528, last 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 «BPS stock» section of this report.

Institutional communications and that to the market - carried out in full compliance with the specific regulations – take account of the nature and sheer number of 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 «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. It is our duty to ensure that communications, increasingly required by the regulations, remain transparent and not excessively technical, in which case they would only benefit a few readers.

The Bank and the membership also come together at the annual general meeting. This key moment in the life of our business in which the most relevant decisions are taken. Direct participation is facilitated by the transport services provided and represents an opportunity to take lunch together.

Indirect participation is of course possible by the wider possibility to use 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;
- the contributions made in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services;
- donations – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

SIGNIFICANT SUBSEQUENT EVENTS

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

With regard to the transformation of Banca Popolare di Sondrio into a limited liability company (SpA), pursuant to Law 33 dated 24 March 2015 on the reform of cooperative banks and the consequent instructions from the Supervisory Authorities, it will be recalled that the bank was unable to hold the extraordinary meeting called for 17 December 2016 to approve the new legal status. In particular, on 15 December 2016, the Chairman of the VIth section of the Council of State issued a temporary decree suspending the deadline for the transformation of cooperative banks into SpA; further, in an injunction issued on 16 December, the Milan Court prevented the above-mentioned extraordinary meeting from taking place.

The above urgent measures were confirmed by the Milan Court on 10 January 2017 and by the Council of State on 12 January 2017. The latter suspended the deadline for the transformation of cooperative banks into SpA until publication of further instructions by the Council of State, after the decision to be made by the Constitutional Court on the legitimacy of the law concerned.

On 16 February 2017, Dagong Europe Credit Rating, part of the Chinese «Dagong Global Credit Rating» group confirmed the following ratings for Banca Popolare di Sondrio:

- long term = BBB;
- short term = A-3;
- Individual Financial Strength Assessment; = bbb;
- outlook = stable



OUTLOOK FOR OPERATIONS

The outlook for the Italian economy suggests that growth will consolidate during the current year, albeit at a significantly slower rate than our principal partners in the European Union. As a result, the chances of reducing unemployment to more tolerable levels look somewhat slim.

The domestic situation remains exposed to all the uncertainties apparent on the world stage, with many unresolved crises, while the consequences of the approach taken by the new US administration towards international trade and, more generally, the process of globalisation, are still difficult to assess.

In this context, the bank expects to continue along an independent growth path with positive economic results. With interest rates remaining at their historically low levels in 2017, there will be continued pressure on net interest income, although to a lesser extent. The renewed serenity of the general macroeconomic situation, with a beneficial effect on the quality of loans and, therefore, on the size of the related adjustments, may have a positive effect on the profitability of the bank. The contribution from commission income is expected to improve, while work on the containment of costs will continue. The results from security transactions will depend on the performance of the markets.

* * *

Shareholders,

The 2016 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 € 80,047,620, have been audited by KPMG s.p.a.

BALANCE SHEET

Total assets		€	33,587,746,014
Liabilities	€	31,252,960,272	
Valuation reserves	€	37,356,524	
Share capital	€	1,360,157,331	
Share premium reserve	€	79,005,128	
Treasury Shares	€	-25,321,549	
Reserves	€	803,540,688	
Total liabilities and equity (excluding profit for the year)		€	33,507,698,394
Net profit for the year		€	80,047,620

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%	€	8,004,762.00
- to the statutory reserve 30%	€	24,014,286.00
- 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	€	20,725,425.38
Total	€	80,047,620.00

EQUITY

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

- Valuation reserves	€	37,356,524
- Share capital - 453,385,777 shares, par value € 3 each	€	1,360,157,331
- Share premium reserve	€	79,005,128
- Treasury shares	€	-25,321,549
- Reserves	€	856,285,161
Total	€	2,307,482,595

Shareholders,

After having described and commented on the accounting information for 2016, we want to thank all those who contributed to the achievement of our positive business results.

Firstly, we are very grateful to our shareholders and customers for their confidence in and support of the bank, not least via the constructive ideas and advice received, as well as for the profitable work passed our way, which has clearly benefited the income statement.

Special thanks go to the Board of Statutory Auditors, chaired by professor Piergiuseppe Forni, which has performed with skill and care the delicate functions for which it is responsible. The same is true for the members of the Advisory Committee, who have been attentive, accessible and professional.

Grateful thanks go to the corporate bodies and personnel of the Group companies, with a special mention for those at Banca Popolare di Sondrio (SUISSE) SA and Factorit Spa. We extend similar thanks to the corporate bodies and staff at the Italian Banking Association (ABI), the National Association of Cooperative Banks, our correspondent banks in Italy and abroad and, among these, our sister cooperative banks.

Special regards and gratitude are sent to the leaders of the European Central Bank, which since 2014 supervises a limited number of banks

***View of Bergamo Alta***

Oil on canvas, 64 x 97 cm
Signed on the lower right "P. Punzo"

The green belt of meadows that gently climbs towards Bergamo Alta, interrupted on the right by a group of houses, horizontally dominates the foreground of this wide view, which culminates in the profile of the historic city with its towers, palaces, domes and belfries.

The synthetic brushstrokes, the wide horizontal breadth of the composition, which to a certain extent imitates mediaeval Tuscan painting, the diluted gradation of colour, the tenuous chromatic changes, make this view of the upper city in the distance subtly melancholic, standing out from a neutral, pale and clear sky, which enhances the suggestiveness. The rediscovery of mediaeval pictorial primitivism is part of that stage of stylistic eclecticism that characterised Punzo's painting for many years after the war, in search of another personal form of expression after the naturalistic poetics that marked his previous phase fell into a crisis.



Prato della Fara and the Sant'Agostino complex in Bergamo Alta, 1964

Oil on canvas, 79.5 x 98.5 cm

Dated and signed at the bottom left "64 P. Punzo"

Punzo, who in 1929, at the age of only 23, had left Bergamo, his hometown, returned there in 1940 after he got married, for the second time, to Nives Baschiera, going to live with his wife and son Donatello next to the old paternal home in via di Porta Dipinta, near the church and former monastery of Sant'Agostino.

So it is a familiar and everyday image that he is describing here. And this familiarity is certainly not extraneous to the air of affectionate delicacy that circulates throughout the composition and which probably determines the stylistic choice of the representation in the chiarista style, demonstrating the eclectic stylistic versatility of the Bergamasque painter who hereby pays homage to his hometown and one of its oldest historical sites, one that he obviously holds very dear.

It is an evocative image with perfect rendering in terms of atmosphere. The vast icy expanse of the Prato della Fara in front of the church and the ancient monastery of Sant'Agostino in Bergamo Alta is immersed in the pale light of a winter's day.

There are humans present, but they are minuscule – a cyclist who challenges the icy surface, a group of people taking a rest, a man walking next to the façade – forming a ghostly scene of life in front of the façade of the monastic complex, which stands exactly in the middle of the picture, as though suspended between heaven and earth.

«You, Punzo, are by now popularly linked to mountain painting and it was the mountain that was the basis of our friendship. However, I would be worried if I did not mention Punzo, the excellent painter of views in Bergamo, Salzburg or Portofino. In Bergamo, above all, on his home territory. So even when he is not painting high mountains, Punzo still knows what he wants to achieve...».

Leonardo Borgese, *Caro Punzo*,
"Corriere della Sera", 1956

throughout Europe, including BPS. Being a member of this small group is, for us, a reason for satisfaction and pride. We particularly want to express our thanks to Mario Draghi, knowledgeable and authoritative Chairman of the ECB, who is making prodigious and appropriate efforts to facilitate the economic recovery of the Euro area.

Special thanks also to the management of the Bank of Italy, from the Governor, Ignazio Visco, to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the directors of the main branches and of offices located in the provinces where we are present. With regard to the latter, our grateful thoughts go to Giuseppe Sopranzetti, responsible for the Milan branch of the Bank of Italy.

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 best regards and recognition are sent to FINMA – the Supervisory Authority for the Swiss financial markets based in Berne –, which with professionalism and a spirit of cooperation has carefully supervised the work of BPS (SUISSE) SA. Similar regards and thanks are extended to Banque de France, which supervises the branch of our Swiss subsidiary in the Principality of Monaco.

Many thanks for the good work performed by our personnel, whose diligence has contributed to the achievement of our good results.

Special thanks for all their efforts over the years go to those of them who retired during 2016. They have contributed to the history of our bank and their names will remain etched in our minds. We refer of course to Sandra Nobili, as well as to Alberto Ballabio, Silvio Barona, Marco Beretta, Walter Bombardieri, Roberto Bongiascia, Carlo Miro, Franco Pedrazzoli and Ivano Russo. To each of them we wish a long and healthy retirement, lived serenely together with their loved ones.

Sincere apologies if we have forgotten – by mere oversight – to mention anyone who supported us in 2016 with their advice, proposals or information. As is only fair, our kind regards and thanks are extended them as well.

Shareholders,

In presenting the 2016 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 2016 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 2016, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 80,047,620. The Shareholders' Meeting therefore specifically approves the allocation of profit for the year of € 80,047,620 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 € 8,004,762.00
- 30% to the statutory reserve € 24,014,286.00

b) to pay a dividend of € 0.06 to each of the 453,385,777 shares in circulation at 31/12/2016 with dividend rights as from 1/1/2016, 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 € 20,725,425.38

In accordance with the Stock Exchange calendar, the dividend will be paid from 24 May 2017, going ex-coupon (no. 39) on 22 May 2017.

Point 2) on the agenda: Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

Shareholders,

In implementation of the Supervisory instructions for banks on compensation and incentive policies – 7th revision dated 18 November 2014, pursuant to Directive 2013/36/EU (CRD IV) dated 23 June 2013, the Shareholders' Meeting held on 23 April 2016 approved the «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

At the board meeting held on 17 March 2016, the directors of the Bank resolved to make a number of changes to the «Policies» proposed by the Remuneration Committee. In addition to the routine updates, compared with last year a number of technical clarifications were made concerning the thresholds for access to the variable element of remuneration and the list of key personnel was extended.

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/assemblea2017 and distributed to all shareholders present.

The Compliance Unit was involved in validating the compensation policy and the system of remuneration and determined that they comply with current regulations, the Articles of Association, the code of ethics and the standards of conduct applicable to the bank, not least with regard to the management and coordination of the Banking group.

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. No anomalies have emerged in the application of the rules, which means that the policies and practices in use at Banca Popolare di Sondrio can be considered in line with the regulatory requirements.

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 met 3 times in 2016 and has, in particular, served in an advisory role, making proposals to the Board of Directors. It has monitored correct application of the rules relating to the remuneration of those in charge of internal control functions. The main activities carried out are summarised below.

The Remuneration Committee recommended the adoption of the Compensation Policies for the BPS Banking group that, following approval by the Board of Directors on 15 March 2016, were then authorised at the Shareholders' Meeting held on 23 April.

Additionally, the Remuneration Committee recommended adoption by the Board of Directors of the Remuneration Report required by art. 123-ter of the Consolidated Finance Law, which was then approved at the Shareholders' Meeting, as well as the public disclosure on remuneration and incentive policies and practices required by the supervisory regulations.

The Remuneration Committee also assisted the Board of Directors in preparing the shareholders' resolution on the annual remuneration of the Board of Directors. Additionally, the Remuneration Committee made proposals regarding the remuneration of those persons whose compensation and incentive systems are decided by the Board of Directors. For this purpose, it checked that the established quantitative, qualitative and functional objectives have been met.

Subsequent to approval of the Remuneration Policies, the Remuneration Committee also presented proposals for the remuneration of directors with specific responsibilities. These were based on the criteria indicated in the compensation policies, taking account therefore of «the importance of the

role and the related level of responsibility; the professional and moral qualities required; the commitment involved, including time and energy; the economic and financial position of the Bank, including prospectively; the market remuneration for equivalent duties in companies of similar size and characteristics».

The Remuneration Committee proposed criteria and parameters to the Board of Directors for the recognition to key employees of variable remuneration linked to the economic-financial, qualitative and functional objectives specified in the Remuneration Policies.

Lastly, the Remuneration Committee proposed thresholds to the Board of Directors, in terms of amount and percentage of fixed remuneration, below which key personnel would not be subject to the deferral criteria or stock-based payment.

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 3) on the agenda: Approval of the Remuneration 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 and with reference to the positions involved 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/assemblea2017. 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 4) on the agenda: Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;

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 the Italian Civil Code, i.e. articles 2529 and 2357 et seq, and by article 132 of Legislative Decree 58/98 CFA and 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 accordance with para. 33 of IAS 32 «Financial Instruments: Presentation», any treasury shares purchased must be deducted from equity.

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 35,000,000 – 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 2017 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

35,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 2% 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 35,000,000.

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 Managing Director, 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.

Shareholders,

The Bank has updated the Compensation Policies for 2017, which are submitted to the Shareholders' Meeting for approval.

With regard to key personnel – identified in the above Compensation Policies pursuant to specific regulatory requirements – a Compensation plan based on financial instruments has been devised, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors, in terms of the size of the amount and its incidence with respect to fixed remuneration, is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives. In particular:

- an up-front amount representing 60% of the total variable remuneration is paid in the following year, by the end of June;
- three equal annual tranches, equalling 40% of the total variable remuneration, are deferred over a three-year period commencing from the year after that in which the up-front amount is paid;
- 50% of the up-front part and 50% of the deferred part is paid via the allotment of shares in Banca Popolare di Sondrio scpa. These shares are subject to a retention period of 2 years in the case of the up-front amount and 1 year in relation to the deferred amount.

Based on the theoretical requirement estimated for the 2017 Compensation Plan based on financial instruments, covering the variable remuneration of key personnel and totalling a maximum of Euro 429,000, the Shareholders' Meeting is requested to approve a mandate for the Board of Directors to use the ordinary shares of Banca Popolare di Sondrio already held at the date of this resolution, up to a total amount of Euro 429,000, in order to service the 2017 Compensation Plan based on financial instruments.

The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The characteristics of the 2017 Compensation Plan based on financial instruments are described in the specific Prospectus prepared, which is available at the head office of the Bank and in the corporate information section of the website www.popso.it.

In this regard, we note that at 31 December 2016 and at today's date, the Bank holds 3,650,000 treasury shares with a carrying amount of Euro 25.322 million.

Given the above and in compliance with the relevant laws and provisions of the articles of association, the Shareholders' Meeting is invited to adopt 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 authorise the Board of Directors to use, up to a maximum total amount of Euro 429,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2017 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The Board of Directors, and the Managing Director, 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 5) on the agenda: Appointment to perform the legal audit of the accounts – pursuant to arts. 13, para. 1, and 17, para. 1, of Decree 39 dated 27 January 2010, as respectively amended by arts. 16 and 18 of Decree 135 dated 17 July 2016, by art. 16 of Regulation (EU) 537/2014 of the European Parliament and of the Council of 16 April 2014 – for the period 2017-2025 and approval of the related fees.

Shareholders,

The mandate to perform the legal audit of the accounts for the nine-year period 2008-2016, granted by Banca Popolare di Sondrio S.C.p.A. (the «**Bank**») to KPMG S.p.A. («**Outgoing Auditor**» or «**KPMG**»), will lapse upon approval of the financial statements as of 31 December 2016; accordingly, it is necessary to request approval from the Shareholders' Meeting for the appointment of another firm of legal auditors.

This appointment cannot be granted to the Outgoing Auditor, which in 2016 completed the nine-year period envisaged in art. 17 of Decree 39 dated

27 January 2010: «the duration of the audit appointment is nine years and it cannot be renewed or granted again unless at least four years have elapsed since the termination date».

Regulatory framework

The EU regulatory framework regarding the legal audit of the accounts has most recently been amended by the following measures:

- Directive 2006/43/EC («**Directive**»), as amended by Directive 2014/56/EU relating to the legal audit of the separate and consolidated financial statements, as transposed by Decree 39 dated 27 January 2010 and most recently amended by Decree 135 dated 17 July 2016 («**Decree**»);
- Regulation (EU) 537/2014 («**Regulation**») on public-interest entities and the audit of public-interest entities, which came into force on 17 June 2016.

In this context, the Regulation strengthened the role of the *Internal Control and Audit Committee* – identified in art. 19 of the Decree, for companies with a traditional system of governance, as the Board of Statutory Auditors –, assigning that Board the task of presenting a reasoned recommendation to the Board of Directors for the selection of the new firm of legal auditors, thereby enabling the Shareholders' Meeting to make the necessary decisions based on appropriate considerations.

Procedure for making the appointment

Pursuant to the new regulations, the following procedure was adopted for the appointment of the legal auditor of the accounts:

- (i) the Bank, together with the Board of Statutory Auditors in its role as the «Internal Control and Audit Committee», carried out a selection procedure in compliance with art. 16, para. 3, of the Regulation; and
- (ii) on completion of the selection procedure, after having evaluated the proposals presented by the auditing firms based on the selection criteria defined in the tender documents, the Bank prepared a report on the results of the selection procedure pursuant to art. 16, para. 3, letter e) of the Regulation, which was duly endorsed by the Board of Statutory Auditors;
- (iii) following the outcome of the selection procedure, the Board of Statutory Auditors prepared and presented to the Board of Directors, pursuant to art. 16, para. 2, of the Regulation, a reasoned recommendation («**Recommendation**») for the appointment of the firm of legal auditors, containing:
 - two alternatives;
 - an expression of preference, duly justified, for one of the two alternatives;
 - a declaration that the recommendation was not influenced by third parties and that no contractual clauses had been applied in order to



Spring view in Liguria, 1952

Oil on board, cm. 40x44.8

Signed and dated at the bottom left "P. Punzo 52"

«Punzo was a mountain painter: he did the high rocks and the high snow and glaciers; now he has turned himself into a painter of coastline and sea as well. And he has chosen the most difficult thing in the world ...

The sea is always difficult ... because it constantly changes its spirits, in other words, its face. The poetry, which was with Punzo in the mountains, also went down with him to the coast and the sea; these paintings show that the poetry did not stay there».

Vittorio G. Rossi, *Punzo at Hotel Posta*, "Corriere della Sera", 1952

Having to deal with the horizontal vastness of the seascape, Punzo tried to use that epic approach that made each of his mountains a glorification of nature. Here he has chosen an elevated viewpoint over the wide horizon of the rugged Ligurian coast, caught on a grey Spring day, and rendered with a synthetic brushstroke and cold chromatics that leave the seascape without any sun and without a smile. However, the scene is livened up by the intertwined vegetation of pines and flowering trees in the foreground, which revives and transforms the sea and the coast into a suggestive natural backdrop, giving it a delicate poetic nuance, not without some subtle melancholy, in harmony with the atmospheric tone of the composition.

Presented in 1952 at an exhibition at Hotel Posta in Sondrio, the picture surprised many of his critics, including *Corriere della Sera*, the newspaper that perhaps followed Punzo's work the most.



View of the Ligurian coast, 1962

Oil on board, cm. 39.8x45

Signed on the lower right "P. Punzo"

A corner of the Ligurian coast, close to a lush rocky cove, offers Punzo the theme for a pleasant composition in which the artist finds that varied and moving morphology of nature that he had exalted in his mountain paintings. The tree-lined beach in the foreground, animated by small groups of people, the waves of the sea breaking on the rocks, the massed clouds that mark the horizon and, above all, the high cliff wrapped in vegetation which culminates, at the top right, in the magnificent dark green group of cypress trees that raise their pinnacles to the sky like those of a Gothic cathedral, competing with the blue of the sky and white of the clouds, all contributing to the dissonant harmony of a seascape in which Punzo tries to recreate the same effects as in his mountain landscapes, which make the stylistic code fully recognisable.

«Paolo Punzo is an artist in the most complete and profound sense, a man born to paint, carrying within himself the anxiety, torment and passion to express with colours and drawings the world that he sees and that he feels he has to transfigure. And given that transfiguration in art is creation, Punzo is, in my opinion, a creator, whether he is painting mountains or marine horizons, tempestuous peaks or raging sea storms.

Sea and mountain are the two natural representations that require the greatest vigour on the part of the artist. ... I can spot a painting by Punzo a mile away, after just one glance: and when I see, or even just glimpse, a picture by Punzo, I immediately see Punzo in flesh and bones, in the mountains or by the sea, primitive and at the same time sophisticated».

Salvator Gotta, *Paolo Punzo*,
"Corriere della Sera", 1968

limit the choice for the appointment available to the Shareholders' Meeting of the Bank to certain categories or lists of legal auditors or auditing firms, or to a specific legal auditor or auditing firm.

The Board of Directors analysed the Recommendation made by the Board of Statutory Auditors and the documentation relating to the selection process⁽¹⁾ (already held on file by the Bank). The Recommendation of the Board of Statutory Auditors is made available to the Shareholders in an attachment.

The Board of Directors then acknowledged:

- that the Recommendation received from the Board of Statutory Auditors had identified two auditing firms from among the participants in the selection process, namely EY S.p.a. and Deloitte & Touche S.p.a., as possible alternative legal auditors of the accounts;
- that, between the above two alternatives, the Board of Statutory Auditors had expressed a preference for EY S.p.a.;
- that, for the purposes of the resolution to be adopted at the Shareholders' Meeting, the Recommendation and the preference of the Board of Statutory Auditors were made having regard for the qualitative and quantitative aspects of the proposals, with a 70% weighting for the first and a 30% weighting for the second;
- that the selection process gave the following results regarding the two auditing firms:

Company	Qualitative Elements	Quantitative Elements	Total
EY S.p.A.	64.67	30	94.67
Deloitte & Touche S.p.A.	68.15	21.18	89.33

Details of the fees proposed by the two firms are provided below:

A) EY S.p.A.

	Audit hours and fees	
	Hours	Fees
Legal audit of BPS and periodic accounting checks	1,900	110,000
Audit of the consolidated financial statements	375	16,000
Limited examination of the consolidated half-year report	450	20,000
Limited examination of the accounting schedules prepared to determine the interim results for the periods ended 31 March and 30 September, for their inclusion in the calculation of Tier 1 Capital	1,200	55,300
Comfort letters as of 31 December and 30 June for inclusion of the results for the period in the calculation of Tier 1 Capital	400	20,000
Other	100	10,000
	4,425	231,300

The fees are subject to adjustment to take account of changes in the rates over time; the annual adjustment will be equal to the percentage change in the ISTAT cost-of-living index commencing from the audit of the financial

statements and the limited examination of the condensed half-year financial statements for 2018 and from the accounting checks carried out in 2018. The fees do not include VAT, the supervision contribution due to Consob, out-of-pocket expenses (travel, board, lodging) or the cost of secretarial and communication services determined, in this last case, at a flat rate of 5% of the total fees.

Should circumstances arise requiring significant additional time with respect to that estimated in the proposal, such as changes in the structure and size of the Bank and/or the Group companies, changes in regulations, accounting standards and/or auditing standards, complex transactions arranged by the Bank and/or Group companies, additional audit procedures or supplementary requirements for the performance of the legal audit, such as requests for meetings, information and documents from the Supervisory Bodies, as well as any additional work carried out in relation to companies audited by other auditing firms, the appointed legal auditor will notify the circumstances to the Bank so that supplementary hours and fees can be agreed. Similarly, should the work require less time than expected, partly as a result of the foreseeable optimisation of the processes, the hours and fees will be reduced in proportion.

B) Deloitte & Touche S.p.A.

	Audit hours and fees	
	Hours	Fees
Legal audit of BPS and periodic accounting checks	1,800	120,000
Audit of the consolidated financial statements	480	34,000
Limited examination of the consolidated half-year report	600	44,000
Limited examination of the accounting schedules prepared to determine the interim results for the periods ended 31 March and 30 September, for their inclusion in the calculation of Tier 1 Capital	1,200	85,000
Comfort letters as of 31 December and 30 June for inclusion of the results for the period in the calculation of Tier 1 Capital	420	35,000
Other	32	2,000
	4,532	320,000

(1) Pursuant to art. 16, para. 3, of the Regulation, the selection criteria are as follows: (i) the Bank is free to invite any auditing firm to present proposals for the legal audit of the accounts, on condition that it does not prevent auditing firms with a small market share from bidding; (ii) the tender documents must enable the invited auditing firms to understand the activities of the Bank and the type of legal audit to be performed; (iii) the tender documents must contain transparent and non-discriminatory selection criteria for the assessment of proposals; (iv) the Bank must assess the proposals presented by the auditing firms based on the selection criteria indicated in the tender documents.

Assisted by the Financial Reporting Officer, the Board of Statutory Auditors sent requests for proposals to three leading international firms of legal auditors, in an invitation letter describing the services to be offered, the selection procedure and the criteria identified for the assessment of the offers received. In reply to the invitation letters, the Bank received proposals with supporting documentation from each of the firms invited. These were then analysed and assessed by the Board of Statutory Auditors, applying the pre-determined criteria.

The fees are subject to adjustment to take account of changes in the rates over time; the annual adjustment will be equal to the percentage change in the ISTAT cost-of-living index commencing from the audit of the financial statements and the limited examination of the condensed half-year financial statements for 2018 and from the accounting checks carried out in 2018. The fees do not include VAT, the supervision contribution due to Consob, out-of-pocket expenses (travel, board, lodging) or the cost of secretarial and communication services determined, in this last case, at a flat rate of 5% of the total fees.

Should circumstances arise requiring significant additional time with respect to that estimated in the proposal, such as changes in the structure and size of the Bank and/or the Group companies, changes in regulations, accounting standards and/or auditing standards, complex transactions arranged by the Bank and/or Group companies, additional audit procedures or supplementary requirements for the performance of the legal audit, such as requests for meetings, information and documents from the Supervisory Bodies, as well as any additional work carried out in relation to companies audited by other auditing firms, the appointed legal auditor will notify the circumstances to the Bank so that supplementary hours and fees can be agreed. Similarly, should the work require less time than expected, partly as a result of the foreseeable optimisation of the processes, the hours and fees will be reduced in proportion.

Following the outcome of its analysis, the Board of Directors acknowledged that:

- 1) the proposals examined («**Proposals**») were received from companies that are members of leading international networks that offer high quality services and professionalism;
- 2) the audit methodologies described in the Proposals, having regard inter alia for the hours and professional resources to be used, were essentially appropriate to the extent and complexity of the engagement;
- 3) all the Proposals contained specific and reasoned declarations about the commitment to demonstrate possession of the independence requirements envisaged by the current regulations;
- 4) all the legal auditing firms that submitted Proposals had, albeit with differing characteristics and levels, an organisation and technical-professional capacity appropriate to the size and complexity of the engagement;

in agreeing with the selection and assessment criteria adopted by the Board of Statutory Auditors, the Board of Directors intends to present to the Shareholders' Meeting the recommendation made by the Board of Statutory Auditors:

- firstly, to appoint EY S.p.A as the legal auditor of the accounts for the period 2017-2025; and
- secondly, should that resolution not be adopted, to appoint Deloitte & Touche S.p.A. as the legal auditor of the accounts for the period 2017-2025.

Resolutions proposed to the Ordinary Shareholders' Meeting

Given all of the above, the Board of Directors submits the following proposed resolution to the Shareholders' Meeting:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio S.C.p.A., noting that upon approval of the financial statements as of 31 December 2016 the mandate to perform the legal audit of the accounts for the period 2008-2016 granted to KPMG S.p.A. has lapsed and having examined the proposal of the Board of Directors containing the Recommendation and preference expressed by the Board of Statutory Auditors in its role as the «Internal Control and Audit Committee»,

hereby resolves

- (1) *to appoint EY S.p.A. to perform the legal audit of the accounts of Banca Popolare di Sondrio S.C.p.A. for the years 2017-2025, without prejudice to any reasons for early termination, on the terms and conditions contained in the proposal presented by that auditing firm, the economic elements of which are summarised in the Report of the directors to the Shareholders' Meeting;*
- (2) *to grant a mandate to the Managing Director to do everything, directly or via appointed representatives, that may be necessary or useful for the execution of the resolution, as well as to complete all relevant and necessary formalities with the competent bodies and/or offices, with the right to make any amendments, without substance, that may be requested for this purpose, and in general to do everything needed for their complete execution, with any and every necessary and appropriate powers, in compliance with the current regulations in force.»*

Solely if the above resolution is not adopted, the Board of Directors submits the following proposed resolution to the Shareholders' Meeting:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio S.C.p.A., noting that upon approval of the financial statements as of 31 December 2016 the mandate to perform the legal audit of the accounts for the period 2008-2016 granted to KPMG S.p.A. has lapsed and having examined the proposal of the Board of Directors containing the Recommendation and preference expressed by the Board of Statutory Auditors in its role as the «Internal Control and Audit Committee» and taking account of the outcome of voting on the first resolution proposed by the Board of Directors,

hereby resolves

- (1) *to appoint Deloitte & Touche S.p.A. to perform the legal audit of the accounts of Banca Popolare di Sondrio S.C.p.A. for the years 2017-2025, without prejudice to any reasons for early termination, on the terms and conditions contained in the proposal presented by that auditing firm, the economic elements of which are summarised in the Report of the directors to the Shareholders' Meeting;*

(2) *to grant a mandate to the Managing Director to do everything, directly or via appointed representatives, that may be necessary or useful for the execution of the resolution, as well as to complete all relevant and necessary formalities with the competent bodies and/or offices, with the right to make any amendments, without substance, that may be requested for this purpose, and in general to do everything needed for their complete execution, with any and every necessary and appropriate powers, in compliance with the current regulations in force.»*

Point 6) 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 for the annual remuneration of the directors. It is now submitted to the General Meeting.

Given the economic and financial position of the Bank and having regard for the increasingly significant and constant commitment required of the directors in order to fulfil their important and delicate functions, the following proposal submitted to the Shareholders' Meeting for approval envisages increasing the individual remuneration of each director from 37,000 to 40,000 euro (previous remuneration in place since 2010), without change to the other items:

- directors' emoluments: € 40,000 for each director, giving a total of € 600,000;
- individual attendance fees:
 - € 300 for attending meetings of the Board of Directors;
 - € 150 for attending meetings of the Chairman's Committee and other Board 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:
 - for residents in the province of Sondrio: € 80;
 - for residents outside the province of Sondrio: € 160.

Point 7) on the agenda: Appointment of five Directors for the three-year period 2017-2019.

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: Paolo Biglioli, Cecilia Corradini, Mario Alberto Pedranzini, Annalisa Rainoldi and Lino Enrico Stoppani.

The provision of art. 32, para. 3 of the Articles of Association applies, pursuant to which:

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

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.

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

Art. 35 Presentation of 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.

Lists have to be presented by at least 500 shareholders, with the requisites laid down in art. 13. 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 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. 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/assemblea2017.

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 one list of candidates.

Directors are elected as follows:

- a) from the list that obtained the highest number of votes are taken, in the progressive order in which they are listed in the list, all of the Directors to be elected, except the last one;
- b) from the list that obtained the second highest number of votes, the first listed candidate is selected.

If two or more lists obtain the same number of votes, the prevailing list will be the one with the oldest candidate in first place.

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.

Once the votes have been counted, the candidates who received the highest number 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 in accordance with the provisions of article 34, paragraph 2, where it is not necessary to appoint a director taken from a list that obtained the second highest number of votes, for the first time or due to expiry of a mandate or other cause of termination, all of the candidates on the list that obtained the highest number of votes shall 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.

Sondrio, 17 March 2017

THE BOARD OF DIRECTORS



Flowers on the windowsill, 1949

Oil on canvas, 58.5 x 81.5 cm
Signed and dated at the bottom left "P. Punzo 949"

The floral theme, still linked in the 1940s to that of the natural landscape, acting as a counterpoint to it, soon becomes autonomous in Punzo. You can already see it in this vase of flowers painted in '49, probably one of his first floral paintings by the artist from Bergamo, in which the colour per se becomes prominent with respect to the rest and the whole composition turns into a lively firework display where reds, yellows, greens, violets and whites of the huge geraniums form a joyous chromatic symphony in singular contrast to the dull winter nature of the trees that are seen on the left in the landscape outside the window, desolately empty compared with the vigorous fullness of floral nature in the foreground. It is a fairly unusual contrast in Punzo, between the nature that flourishes inside the walls of the home and the nature still dead outside, a contrast that marks an important moment of reconsideration and change in his painting, since then less and less tied to the poetics of the true natural that fuelled his art throughout the Thirties.



Stem with yellow flowers, 1964

Oil on canvas, cm. 78x49

Dated and signed at the bottom left "64 P. Punzo"

Almost Oriental in style, this green stem that extends sinuously among its delicate yellow flowers, as in a delightful Japanese screen.

Here it is no longer the vital energy of a floral composition that interests the artist, but the delicate chromatics of a flowery branch, that bows with all the Oriental elegance of a geisha. The Sixties, which this work dates back to, are the years when Punzo began to travel and learn about other worlds and other cultures, going as far as South America and Turkey. This opening up also affected his painting where there has obviously been a withdrawal towards the intimate side of his character, as if looking outside of himself, beyond his own cultural horizons, Punzo felt an introspective need to penetrate more within himself. Certainly, this opening up leads him to become better acquainted with himself as an artist and to become a complete painter, more than he was previously.

«Punzo is a very direct painter; between him and the things he narrates there are no barriers or go-betweens [...] A picture by Punzo stands up on its poetry or it does not stand up at all; but poetry is fond of him, it does everything for him and is almost always close beside him».

Vittorio G. Rossi,
Punzo at Hotel della Posta,
"Corriere della Sera", 1952

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

Shareholders,

During the year ended 31 December 2016, the Board of Statutory Auditors of Banca Popolare di Sondrio, carried out its institutional duties in compliance with the Italian Civil Code, Legislative Decree nos. 385/1993 (TUB), 58/1998 (TUF) and 39/2010 (Consolidated Law on Legal Audits), the articles of association and the instructions issued by the national and European authorities responsible for supervision and control; in performing this work, we also complied with the code of conduct recommended by the Italian Accounting Profession.

The 2016 financial statements were approved by the Board of Directors on 17 March 2017 and given to the Board of Statutory Auditors in good time for the preparation of this report, in which – as required by law – we refer to the supervisory work performed, any censurable assumptions and facts identified and any observations and proposals regarding the financial statements, their approval and the matters included in our tasks.

We included in our report information required by CONSOB Communication 1025664/2001 and subsequent amendments and additions.

Supervisory activities of the Board of Statutory Auditors

As required by art. 149 of Legislative 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.

In terms of further details about the performance of our supervisory activities, we confirm that during 2016 we attended two Ordinary Shareholders' Meetings, as well as all the meetings of the Board of Directors (12) and the Presidential Committee (72); the Chairman of the Board and/or at least one of the Statutory Auditors also attended 18 meetings of the Control and Risks Committee held in 2016.

Participation at the meetings of the above bodies enabled the Board, as envisaged in art. 150 of Legislative Decree no. 58/98, to obtain from the directors and senior managers information about the principal economic, financial and equity transactions carried out during the year by the Bank and its subsidiaries.

We carried out an inspection plan, based on the scheduled and periodic information obtained from the second and third-level control functions and, with regard to specific aspects or operational matters, from other offices and functions: we carried out 26 separate inspections.

With support from the Internal Audit Department – Central and Branch Inspection Office, this Board considered it useful as part of its supervisory activities to carry out 18 inspections at branches (mostly area lead branches) in order to check the proper conduct of operations. In this way, we obtained concrete evidence that processes and procedures are properly implemented.

This Board also collaborated with the Supervisory Body established pursuant to Decree 231/2001, exchanging information and holding joint meetings on specific topics of common interest.

The outcome of our inspections are documented in the related reports.

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:

- in December 2016, based on evidence obtained during the Supervisory Review and Evaluation Process (SREP), the European Central Bank established the minimum levels of capital to be maintained by the Group, supplementing them from the current year with Pillar 2 Guidance on the future level of capitalisation:
 - minimum Common Equity Tier 1 ratio of 7.25%, being the sum of the Pillar 1 regulatory minimum (4.50%), the Capital Conservation Buffer (1.25%) and an additional Pillar 2 requirement (1.50%);
 - minimum Total Capital ratio of 10.75%, being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (1.25%) and an additional Pillar 2 requirement (1.50%);
- a Target Long Term Refinancing Operation (TLTRO II) amounting to 1,100 million, arranged with the ECB on 23 June 2016, was still outstanding at year end. Operations arranged in September and December 2014, totalling 1,098 million, were repaid on the above arrangement date. The new operation will expire on 24 June 2020, with an early redemption option from 27 June 2018;
- as part of the programme for the issue of covered bonds authorised by the Board of Directors in 2013, on 1 February 2016 and 1 November 2016, the bank assigned to Popso Covered Bond srl two portfolios of performing mortgages granted directly by the bank amounting to 576 million and 226 million respectively;
- during the year, the bank made standard contributions of 11.170 million and special contributions of 26.355 million to the National Support Fund,

the latter in relation to the help needed to rescue 4 banks in crisis, as well as routine contributions to the Interbank Deposit Protection Fund of 6.370 million. In addition, the bank wrote down the investment in Fondo Atlante – a fund established to rescue banks in crisis or difficulty – by 13.950 million and by 1.007 million following the voluntary action by the IDPF in favour of Cassa di Risparmio di Cesena;

- The performance of a second level impairment test of the entire business, in compliance with ESMA (European Securities and Markets Authority) Document no. 725/2012, identified a Group economic value of 3,020 million euro, which compares with consolidated equity of 2,588 million euro (+432 million euro).

See the Report on operations for a complete description of operating activities during 2016. 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 domestic and European Supervisory Authorities (Bank of Italy and Consob – ECB and ESMA).

Transformation of cooperative banks into limited liability companies

Law no. 33 dated 24 March 2015 requires the «reform of cooperative banks». The consolidated assets of the Banca Popolare di Sondrio Banking Group amounted to 35.619 billion euro at 31 December 2014 and, accordingly, this law applies to the Bank.

The Board of Statutory Auditors has monitored the measures taken to implement this law, giving its opinion when requested. With reference to the process of transformation into an SpA, also described in the Directors' Report, this Board notes that the Extraordinary Meeting called for 17 December 2016 could not be held as a consequence of an urgent measure issued by the Milan Court on 16 December. In this regard, the decision of the Council of State dated 12 January 2017 is significant for the bank, since it suspended the deadline for the transformation in an SpA until the publication of further instructions from that Council, to be issued following the ruling to be made by the Constitutional Court on the questions referred to it.

Hopefully the necessary clarification will be received during 2017.

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 the period 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 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

The organisational structure of the bank appears to the appropriately supervised, to the extent of their specific responsibilities, by General Management and the Board of Directors; market dynamics and the intensive regulatory changes have, of course, induced many efforts to improve efficiency and effectiveness during the year. Special attention was dedicated to ensuring the ever more careful management of risks, going beyond the normal focus on maintaining and strengthening the organisational structure in order to support the expansion of economic activity and the development of profitability and new opportunities. In pursuit of the above objectives, working continues on the strengthening of the organisation and the improvement of processes, together with the related IT architecture, especially with regard to the management of loans, the identification and assessment of risks and their control. Among the facts that, due to their regulatory and strategic significance, have absorbed and continue to absorb the commitment of the organisation, this Board would like to draw attention to the following:

- the commitment of the bank to adopt a strategy for the management of impaired loans (NPL), not least in order to satisfy the requests made in this regard by the European Supervisor in the SREP letter received on 8 December 2016. The Board of Directors has in fact attached great importance to the definition of a strategic plan and a related operational plan for the more efficient management of NPLs in the most advantageous manner for the bank. The achievement of this objective involves the reorganisation of the offices currently dedicated to the management of impaired loans, in order to align the operational structure with best market practices and the expectations of the Supervisor;
- the acceleration during the second half of 2016 of the complex process to implement the AIRB (Advanced Internal Rating Based) approach project, in order to obtain Supervisor validation of the internal models used to calculate the capital required to cover credit risk. Completion of this project, which requires considerable organisational commitment in terms of human resources and structural changes, will enable to the bank to benefit from operational and capital requirement advantages;

- preparation of the 2017-2021 business plan: during 2016, the Board of Directors examined and identified the prospects for the banking business, defining a series of operational initiatives intended to achieve a significant economic objective; in early 2017, with resolutions adopted on 9 and 28 February, the Board of Directors then discussed and approved the strategic objectives underlying the economic and financial data concerned.

To the extent of our responsibilities, we have monitored the adequacy of the organisational structure that, as highlighted above, requires the adoption of constant and ever more incisive improvements. In our opinion, taking account of the changes already made and to be made, the outcome of the investigations carried out and the information obtained from the various business functions, and the scale and complexity of the bank, the organisational structure is essentially adequate in relation to the needs of the bank. We also concur with the plans for the further improvement of the organisational structure that the bank has decided to implement, in a process that will require commitment over the next few years.

Adequacy of the system of internal control

We have assessed and monitored the adequacy of the system of internal control, considering both the individual elements and their interactions, for which the Board of Directors is responsible. These supervisory activities involved constant contacts with the third-level (Internal Audit) and second-level (Risk Management, Compliance and Anti-money laundering) 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. Specifically, we interacted with:

- the Internal Audit Department, which is responsible for checking the adequacy and effectiveness of the system of internal controls and the related processes; in collaboration with this Department, we carried out checks at branch level in order to verify compliance with operating procedures and identify any weaknesses in the branch organisation. In addition, at the planning stage, we agreed the audit work to be performed with the Department Manager and assessed periodically, during the year, the outcome of the checks performed and the action taken by the bank to remedy any anomalies encountered;
- working with the Risk Management Service, we monitored the effectiveness of the controls in place to prevent, measure and mitigate the various types of risk, having regard for the indications received from the European Supervisor, which is increasingly calling on banks to strengthen their risk assessment tools. The Directors' Report provides full information about the actions taken to manage risk, focusing on their evolution as a result of the more intense and coordinated banking supervision exercised at a European level. Notably, the Internal Audit Department was transformed during the year: on the one hand, the Department is now no longer responsible for

business planning, capital management and collateral-back funding operations while, on the other, the normal second-level control functions were allocated among a larger number of organisational units. Given its importance, the control of credit risk has been amplified and now involves four separate offices that are organisationally supported by a staff function with a coordination and governance role. Another organisational unit responsible for the management of non-lending risks is active in the development of tools and methodologies for the analysis of market, rate, operational, reputation and liquidity risk, which it uses to monitor constantly the related exposures. This increase in the level of specialisation has resulted in a non-trivial rise in employment, thereby helping to expand the capacity and intensity of the work performed. The Risk Appetite Framework has been overhauled, with a view to increasing its sophistication, detail and consistency with other key business processes: operationally, risk appetite provides a logical basis for proper business planning and an essential point of reference for aware decision making. In turn, the ICAAP (Internal Capital Adequacy Assessment Process) and the ILAAP (Internal Liquidity Adequacy Assessment Process) also employ increasingly complex processes and considerations that are founded on the use of ever more consistent simulations and risk modelling techniques;

- with the Compliance Unit, establishing constant dialogue regarding the examination and assessment of certain topics within the regulatory framework applicable to the Bank and arising from domestic and international supervisory authorities. In the context of a broader project to strengthen controls, the Compliance Unit radically revised its approach and the matters addressed during the year, adopting a «widespread compliance» operational model on the basis that the supervisory instructions make the Unit responsible for monitoring the regulatory compliance aspects of all banking activities, without prejudice to the specific responsibilities of other second-level control functions. The renewed model was approved at the meeting of the Board of Directors held on 29 June 2016, during which the new «Regulations for the Compliance Unit» were issued. At the same time, the Compliance Unit adopted a new «Operating manual for the management of non-compliance risk», which details how to implement in practice the model for the management of non-compliance risk outlined in the General regulation. Specifically, the purpose of the «widespread compliance» model is to satisfy the above-mentioned regulatory requirement via direct Compliance Unit supervision of core topics – especially those related to the safeguarding of consumers (investment services, transparency, usury, privacy etc.) and to the regulation of conflicts of interest (related parties, relevant parties, compensation policies etc.) – and via the provision of support for certain identified «specialist control units» and «compliance contacts» that are also part of the bank's organisational structure;
- 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. As stated in its annual report, the Function has followed up on the recommendations made in this regard by the competent Authorities, by implementing the preventive action taken with more systematic recourse to a risk-based approach;

- with the Validation Function, established during the year, whose objective is to certify the adequacy of the principal systems for the measurement and governance of risk. In order to pursue this objective, the Function must be able to express independent opinions and talk directly to both the Regulator and the Board of Directors. Significantly, the various tasks for which this Function is responsible include assessment of the internal rating system in order to request authorisation to adopt the AIRB model.

We have coordinated closely with the Supervisory Body on particular issues regarding money laundering and the financing of terrorism.

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. Manager responsible for preparing the Company's accounting documents

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 December 2016;

- 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.

Flowers, 1964

Oil on canvas, 120 x 59 cm

Signed and dated at the bottom left "P. Punzo 64"



Of Punzo's favourite subjects, floral ones occupied a special place, not only because they became quite frequent after the war, but above all because Punzo used them to try out a freer and more creative brushstroke compared with the alpine subject that bound him excessively to the true natural.

Here the flowers are the absolute protagonists of a real chromatic feast that draws strength and energy from the bunch of stems that explodes upwards in a pyrotechnic firework display of yellows, blues, reds and greens.

The brushstroke also gets applied faster and without second thoughts. He alludes without stopping, describes but without lingering. The brush dances on the canvas, and here, with a few touches, the daisies that stick out in the centre of the bouquet, the gentians and the violets that sprout here and there with the brief hint of colour, the little golden stars, rosebays and a thousand other floral varieties, a burning bush of life where the "other Punzo" takes shape, less magniloquent and more intimate than he of the mountains, perhaps a more real Punzo, certainly less mountaineer and more artist.

PAOLO PUNZO

(Bergamo, 1906-1979)

Paolo Punzo was born in Bergamo on 1 March 1906, the fourth of seven sons of Antonino – an officer from Nola (Naples) who was transferred in 1901 to the military district of the Lombard city – and Angiolina Rizzo. Little is known of the beginnings of his artistic career, matured with the tenacious will of the self-taught artist, challenging the wishes of his father who wanted him to become a wine and spirits merchant. In 1929, after marrying Alda Lardini, he went to stay in Mediglia near Milan, where in 1932 their only son, Donatello, was born. He later followed in the footsteps of his father and became a landscape painter. His wife Alda died in 1939 and the following year, Punzo got married in Bologna to Nives Baschiera, a girl from Fiume (modern Rijeka), and in October 1940 they went to live in Bergamo, next to his father's house, at 31 via di Porta Dipinta.

As well as the desire to get back closer to his paternal family, his passion for the mountains, which grew in those years along with his artistic vocation which ended up being combined, was perhaps not extraneous to this decision.

Ever since 1928 Punzo had taken to frequenting the mountains of Valmalenco and Valfurva, in Valtellina, staying longer and longer each time; this gave rise, at the beginning of the '30s, to the first grandiose representations of Monte Disgrazia, Bernina, Tresero, Gran Zebrù and other famous peaks of the Rethics and the Parco dello Stelvio Park, which immediately won the favour of a wide public and attracted the attention of the CAI, the Italian Alpine Club, on whose invitation in 1935 Punzo held a large one-man exhibition in Sondrio, in the hall of the City Council, and in Milan at the Club's headquarters, where he continued to exhibit into the 1960s.

On the wave of this general appreciation, in the second half of the '30s and throughout the '50s and '60s, Punzo's exhibiting becomes frenetic (he exhibited in Sondrio, Bergamo, Milan, Pavia, Varese, St. Moritz, Cortina), and this consecrated, in Lombardy at least, his image as the "mountain painter" and during this time his painting got enriched by new themes and new stylistic experiments.

From the 1950s, Punzo – now resident in Milan at 7 Via Durini – no longer paints just mountains and high altitude lakes and alpine landscapes, but also seascapes near Portofino and on the Ligurian coast, where he spends a number of months every year, as well as urban environments of alpine towns like Sondrio, Morbegno, Bergamo or Merano, where he was often the guest of his brother Carlo. And it is with these new subjects that Punzo experimented a less emphatic and pompous style, but one that was freer and more open to the expressive novelties of modern art, the same that distinguishes his still lifes and his substantial group of floral subjects painted in the '60s.

It is a stylistic and thematic breakthrough that matures in parallel with its frequent travels in those years to Turkey, Africa and Latin America, which opened up new cultures and new horizons, and which also influenced the latter phases of his artistic activity.

Punzo died at the age of 73 in Bergamo on 31 March 1979.

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.

In addition to the Presidential Committee, there are also a number of other Board committees: Appointments (5 meetings in 2016), Control and Risks (18), Related-party transactions (8) and Remuneration (3). On the one hand, these committees contribute to the architecture of the corporate governance model, making it ever more compliant with the instructions received from the Supervisory Authorities, and, on the other, they provide the Board of Directors with improved support in the performance of its duties regarding the management and control of risk.

We also confirm that the Board of Directors approved the «Report on corporate governance and the ownership structure» pursuant to art. 123-bis CFA: this document, prepared in accordance with the instructions given by Borsa Italiana spa and published on the website of the bank, satisfies all regulatory requirements.

Instructions given to Group companies

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

- with regard to Banca Popolare di Sondrio (SUISSE) SA (100%), which has a focus on retail customers, control activities are carried out by the Internal Audit Department of the Parent Company, 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 checks carried out by the Parent Company's Internal Audit Department and the information obtained from the management of BPS Suisse, the Board has not identified any critical matters or information to report about compliance by the subsidiary with the regulations. Based on 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 Company;
- with regard to Factorit spa (60.5%), we principally worked via our interactions with the Internal Audit Department of the Parent Company, which provides

Internal Audit services to the subsidiary on an outsourcing basis and, therefore, also acts as a third-level control over the work of the Compliance Unit; lastly, we also exchanged information and opinions with the Board of Statutory Auditors of the subsidiary;

- in relation to Sinergia Seconda srl (100%), which essentially provides the bank with supporting services, and Pirovano Stelvio spa (100%), we benefited from the fact that certain members of this Board are also members of 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;
- with regard to Popso Covered Bond srl (60%), a company formed in relation to the issue of covered bonds, our checks were carried out with reference to BDO Italia Spa, the current asset monitor, and to the Internal Audit Department, which issues an annual report on the programme of covered bond issues, as required by Part III, Chapter 3, of Bank of Italy Circular 285 dated 17 December 2013.

ECB Supervision

Since November 2014, the Bank is subject to the ECB's Single Supervisory Mechanism (SSM) pursuant to Regulation (EU) 1024/2013 dated 15 October 2013. The bank has constant contacts and discussions with the Joint Supervisory Team (JST), via the functions and central offices involved, in order to define, assess and update – together with the team managers – the actions taken and to be taken, giving particular attention to those needed in order to satisfy the requests contained in the SREP letter. Discussions with the JST have always been constructive, with the participation of this Board, represented by the Chairman and at least one Serving Auditor, on specific matters during 2016.

With reference to the work performed by the Bank on the improvements suggested by the JST, the Board has always noted attention, awareness and a spirit of collaboration, and has checked that the Bank has implemented methodological and organisational action designed to improve efficiency and effectiveness, as well as to contain risk. Specifically, we can confirm that the Bank has commenced and partly completed a complex process of alignment with the ECB's instructions on the monitoring, mitigation, assessment and control of the various types of risk. All this has had significant benefits in terms of defining objectives for the propensity to accept risk, the related monitoring of the RAF and the ICAAP process, which is designed to assess the internal capital adequacy of banks.

As evidence of the proactive and responsible collaboration, this Board considers it appropriate to highlight the participation by the bank – as the only Italian bank among those subject to Supervision – in the project to analyse the propensity to change (Behaviour & Culture deep dive), carried out by the ECB and the research team of the Dutch Central Bank, whose

activities – which commenced in September 2016 – have involved the employees and directors of the bank, at various levels, in interviews and surveys conducted by that team.

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

Pursuant to art. 17, para. 9, letter a), of Legislative 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 international network of KPMG (including the Auditing Firm, KPMG spa) during 2016.

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 (in thousands of euro):	
• Banca Popolare di Sondrio	423
• Sinergia Seconda srl	25
• Pirovano Stelvio spa	12
• Factorit spa	70
• Popso Covered Bond srl	30
– KPMG spa for other services (in thousands of euro):	
• Banca Popolare di Sondrio	140
• Factorit spa	24
– KPMG Advisory spa for assistance and methodological support in various areas (in thousands of euro):	
• Banca Popolare di Sondrio:	
– Methodological support for the validation of the internal rating system (AIRB)	355
– Methodological support for the documentation of business processes (Recovery Plan, Risk Governance, SREP)	292
– Methodological support in the compliance	140
– Methodological support in the management control area	60
– Methodological support for the monitoring and management of impaired loans	610
– Methodological support regarding international accounting standards (IFRS 9 and IFRS 15)	271
– Assessment of the Funding Plan	27
– Methodological support for the measurement of risk	62
– Methodological support for the measurement of operational and reputational risk	427
Grand total	2,244

We have examined the document on the independence of the Legal Auditor required by art. 17 of Legislative 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 570 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 article 2545 of the Italian Civil Code (cooperative criteria)

In accordance with the above requirements, we confirm that:

- the bank received 14 complaints (4 each in 2013 and 2014 and 5 in 2015) about investment services: 3 were accepted with the payment of 11,400 euro in total, while 11 were rejected, including 9 that were not followed up after the response given by the bank; the low number in absolute terms and their type confirm the essential propriety of the work performed by the bank;
- no petitions under article 2408 of the Civil Code were received during the year;
- opinions were given in the cases where this is 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.

Gender balance

In compliance with Law no. 120 dated 12 July 2011 on equal access to the administrative and supervisory boards of companies listed in regulated markets and of public companies, the Bank's Board of Directors now comprises five women and ten men. This is consistent with the law concerning the least represented gender, in this case the female gender.

Following the appointment of members for the three-year period 2015-17, the Board of Statutory Auditors consists of two male statutory auditors (the Chairman and one auditor) and one female statutory auditor, therefore complying with the minimum proportion of the least represented gender.

Financial Statements and Report on operations

We have examined the financial statements at 31 December 2016, 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 2017 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, issued on 27 March 2017, prepared pursuant to arts. 14 and 16 of Legislative 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	€	33,587,746,014
Liabilities	€	31,252,960,272
Equity	€	2,254,738,122
Net profit for the year	€	80,047,620

Income statement

Pre-tax profit from continuing operations	€	105,519,182
Income taxes	€	25,471,562
Net profit for the year	€	80,047,620

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.

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 2016 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. The amendments made to those principles and criteria, discussed in the notes to the financial statements, were not significant and did not give rise to any significant variances, with respect to those adopted to prepare the financial statements for the prior year;

- 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 two significant events that have taken place subsequent to year end.

Consolidated Financial Statements

With regard to the consolidated financial statements, which report a profit of 98.599 million compared with 129.300 million in 2015, 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 firm, do not contain qualifications or any emphasis of matter and confirm that the separate and consolidated financial statements for 2016:

- 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;

for its part, the Board of Statutory Auditors does not know of any impediments to approval of the draft financial statements for 2016 prepared by the Board of Directors and the related proposed allocation of the net profit for the year.

Sondrio, 27 March 2017

THE BOARD OF STATUTORY AUDITORS
Piergiuseppe Forni, Chairman
Donatella Depperu, Statutory Auditor
Mario Vitali, Statutory Auditor





Equity investments

International unit

Online Bank

The Bank and young people

Carta +ma

“MULTIplus” account

Asset management

Bancassurance and supplementary pension schemes

Publishing

Cultural appointments

Appointments with schools

Gift to the shareholders

Equity investments



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ON PAGE 43

equity investments 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

Main associated companies

UNIONE FIDUCIARIA SPA

ARCA HOLDING SPA

ALBA LEASING SPA

BANCA DELLA NUOVA TERRA SPA

ARCA VITA SPA

POLIS FONDI SGR PA

SERVIZI INTERNAZIONALI
E STRUTTURE INTEGRATE 2000 SRL

International unit



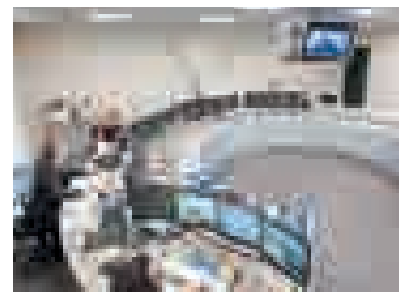
professionalism and experience, high-performing procedures and targeted organisational structures, these are the ingredients that make up a useful tool available to companies that perceive internationalisation as an invaluable opportunity for growth

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ONE-STOP SHOP FOR INTERNATIONALISATION

- INNOVATIVE TOOLS FOR MANAGING PAYMENTS AND RECEIPTS
- EFFECTIVE CASH MANAGEMENT SOLUTIONS ■ FOREX AND TREASURY
- FINANCIAL INSTRUMENTS FOR MANAGING INTEREST RISK, EXCHANGE RISK AND COMMODITY RISK ■ PHYSICAL GOLD AND FINANCIAL TRANSACTIONS
- STRUCTURED TRADE FINANCE SERVICES ■ INSURANCE AND FINANCIAL PRODUCTS FOR FOREIGN TRANSACTIONS ■ TAILOR-MADE INTERNATIONALISATION SERVICES ■ PROMOTION INITIATIVES ON INTERNATIONAL MARKETS ■ CLASSROOM AND ON-LINE TRAINING ON FOREIGN TRADE ■ SPECIALIST ASSISTANCE IN EUROPEAN TENDERS AND FINANCING ■ INTERNATIONALISATION CHECK-UP ■ DESKS OUTSIDE ITALY

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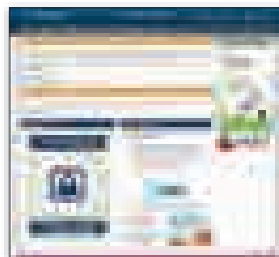


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the services of your bank at your fingertips, whenever you want and wherever you want, as well as being easily and safely accessible

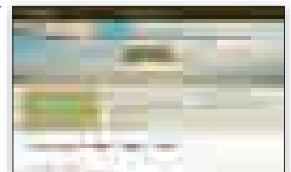
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A simple, fast and secure solution for customers and users to pay taxes and utilities online



SCRIGNO *IdentiTel*

A strong authentication tool that complies with national and European directives in the field of online payments



SCRIGNO *app*

to have your bank always "in your pocket" ... and on your wrist!



SCRIGNO *Jobby*

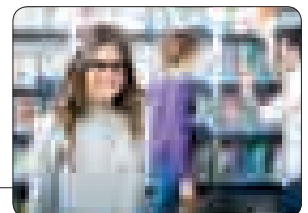
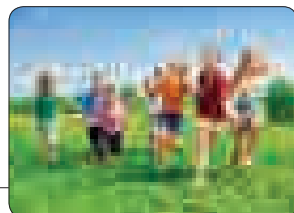
The new app to transfer money in real time to contacts in your phone book. As easy as sending a text message!



The Bank and young people



special attention to the younger generations
with tailor-made products for all ages





Carta +ma



the prepaid rechargeable card with IBAN that has multiple features in a single payment instrument. You can ask for it from the age of 14



MULTIplus account



make it according to your needs!
A flexible low-cost account

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ON PAGE 52



The current account as you want it!



BONUS under 27

Are you under 27?
MULTIplus awards you
a **special discount**
on the monthly fee.

BONUS credit your salary or pension

Do you have your salary
or pension credited
to your current account?
With **MULTIplus** you can get
a **reduction** on the monthly fee.

BONUS FOR BPS SHAREHOLDERS

Are you a shareholder
with at least 100 shares
of Banca Popolare di Sondrio?
MULTIplus offers you an **exclusive
benefit** on the monthly fee.



Asset management



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ON PAGE 43

our staff's work is based on professionalism,
fairness and prudence

GPM
ASSET MANAGEMENT

GPF Multimarca
ASSET MANAGEMENT
IN INTERNATIONAL FUNDS AND SICAVS

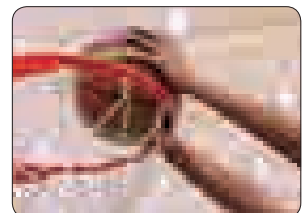
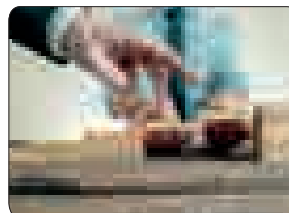
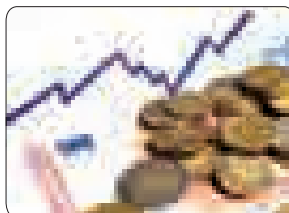
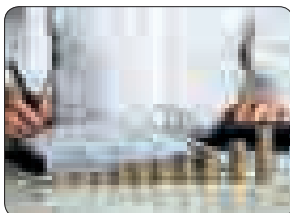
 **Popso (SUISSE)**
Investment
Fund SICAV

 **Società di Gestione
del Risparmio**

MUTUAL FUNDS

 **Etica** SGR

ETHICAL MUTUAL FUNDS



Bancassurance and supplementary pension schemes



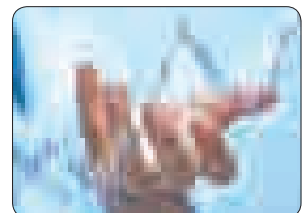
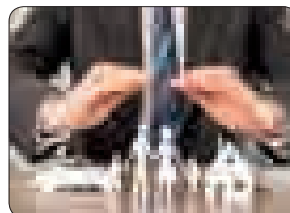
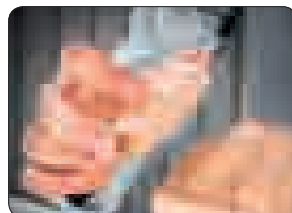
we assist customers with our expertise to help them find the best solutions to protect them from the risks that the future may hold

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ARCA ASSICURAZIONI


ARCA VITA

Arca Previdenza
PENSIONI PERMANENTI A RENDITA





Publishing



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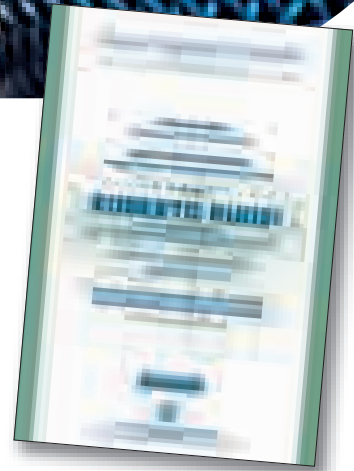
a wide range of topics and content, always
with an eye on the territory



Cultural appointments

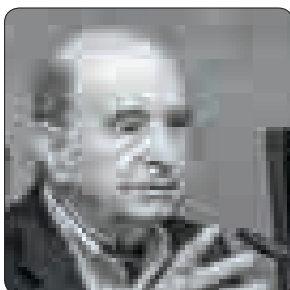


public meetings with authoritative speakers
for a constant cultural promotion



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ON PAGE 69

Prof. ROBERTO RUOZI
11 November 2016



Appointments with schools



11 November 2016

on the occasion of the 92nd World Savings Day, which is celebrated on 31 October of each year, Professor Roberto Ruozi spoke to high school students from the province of Sondrio on the value of the “savings culture”

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Gift to the shareholders



typical food products from the Valtellina and Valchiavenna brought together in a volume full of stories and flavours

**FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2016**



BALANCE SHEET

(in euro)

ASSET ITEMS		31-12-2016	31-12-2015
10.	CASH AND CASH EQUIVALENTS	96,466,584	96,965,094
20.	FINANCIAL ASSETS HELD FOR TRADING	1,014,376,806	1,851,494,461
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	163,116,546	158,697,872
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS	6,643,534,743	6,319,477,580
50.	HELD-TO-MATURITY INVESTMENTS	117,022,971	125,776,716
60.	LOANS AND RECEIVABLES WITH BANKS	2,759,906,193	2,001,898,271
70.	LOANS AND RECEIVABLES WITH CUSTOMERS	21,331,910,550	20,021,406,321
100.	EQUITY INVESTMENTS	487,346,548	488,595,257
110.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	170,969,964	170,965,705
120.	INTANGIBLE ASSETS	14,313,189	12,959,574
130.	TAX ASSETS	437,950,534	447,243,565
	a) current	64,074,927	61,750,270
	b) deferred	373,875,607	385,493,295
	b1) of which as per Law 214/2011	335,353,219	353,003,389
150.	OTHER ASSETS	350,831,386	322,957,663
	TOTAL ASSETS	33,587,746,014	32,018,438,079

CHAIRMAN
Francesco Venosta

THE BOARD OF
STATUTORY AUDITORS
Piergiuseppe Forni, Chairman
Donatella Depperu - Mario Vitali

EQUITY AND LIABILITY ITEMS		31-12-2016	31-12-2015
10.	DUE TO BANKS	2,249,796,181	2,077,164,130
20.	DUE TO CUSTOMERS	24,913,251,427	23,614,087,733
30.	SECURITIES ISSUED	3,089,135,232	3,013,032,938
40.	FINANCIAL LIABILITIES HELD FOR TRADING	87,615,749	97,310,098
80.	TAX LIABILITIES	30,470,573	48,309,394
	b) deferred	30,470,573	48,309,394
100.	OTHER LIABILITIES	666,090,044	633,552,831
110.	POST-EMPLOYMENT BENEFITS	42,271,279	40,864,317
120.	PROVISIONS FOR RISKS AND CHARGES:	174,329,787	159,602,686
	a) pension and similar obligations	130,873,531	117,912,386
	b) other provisions	43,456,256	41,690,300
130.	VALUATION RESERVES	37,356,524	85,111,584
160.	RESERVES	803,540,688	735,497,376
170.	SHARE PREMIUM RESERVE	79,005,128	79,005,128
180.	SHARE CAPITAL	1,360,157,331	1,360,157,331
190.	TREASURY SHARES (-)	(25,321,549)	(25,321,549)
200.	PROFIT (LOSS) FOR THE PERIOD (+/-)	80,047,620	100,064,082
TOTAL LIABILITIES AND EQUITY		33,587,746,014	32,018,438,079

MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti



INCOME STATEMENT

(in euro)

ITEMS	2016	2015
10. INTEREST AND SIMILAR INCOME	579,229,241	704,049,473
20. INTEREST AND SIMILAR EXPENSE	(164,028,900)	(224,584,075)
30. NET INTEREST INCOME	415,200,341	479,465,398
40. FEE AND COMMISSION INCOME	263,785,646	264,627,405
50. FEE AND COMMISSION EXPENSE	(14,274,152)	(14,837,612)
60. NET FEE AND COMMISSION INCOME	249,511,494	249,789,793
70. DIVIDENDS AND SIMILAR INCOME	18,191,127	16,272,895
80. NET TRADING INCOME	12,589,330	45,584,573
100. GAINS/LOSSES FROM SALES OR REPURCHASES OF:	76,011,011	140,033,949
a) loans and receivables (79)		(91)
b) available-for-sale financial assets 76,330,683		139,926,360
d) financial liabilities (319,593)		107,680
110. NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	4,307,436	6,293,949
120. TOTAL INCOME	775,810,739	937,440,557
130. NET IMPAIRMENT LOSSES ON:	(260,808,124)	(400,487,707)
a) loans and receivables (232,177,373)		(381,403,319)
b) available-for-sale financial assets (25,188,829)		(8,202,923)
c) held-to-maturity investments -		(9,965,039)
d) other financial transactions (3,441,922)		(916,426)
140. NET FINANCIAL INCOME	515,002,615	536,952,850
150. ADMINISTRATIVE EXPENSES:	(443,810,412)	(434,650,707)
a) personnel expenses (182,024,478)		(181,209,011)
b) other administrative expenses (261,785,934)		(253,441,696)
160. NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(1,279,781)	(2,134,105)
170. DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(14,190,987)	(13,548,252)
180. AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(13,433,218)	(12,317,392)
190. OTHER OPERATING INCOME/EXPENSE	64,901,082	69,211,415
200. OPERATING COSTS	(407,813,316)	(393,439,041)
210. NET GAINS (LOSSES) ON EQUITY INVESTMENTS	(1,680,491)	577,727
240. NET GAINS ON SALES OF INVESTMENTS	10,374	7,080
250. PRE-TAX PROFIT FROM CONTINUING OPERATIONS	105,519,182	144,098,616
260. INCOME TAXES	(25,471,562)	(44,034,534)
270. POST-TAX PROFIT FROM CONTINUING OPERATIONS	80,047,620	100,064,082
290. PROFIT FOR THE YEAR	80,047,620	100,064,082

STATEMENT OF COMPREHENSIVE INCOME

Items/Amounts	2016	2015
10. Profit for the year	80,047,620	100,064,082
Other income items net of income taxes that will not be reclassified to profit or loss		
40. Defined-benefit plans	(8,298,832)	2,010,148
Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100. Available-for-sale financial assets	(39,456,228)	38,834,600
130. Total other income items net of income taxes	(47,755,060)	40,844,748
140. Comprehensive income (Item 10+130)	32,292,560	140,908,830



STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2015	Change in opening balances	Opening balance at 1.1.2016	Allocation of prior year results Reserves	Dividends and other allocations
Share capital:					
a) ordinary shares	1,360,157,331	-	1,360,157,331	-	-
b) other shares	-	-	-	-	-
Share premium reserve	79,005,128	-	79,005,128	-	-
Reserves:					
a) from earnings	735,497,376	-	735,497,376	68,482,578	-
b) other	-	-	-	-	-
Valuation reserves	85,111,584	-	85,111,584	-	-
Equity instruments	-	-	-	-	-
Treasury shares	(25,321,549)	-	(25,321,549)	-	-
Profit for the year	100,064,082	-	100,064,082	(68,482,578)	(31,581,504)
Equity	2,334,513,952	-	2,334,513,952	-	(31,581,504)

A dividend from the results for 2015 of € 0.07 per share, totalling € 31.737 million, was paid from 25 May 2016. The directors have proposed a dividend of € 0.06 from the results for 2016. 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 24 May. The payout envisaged totals € 27.203 million.

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2014	Change in opening balances	Opening balance at 1.1.2015	Allocation of prior year results Reserves	Dividends and other allocations
Share capital:					
a) ordinary shares	1,360,157,331	-	1,360,157,331	-	-
b) other shares	-	-	-	-	-
Share premium reserve	79,005,128	-	79,005,128	-	-
Reserves:					
a) from earnings	665,468,678	-	665,468,678	70,467,964	-
b) other	-	-	-	-	-
Valuation reserves	44,266,836	-	44,266,836	-	-
Equity instruments	-	-	-	-	-
Treasury shares	(25,031,162)	-	(25,031,162)	-	-
Profit for the year	97,552,111	-	97,552,111	(70,467,964)	(27,084,147)
Equity	2,221,418,922	-	2,221,418,922	-	(27,084,147)



Changes during the year

Changes in reserves	Equity transactions						Stock options	Comprehensive income	Equity at 31.12.2016
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares				
-	-	-	-	-	-	-	-	-	1,360,157,331
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	79,005,128
(439,266)	-	-	-	-	-	-	-	-	803,540,688
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	(47,755,060)	37,356,524
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	(25,321,549)
-	-	-	-	-	-	-	-	80,047,620	80,047,620
(439,266)	-	-	-	-	-	-	-	32,292,560	2,334,785,742

Changes during the year

Changes in reserves	Equity transactions						Stock options	Comprehensive income	Equity at 31.12.2015
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares				
-	-	-	-	-	-	-	-	-	1,360,157,331
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	79,005,128
(439,266)	-	-	-	-	-	-	-	-	735,497,376
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	40,844,748	85,111,584
-	-	-	-	-	-	-	-	-	-
-	-	(290,387)	-	-	-	-	-	-	(25,321,549)
-	-	-	-	-	-	-	-	100,064,082	100,064,082
(439,266)	-	(290,387)	-	-	-	-	-	140,908,830	2,334,513,952



CASH FLOW STATEMENT (Indirect method)

	31/12/2016	31/12/2015
A. OPERATING ACTIVITIES		
1. Cash generated from operations	465,646,527	612,358,615
- profit for the year (+/-)	80,047,620	100,064,082
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	19,389,829	3,164,437
- net hedging gains (losses) (-/+)	-	-
- net impairment losses (+/-)	276,160,998	410,890,096
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	27,624,205	25,865,643
- provisions for risks and charges and other costs/revenues (+/-)	54,984,917	28,807,373
- unpaid taxes and duties (+)	25,471,562	44,034,534
- net impairment losses on assets held for sale, net of tax effect (+/-)	-	-
- other adjustments (+/-)	(18,032,604)	(467,550)
2. Cash generated/absorbed by financing activities	(1,932,686,317)	322,631,470
- financial assets held for trading	829,243,626	485,751,549
- financial assets at fair value through profit or loss	92,043	(64,157,841)
- available-for-sale financial assets	(410,226,174)	196,488,097
- loans and receivables with banks: sight	136,187,438	(50,214,600)
- loans and receivables with banks: other receivables	(893,587,838)	(360,111,631)
- loans and receivables with customers	(1,562,762,230)	113,166,836
- other assets	(31,633,182)	1,709,060
3. Cash generated/absorbed by financial liabilities	1,507,295,191	(839,660,278)
- due to banks: sight	148,467,485	(214,559,517)
- due to banks: other payables	26,619,549	(14,275,586)
- customer deposits	1,301,558,474	(107,102,945)
- securities issued	77,409,914	(276,461,582)
- financial liabilities held for trading	(26,290,629)	(7,447,867)
- financial liabilities carried at fair value	-	-
- other liabilities	(20,469,602)	(219,812,781)
Net cash generated/absorbed by operating activities	40,255,401	95,329,807

	31/12/2016	31/12/2015
B. INVESTING ACTIVITIES		
1. Cash generated by	38,481,709	29,441,504
- sales of equity investments	-	-
- dividends collected from equity investments	11,013,976	13,425,902
- sales and reimbursements of held-to-maturity investments	27,453,390	16,000,000
- sales of property, equipment and investment property	14,343	15,602
- sale of intangible assets	-	-
- sale of business divisions	-	-
2. Cash absorbed by	(47,719,411)	(109,583,615)
- purchases of equity investments	(431,783)	(68,483,537)
- purchases of held-to-maturity investments	(18,289,799)	(2,596,380)
- purchases of property, equipment and investment property	(14,210,997)	(25,143,898)
- purchases of intangible assets	(14,786,832)	(13,359,800)
- purchases of business divisions	-	-
Net cash generated/absorbed by investing activities	(9,237,702)	(80,142,111)
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	-	(290,387)
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	(31,481,504)	(26,984,147)
Net cash generated/absorbed by financing activities	(31,481,504)	(27,274,534)
NET CASH GENERATED/ABSORBED IN THE YEAR	(463,805)	(12,086,838)

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31/12/2016	31/12/2015
Cash and cash equivalents at beginning of year	96,965,094	108,352,180
Total net cash generated/absorbed in the year	(463,805)	(12,086,838)
Cash and cash equivalents: effect of change in exchange rates	(34,705)	699,752
Cash and cash equivalents at end of year	96,466,584	96,965,094

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 2016 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 Legislative 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 Legislative 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: 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 Legislative Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

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

Section 3 *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 17/03/2017 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 4 *Other aspects*

The accounting policies applied during the year under review are substantially consistent with those of 2015. The changes resulting from certain EU Regulations that came into force during the year did not have a significant impact on the financial statements.

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 2016, 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 2016. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced 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 2016.

Standards already in force whose application became mandatory from the 2016 financial year or later:

- Regulation (EU) no. 28/2015 dated 17 December 2014 that adopted amendments to the following international accounting standards: IFRS 2 «Share-based payment», IFRS 3 «Business combinations», IFRS 8 «Operating segments», IAS 16 «Property, plant and equipment», IAS 24 «Related party disclosures», IAS 37 «Provisions, contingent liabilities and contingent assets», IAS 38 «Intangible assets» and IAS 39 «Financial instruments: Recognition and measurement».
- Regulation (EU) no. 29/2015 that amends IAS 19 «Employee benefits».
- Regulation (EU) no. 2113/2015 dated 23 November 2015 that, by modifying earlier regulations, amends IAS 16 «Property, plant and equipment» and IAS 41 «Agriculture».
- Regulation (EU) no. 2173/2015 dated 24 November 2015 which specifies that the references to IFRS 9 in IFRS 11 «Joint arrangements», regarding the classification and measurement of financial assets, cannot be applied for the moment, as IFRS 9 has not yet been endorsed by the EU, and must be read as references to the «corresponding» IAS 39 «Financial instruments: Recognition and measurement».
- Regulation (EU) no. 2231/2015 dated 2 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 16 and IAS 38. Clarifications are provided about the acceptable methods of depreciation and amortisation.
- Regulation (EU) no. 2343/2015 dated 15 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IFRS 5, IFRS 7, IAS 19 and IAS 34.
- Regulation (EU) no. 2406/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 1. The objective is to promote the use of professional judgement in the required disclosures, in order to make them more effective.
- Regulation (EU) no. 2441/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 27. The equity method can now be used in separate financial statements, in addition to the cost and fair value methods, to measure the investments held on subsidiaries, joint ventures and associates.
- Regulation (EU) 2067/2016 which amends Regulation (EC) 1126/2008 adopting



certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. This applies from 1 January 2018.

- Regulation (EU) no. 1703/2016 of the Commission dated 22 September 2016 that amends Regulations (EC) no. 1126/2008 relating to IFRS 10 and 12 and IAS 28.
- Regulation (EU) no. 1905/2016 dated 22 September 2016 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IFRS 15. This applies from 1 January 2018.

IFRS 9: the new accounting standard on financial instruments

On 24 July 2014 the IASB published the final version of IFRS 9 «Financial Instruments» to replace IAS 39, which currently governs the classification and measurement of financial instruments, from 1 January 2018.

IFRS 9 introduces important changes with regard to «classification and measurement of financial instruments,» «impairment» and «hedge accounting». The new standard, approved by the European Commission on 22 November 2016 through registration in the Official Gazette (EU Regulation 2016/2067 of the Commission) will apply from 1 January 2018, also permitting early application as an alternative.

Among the effects of the global financial crisis, operators believed that the accounting rules had contributed to the acceleration and intensification of the crisis, particularly with regard to the delayed recognition of losses on loans and other financial assets. As a result, the IASB commenced a project in 2008 to replace IAS 39 in a number of stages. With regard to the above, the bank already found it necessary to take action in this matter in 2015, when it carried out a «gap analysis» to identify the possible effects of applying the new standard, both with regard to the classification and measurement of financial instruments, and in relation to the new impairment model for calculating adjustments to loans based on an «expected losses» approach (rather than the «incurred losses» approach required by IAS 39).

During 2016, the bank began projects to continue analysing the impact of introducing this accounting standard and to initiate the design phase of the target operating model, which will be implemented during 2017.

Responsibility for coordinating the various project activities has been given jointly to Administration & General Accounting, Risk Control and Information Systems. Project governance includes the involvement of top management by means of Steering Committees that meet regularly to define the implementation guidelines. The control functions, such as the Validation and Internal Audit Departments, will also be involved on an ongoing basis.

Because of the numerous areas of impact on corporate processes, the risk measurement models and organisational structure, this initiative envisages two main «implementation projects» which, respectively, are responsible for the «classification and measurement» of financial instruments and for «impairment» (i.e. the measurement of expected losses). As regards the various activities involved in updating the system of hedge accounting, the bank has decided, in line with current practice and as foreseen by the new standard, to continue applying IAS 39.

As regards the classification and measurement of financial instruments, the bank has carried out the activities involving interpretation of the accounting standard, identification of the business processes affected and the possible areas of impact. This has made it possible to identify a new structure for the accounting processes and to start designing the target model.

In light of the simulation work carried out in connection with the new accounting classification, led by the business model and by the contractual characteristics of the instruments' cash flows, no significant changes are expected in the composition of the portfolio on the basis of the accounting category. In detail, the bulk of the portfolio recorded at amortised cost will continue to be accounted for in this way, whereas, for a marginal portion of financial instruments (held to maturity and loans and receivables), a change in accounting treatment may be possible from amortised cost to fair value through profit and loss.

As for the activities relating to the impairment model, the scope of the bank's financial instruments that are subject to the new standard has been defined and we have started deciding on the methodologies to be used for estimating the risk parameters and carrying out the staging allocation. With a view to consistency in the risk measurement methods currently in use, the bank aims to develop models and methodologies for IFRS 9 purposes, enhancing – to the extent that this is appropriate – the practices and processes that are already being applied.

The initial choices of method have been made (e.g. lifetime probability of default, point-in-time based risk parameters, application of multiple macroeconomic scenarios) in order to determine the expected loss and the main criteria for allocating financial instruments to the various risk classes proposed by the legislation have been defined.

The choices made in relation to the classification, measurement and impairment of the bank's financial instruments have been the subject of quantitative simulations to determine the potential impacts adopting the standard.

The project to adapt to the new accounting standard requires an ongoing dialogue with the European Central Bank to keep them up to date on the progress that we are making on the project, as well as the approach that we have decided to take. These discussions will continue and become even more intense during 2017.

In 2017, the project activities to adapt to the accounting standard will focus on implementing the target operating model and on upgrading the IT architecture in support.

In order to test the target operating model, in line with the timing of the regulatory changes, parallel processing (to the current IAS 39 accounting framework) will start in the second half of 2017 on the accounting classification of financial instruments and measurement of impairment, based on IFRS 9.

IFRS 15 «Revenues from contracts with customers»

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer. This standard will apply from 1 January 2018. In 2015 the bank launched a project that continued during the year, with a view to analysing the main contracts according to the new rules. A series of studies was carried out in 2016 in order to define the approach to the new standard and how to upgrade processes and systems. It is reasonable to expect that the economic impacts will not be significant. It will however be necessary to amend processes, policies and IT systems in order to implement the new accounting rules.

The financial statements are audited by KPMG 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 assets. 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 assets 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 discretionary, non-market factors.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Any subsequent writebacks cannot exceed the impairment losses recorded previously. The rules adopted by the Bank prescribe that an impairment test has to be carried out on variable-yield securities in one of the following cases:

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



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. In accordance with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts».

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.

Exposures classified as unlikely-to-pay loans are credit exposures, other than non-performing, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.

Impaired past due and/or overdrawn exposures are exposures, other than non-performing or likely default, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 continuous days and which exceed a set materiality threshold. Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

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. Detailed 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.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, 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 classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans for which no specific estimate has been made of the loss attributable to each individual relationship. These loans are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due/overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. They are subject to a detailed assessment attributed to each risk position. In the absence of specific forecasts of the losses attributable to each individual relationship, the assessment takes into account the losses recorded historically in the category of exposures, as well as their technical form, existing guarantees and the ageing of the past due position. The responsible offices prepare appropriate statistical analyses to determine adjusting factors suitable for the loan category concerned.

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 of 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 to match the change in the carrying value of the hedged item;
- 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 or 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 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 carried 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

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives.

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.

Covered bonds

On 6 November 2013, the Board of Directors of the Parent Company 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 Company.

On 30 May 2014, 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.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015.

On 1 February 2016, a portfolio of performing loans totalling € 576 million was assigned without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the second series of covered bonds amounting to € 500 million issued on 4 April 2016.

Lastly, on 31 October 2016, a portfolio of € 226 million performing loans was assigned without recourse.

Given that the Parent Company 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.

Resolution mechanism and deposit guarantee system

By Directives 2014/49/EU dated 16 April 2014 and 2014/59/EU dated 15 May 2014, respectively known as the «Deposit Guarantee Schemes Directive (DGS)» and the «Bank Recovery and Resolution Directive (BRDD)», and by establishing the Single Resolution Mechanism (Regulation (EU) no. 806/2014 dated 15 July 2014), the European legislator made significant amendments to the governance of banking crises in order to strengthen the single market and systemic stability. Directive 2014/49/EU (DGS) harmonises the levels of protection offered by the national deposit protection funds and makes amendments to the system of contributions; for Italian banks, this means moving from an «ex post» system of contributions to a mixed system that envisages making an advance contribution in order to reach, over ten years, a minimum fund size of 0.8% of the deposits guaranteed. Contributions may include payment pledges up to a maximum of 30% of the total. The advance contribution requested by the Interbank Deposit Protection Fund for 2016 was 6.371 million.

Directive 2014/59/EU (BRRD) defines new resolution rules to be applied to all EU banks in serious difficulties. Under these rules and on certain conditions, the National Resolution Fund to be established by each member State will participate in funding the resolution. The Directive was transposed into Italian legislation by Decree no. 180 dated 16 November 2015 and, subsequently, the Bank of Italy, as the national resolution authority, established the National Resolution Fund. The new Fund participated immediately in the failures of Cassa di Risparmio di Ferrara S.p.a., Banca delle Marche S.p.a., Banca dell'Etruria e del Lazio Soc. Coop. p.a. and Cassa di Risparmio della Provincia di Chieti S.p.a.. With regard to 2016, the Bank was asked to make an ordinary contribution of 11.170 million and a special contribution of 26.355 million.

In December 2015, the bank joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. Last June, the Voluntary Scheme approved an intervention in favour of Cassa di Risparmio di Cesena to be implemented through an increase in capital of 280 million which for BP Sondrio involved an outlay of 4.096 million.

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 of destination (³)	Net book value as of 31.12.2016		Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
			value as of 31.12.2016 (⁴)	Fair value at 31.12.2016 (⁵)	Valuation (⁶)	Other (⁷)	Valuation (⁸)	Other (⁹)
A. Debt securities	HFT	HTM	29,263	29,141	241	88	325	88



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 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 a 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 determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. 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, or through prices of previous transactions, or information from third parties without further adjustments (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 € 18 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 to 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.

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

Assets/liabilities carried at fair value on a recurring basis	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	891,085	90,548	32,744	1,705,527	103,487	42,481
2. Financial assets at fair value through profit or loss	96,302	-	66,815	94,495	-	64,203
3. Available-for-sale financial assets	6,470,827	-	172,708	6,197,700	2,613	119,165
4. Hedging derivatives	-	-	-	-	-	-
5. Property, equipment and investment property	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	7,458,214	90,548	272,267	7,997,722	106,100	225,849
1. Financial assets held for trading	-	87,616	-	-	97,310	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	87,616	-	-	97,310	-

Based on the guiding principles for the classification of financial instruments laid down in IFRS 13, a number of transfers of fair value from Level 1 to Level 3 were recorded during the year amounting to € 5.019 million of financial assets held for trading, as well as from Level 2 to Level 3 amounting to € 2.613 million of available-for-sale financial assets.

The increase in financial assets available for sale compared with the comparative period is attributable to the purchase of a number of bonds, as well as the shares subscribed in the Atlante Fund, the receivable from the IDPF's Voluntary Scheme for its intervention in favour of Cassa di Risparmio di Cesena and the subscription of the increase in capital of Release spa.

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	42,481	64,202	119,165	-	-	-
2. Increases	18,927	2,613	97,648	-	-	-
2.1. Purchases	13,124	-	84,255	-	-	-
2.2. Income booked to:						
2.2.1. Income statement	530	2,613	1,363	-	-	-
of which realized gains	269	2,613	-	-	-	-
2.2.2. Equity	-	-	7,131	-	-	-
2.3. Transfers from other levels	5,019	-	2,613	-	-	-
2.4. Other increases	254	-	2,286	-	-	-
- of which: business combinations	-	-	-	-	-	-
3. Decreases	28,664	-	44,105	-	-	-
3.1. Sales	13,129	-	3,714	-	-	-
3.2. Reimbursements	14,123	-	200	-	-	-
3.3. Losses booked to:						
3.3.1. Income statement	1,097	-	25,196	-	-	-
of which realized losses	1,097	-	25,089	-	-	-
3.3.2. Equity	-	-	147	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	315	-	14,848	-	-	-
- of which: business combinations	-	-	-	-	-	-
4. Closing balance	32,744	66,815	172,708	-	-	-

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	31/12/2016				31/12/2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	117,023	120,742	-	12,286	125,777	126,712	-	14,689
2. Loans and receivables with banks	2,759,906	-	-	2,759,906	2,001,898	-	-	2,001,898
3. Loans to customers	21,331,911	-	-	21,919,719	20,021,407	-	-	20,785,125
4. Investment property	-	-	-	-	-	-	-	-
5. HFS non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	24,208,840	120,742	-	24,691,911	22,149,082	126,712	-	22,801,712
1. Due to banks	2,249,796	-	-	2,249,796	2,077,165	-	-	2,077,165
2. Due to customers	24,913,251	-	-	24,913,251	23,614,088	-	-	23,614,088
3. Securities issued	3,089,135	1,505,350	1,611,411	-	3,013,033	984,991	2,069,733	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	30,252,182	1,505,350	1,611,411	27,163,047	28,704,286	984,991	2,069,733	25,691,253

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 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

	31/12/2016	31/12/2015
a) Cash	96,467	96,965
b) Unrestricted deposits with central banks	-	-
Total	96,467	96,965

Section 2 *Financial assets held for trading - line item 20*

2.1 Financial assets held for trading: breakdown by sector

Items/Amounts	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Fixed-yield securities	668,506	-	32,740	1,525,252	-	41,394
1.1 Structured securities	29,448	-	27,507	15,317	-	41,175
1.2 Other fixed-yield securities	639,058	-	5,233	1,509,935	-	219
2. Variable-yield securities	146,007	-	4	124,999	-	1,087
3. Mutual funds	76,572	-	-	55,276	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	891,085	-	32,744	1,705,527	-	42,481
B. Derivatives						
1. Financial derivatives:	-	90,548	-	-	103,487	-
1.1 for trading	-	90,548	-	-	103,487	-
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	-	90,548	-	-	103,487	-
Total (A+B)	891,085	90,548	32,744	1,705,527	103,487	42,481



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

Items/Amounts	31/12/2016	31/12/2015
A. Cash assets		
1. Fixed-yield securities	701,246	1,566,646
a) Governments and central banks	452,980	1,303,110
b) Other public entities	11	17
c) Banks	197,624	213,316
d) Other issuers	50,631	50,203
2. Variable-yield securities	146,011	126,086
a) Banks	39,795	28,099
b) Other issuers:	106,216	97,987
- insurance companies	12,920	7,819
- financial companies	2,815	1,651
- non-financial companies	90,481	88,517
- other	-	-
3. Mutual funds	76,572	55,276
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	923,829	1,748,008
B. Derivatives		
a) Banks	73,394	83,676
b) Customers	17,154	19,811
Total B	90,548	103,487
Total (A + B)	1,014,377	1,851,495

Mutual funds are made up of: equity funds and sicavs for € 76.082 million and real estate funds for € 0.490 million.

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

Items/Amounts	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	-	-	-	-	-	-
2. Variable-yield securities	-	-	-	-	-	-
3. Mutual funds	96,302	-	66,815	94,495	-	64,203
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	96,302	-	66,815	94,495	-	64,203
Cost	93,993	-	64,202	87,876	-	64,737

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	31/12/2016	31/12/2015
1. Fixed-yield securities	-	-
a) Governments and central banks	-	-
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	163,117	158,698
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	163,117	158,698

Mutual funds are made up of: bond funds and sicavs for € 36.396 million, equity funds and sicavs for € 55.158 million, real estate funds for € 68.040 million and flexible funds for € 3.523 million.



Section 4 Available-for-sale financial assets - line item 40

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

Items/Amounts	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	6,294,939	-	15,302	6,015,408	-	5,362
1.1 Structured securities	834,350	-	12,775	622,751	-	3,293
1.2 Other fixed-yield securities	5,460,589	-	2,527	5,392,657	-	2,069
2. Variable-yield securities	-	-	101,366	12,660	2,613	86,637
2.1 Carried at fair value	-	-	91,702	12,660	2,613	74,510
2.2 Carried at cost	-	-	9,664	-	-	12,127
3. Mutual funds	175,888	-	56,040	169,632	-	27,166
4. Loans	-	-	-	-	-	-
Total	6,470,827	-	172,708	6,197,700	2,613	119,165

Given the difficulties in determining a precise fair value, unlisted variable-yield securities are usually retained at cost, as adjusted for possible losses where applicable. An exception was made to this approach with regard to the interests held in Istituto Centrale delle Banks Popolari Italiane spa and Cartasi spa. In particular, following the sale of the ICBPI Group to a consortium of investment funds by the controlling shareholders in the previous year, these interests were revalued on the basis of the selling price.

If a comparison between the cost and net equity of other unlisted equities based on the latest available financial statements identifies impairment losses, we make a write-down in accordance with company policies.

Variable-yield securities include € 2.020 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 € 15.139 million, bond funds for € 157.919 million, real estate funds for € 6.690 million, balanced funds for € 41.997 million and a flexible fund for € 10.183 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. An exception was made to this criterion for the Atlante Fund, as it was felt that the NAV did not reflect the fair value of the shares, so a write-down was made.

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

Items/Amounts	31/12/2016	31/12/2015
1. Fixed-yield securities	6,310,241	6,020,770
a) Governments and central banks	6,254,919	6,015,408
b) Other public entities	-	-
c) Banks	23,283	-
d) Other emittenti	32,039	5,362
2. Variable-yield securities	101,366	101,910
a) Banks	50,623	48,530
b) Other issuers:	50,743	53,380
- insurance companies	-	1,918
- financial companies	42,252	33,362
- non-financial companies	8,491	18,100
- other	-	-
3. Mutual funds	231,928	196,798
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	6,643,535	6,319,478

This item passes from € 6,319.478 million to € 6,643.535 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.

Section 5 Held-to-maturity investments - line item 50

5.1 Held-to-maturity investments: breakdown by sector

Type of transaction/Amounts	31/12/2016				31/12/2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Fixed-yield securities	117,023	120,742	-	12,286	125,777	126,712	-	14,689
- structured	12,140	4,194	-	7,948	11,989	-	-	11,963
- other	104,883	116,548	-	4,338	113,788	126,712	-	2,726
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 € 29.263 million at par, had been carried at fair value at the date of the financial statements, they would have been worth € 29.141 million with a loss of € 0.122 million.



5.2 Held-to-maturity investments: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2016	31/12/2015
1. Fixed-yield securities	117,023	125,777
a) Governments and central banks	25,071	25,043
b) Other public entities	-	-
c) Banks	20,296	30,899
d) Other issuers	71,656	69,835
2. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	117,023	125,777
Total fair value	133,028	141,401

Section 6 Loans and receivables with banks - line item 60

6.1 Loans and receivables with banks: breakdown by sector

Type of transaction/Amounts	31/12/2016				31/12/2015			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Deposits with central banks	952,038	-	-	952,038	258,395	-	-	258,395
1. Time deposits	-	-	-	-	-	-	-	-
2. Compulsory reserve	952,038	-	-	-	258,395	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-
B. Loans and receivables with banks	1,807,868	-	-	1,807,868	1,743,503	-	-	1,743,503
1. Loans	1,807,868	-	-	1,807,868	1,743,503	-	-	1,743,503
1.1 Current accounts and sight deposits	170,644	-	-	-	306,832	-	-	-
1.2 Time deposits	1,562,799	-	-	-	1,337,662	-	-	-
1.3 Other loans:	74,425	-	-	-	99,009	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-
- Financial leases	-	-	-	-	-	-	-	-
- Other	74,425	-	-	-	99,009	-	-	-
2. Fixed-yield securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other fixed-yield securities	-	-	-	-	-	-	-	-
Total	2,759,906	-	-	2,759,906	2,001,898	-	-	2,001,898

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	31/12/2016						31/12/2015					
	Book value			Fair Value			Book value			Fair Value		
	Non impaired	Impaired Purchased	Other	L1	L2	L3	Non impaired	Impaired Purchased	Other	L1	L2	L3
Loans	18,683,870	-	2,287,896	-	-	21,558,650	17,477,512	-	2,298,093	-	-	- 20,538,728
1. Current accounts	4,199,612	-	977,304	-	-	-	4,493,043	-	1,036,552	-	-	-
2. Repurchase agreements	698,937	-	-	-	-	-	706,060	-	-	-	-	-
3. Mortgage loans	8,562,940	-	1,132,620	-	-	-	8,118,402	-	1,058,146	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	212,506	-	12,444	-	-	-	193,963	-	11,582	-	-	-
5. Financial lease	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other Loans	5,009,875	-	165,528	-	-	-	3,966,044	-	191,813	-	-	-
Fixed-yield securities	360,145	-	-	-	-	361,069	245,802	-	-	-	-	- 246,397
8.1 Structured securities	360,145	-	-	-	-	-	245,802	-	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	19,044,015	-	2,287,896	-	-	21,919,719	17,723,314	-	2,298,093	-	-	- 20,785,125

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 € 1,387.179 million of residential mortgages, which were the subject of a covered bond transaction.

The covered bond transactions 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 receivables with customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2016			31/12/2015		
	Non impaired	Impaired		Non impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Fixed-yield securities	360,145	-	-	245,802	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	360,145	-	-	245,802	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	360,145	-	-	245,802	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	18,683,870	-	2,287,896	17,477,512	-	2,298,093
a) Governments	1,716	-	-	-	-	-
b) Other public entities	70,876	-	-	115,319	-	-
c) Other parties	18,611,278	-	2,287,896	17,362,193	-	2,298,093
- non-financial companies	10,738,658	-	1,818,610	10,678,713	-	1,828,165
- financial companies	4,165,341	-	36,183	2,996,512	-	30,038
- insurance companies	4,606	-	-	25	-	-
- other	3,702,673	-	433,103	3,686,943	-	439,890
Total	19,044,015	-	2,287,896	17,723,314	-	2,298,093

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	19.264	19.264
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. ARCA HOLDING S.p.a.	Milan	Milan	21.137	21.137
7. BORMIO GOLF S.p.a.	Bormio	Bormio	25.237	25.237
8. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	Milan	Milan	33.333	33.333
9. LAGO DI COMO GAL S.c.r.l.	Canzo	Canzo	28.953	28.953

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

	31/12/2016	31/12/2015
A. Opening balance	488,595	411,566
B. Additions	432	79,453
B.1 Purchases	7	28,390
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	425	51,063
C. Decreases	1,680	2,424
C.1 Disposals	-	-
C.2 Adjustments	1,680	2,424
C.3 Other changes	-	-
D. Closing balance	487,347	488,595
E. Total revaluations	-	-
F. Total write-downs	(35,030)	(33,350)

This item passes from € 488.595 million to € 487.347 million.

The increase refers to:

- an increase of € 0.007 million for the subscription of the increase in capital of Lago di Como Gal srl;
- coverage of loss of Pirovano Stelvio spa of € 0.425 million.

The decreases refer to:

- a write-down of € 1.340 million of Banca Nuova Terra spa;
- the write-down of Pirovano Stelvio spa for € 0.340 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	31/12/2016	31/12/2015
1. owned	144,150	143,127
a) land	44,801	44,801
b) buildings	81,012	79,246
c) furniture	5,306	5,985
d) IT equipment	1,097	1,394
e) other	11,934	11,701
2. purchased under finance leases	26,820	27,839
a) land	6,803	6,803
b) buildings	20,017	21,036
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
Total	170,970	170,966

Property, equipment and investment property are valued at cost. Buildings have a fair value of € 314.238 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 146.426 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

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	Total
A. Opening gross amount	51,604	180,076	25,229	15,552	57,631	330,092
A.1 Total net reductions in value	-	(79,794)	(19,244)	(14,158)	(45,930)	(159,126)
A.2 Opening net amount	51,604	100,282	5,985	1,394	11,701	170,966
B. Additions	-	6,021	885	579	6,727	14,212
B.1 Purchases	-	4,556	885	579	6,727	12,747
B.2 Capitalised improvement expenditure	-	1,465	-	-	-	1,465
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	-	5,274	1,564	876	6,494	14,208
C.1 Disposals	-	-	-	-	17	17
C.2 Depreciation	-	5,274	1,564	876	6,477	14,191
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	51,604	101,029	5,306	1,097	11,934	170,970
D.1 Total net reductions in value	-	(85,068)	(20,808)	(14,997)	(51,593)	(172,465)
D.2 Closing gross amount	51,604	186,097	26,114	16,094	63,527	343,435
E. Valuation at cost	51,604	101,029	5,306	1,097	11,934	170,970

This item totals € 170.970 million.

The principal changes relate to:

- owned buildings:
 - purchases of buildings in Camogli and Treviso to be used as branches, and in Cosio for a treasury office, flats in Abbiategrosso and Sondrio, a garage with a plot of land in Grosio and parking spaces in Lodi;
 - restructuring of the international unit offices in Sondrio, Lungo Mallero Cadorna;
 - and in San Pietro Berbenno, Novate Mezzola, Dongo, Domaso, Lodi, Milan - via Sforza, Melegnano and Treviso for restructuring work;
- 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:



	depreciation period (years)
property, equipment and investment property	
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 € 4.258 million, compared with € 5.220 million the previous year.

Section 12 Intangible assets - line item 120

12.1 Intangible assets: breakdown by type

Assets/Values	31/12/2016		31/12/2015	
	Specified duration	Unspecified duration	Specified duration	Unspecified duration
A.1 Goodwill	-	-	-	-
A.2 Other intangible assets	14,313	-	12,960	-
A.2.1 Carried at cost:	14,313	-	12,960	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	14,313	-	12,960	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	14,313	-	12,960	-

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:

	31/12/2016	31/12/2015
recorded in 2013	-	1
recorded in 2014	1	4,052
recorded in 2015	4,454	8,907
recorded in 2016	9,858	-
Total	14,313	12,960

12.2 Intangible assets: changes during the year

	Other intangible assets generated internally			Other intangible assets: other		Total 31/12/2016
	Goodwill	Specified	Unspecified	Specified	Unspecified	
A. Opening gross amount	-	-	-	109,778	-	109,778
A.1 Total net reductions in value	-	-	-	(96,818)	-	(96,818)
A.2 Opening net amount	-	-	-	12,960	-	12,960
B. Additions	-	-	-	14,786	-	14,786
B.1 Purchases	-	-	-	14,786	-	14,786
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	-	-	-	13,433	-	13,433
C.1 Disposals	-	-	-	-	-	-
C.2 Adjustments	-	-	-	13,433	-	13,433
- Amortisation	-	-	-	13,433	-	13,433
- 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	-	-	-	14,313	-	14,313
D.1 Total net reductions in value	-	-	-	(110,251)	-	(110,251)
E. Closing gross amount	-	-	-	124,564	-	124,564
F. Valuation at cost	-	-	-	14,313	-	14,313

Key:

Specified: specified duration

Unspecified: unspecified duration

12.3 Other information

Contractual commitments to purchase software user rights amount to € 6.083 million, compared with € 2.810 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

	31/12/2016	31/12/2015
Loan write-downs	335,353	353,003
Provisions for risks and charges	18,474	17,185
Securities and equity investments	2,924	1,089
Administrative expenses, amortisation and depreciation	17,125	14,216
Total	373,876	385,493

The prior-year figures have been reclassified for comparison purposes.

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

	31/12/2016	31/12/2015
Owned and leased buildings	9,409	9,383
Revaluation of securities and gains	19,984	38,651
Administrative expenses	1,078	275
Total	30,471	48,309

The prior-year figures have been reclassified for comparison purposes.

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)

	31/12/2016	31/12/2015
1. Opening balance	374,256	340,602
2. Increases	7,436	41,281
2.1 Deferred tax assets arising during the year	7,436	41,281
a) relating to prior years	244	1,284
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	7,192	39,997
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	23,598	7,627
3.1 Deferred tax assets eliminated during the year	23,589	7,546
a) reversals	23,589	7,546
b) written down as no longer recoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	9	81
a) transformation into tax credits as per Law 214/2011	-	-
b) other	9	81
4. Closing balance	358,094	374,256

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)

	31/12/2016	31/12/2015
1. Opening balance	353,003	320,198
2. Increases	-	32,886
3. Decreases	17,650	81
3.1 Reversals	17,650	-
3.2 Transformation into tax credits	-	-
a) resulting from operating losses	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	81
4. Closing balance	335,353	353,003

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)

	31/12/2016	31/12/2015
1. Opening balance	9,681	9,992
2. Increases	1,354	2
2.1 Deferred tax liabilities arising during the year	1,354	2
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	1,354	2
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	545	313
3.1 Deferred tax liabilities eliminated during the year	498	311
a) reversals	498	311
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	47	2
4. Closing balance	10,490	9,681

13.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2016	31/12/2015
1. Opening balance	11,237	11,521
2. Increases	5,395	1,005
2.1 Deferred tax assets arising during the year	5,395	1,005
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	5,395	1,005
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which: business combinations	-	-
3. Decreases	851	1,289
3.1 Deferred tax assets eliminated during the year	851	1,191
a) reversals	851	1,191
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	-	98
4. Closing balance	15,782	11,237

This amount relates for € 2.924 million to losses on available-for-sale securities booked to equity, and for € 11.979 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 € 0.879 million to expenses related to the increase in capital carried out in 2014.

13.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2016	31/12/2015
1. Opening balance	38,628	35,854
2. Increases	5,297	7,025
2.1 Deferred tax liabilities arising during the year	5,297	7,025
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	5,297	7,025
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	23,944	4,251
3.1 Deferred tax liabilities eliminated during the year	23,944	4,251
a) reversals	23,944	4,251
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	19,981	38,628

This amount relates to the tax on the gains on securities available for sale booked to equity.

Section 15 Other assets - line item 150

15.1 Other assets: breakdown

	31/12/2016	31/12/2015
Advances paid to tax authorities	47,372	55,940
Withholdings on interest due to customers	256	843
Tax credits and related interest	24,881	26,755
Current account cheques drawn on third parties	26,548	26,205
Current account cheques drawn on Group banks	9,443	11,173
Transactions in customers' securities	50,822	1,590
Inventories	1,280	923
Costs pertaining to the subsequent year	2,845	805
Advances to suppliers	489	592
Advances to customers awaiting collections	21,088	18,817
Miscellaneous debits in transit	42,691	44,946
Liquidity of pension fund	18,976	13,527
Accrued expenses not allocated	37,039	35,155
Prepayments not allocated	4,668	4,203
Residual items	62,433	81,484
Total	350,831	322,958

Liabilities and equity

Section 1 Due to banks - line item 10

1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2016	31/12/2015
1. Due to central banks	1,226,758	1,099,856
2. Due to banks	1,023,038	977,308
2.1 Current accounts and sight deposits	390,581	242,113
2.2 Time deposits	471,614	523,378
2.3 Loans	117,245	150,977
2.3.1 Repurchase agreements	-	-
2.3.2 Other	117,245	150,977
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	43,598	60,840
Total	2,249,796	2,077,164
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	2,249,796	2,077,164
Total Fair value	2,249,796	2,077,164

These payables are not specifically hedged.

Amounts due to central banks consist of a loan from the ECB as part of its «Targeted Longer-Term Refinancing Operations» (TLTRO II), for € 1.100 million, stipulated on 23 June 2016 and maturing on 24 June 2020, with an early redemption option from 27 June 2018. This loan is secured by bonds, mainly Government bonds, and receivables.

»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

	31/12/2016	31/12/2015
Payables for finance leases	391	456
Total	391	456

Payables for finance leases at floating rates amount to € 2.470 million, of which € 0.391 million relating to banks and € 2.079 million relating to customers against a total of € 3.087 million in the previous year, -19.99%; they relate to buildings used as banking branches.

Total outstanding lease commitments, including interest, amount to € 2.477 million. These payables fall due as follows:

within 1 months	2,147	715
1 to 5 years	271	2,284
over 5 years	59	127

Section 2 Due to customers - line item 20

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2016	31/12/2015
1. Current accounts and sight deposits	23,687,931	21,426,014
2. Time deposits	562,614	1,348,302
3. Loans	627,631	795,509
3.1 Repurchase agreements	610,237	727,070
3.2 Other	17,394	68,439
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	35,075	44,263
Total	24,913,251	23,614,088
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	24,913,251	23,614,088
Fair value	24,913,251	23,614,088

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

	31/12/2016	31/12/2015
Payables for finance leases	2,079	2,631
Total	2,079	2,631

Section 3 Securities issued - line item 30

3.1 Securities issued: breakdown by sector

Type of security/Amounts	31/12/2016				31/12/2015			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. Securities								
1. Bonds	3,007,763	1,505,350	1,530,039	-	2,943,488	984,991	2,000,188	-
1.1 structured	188,699	-	188,699	-	223,382	-	223,382	-
1.2 other	2,819,064	1,505,350	1,341,340	-	2,720,106	984,991	1,776,806	-
2. Other securities	81,372	-	81,372	-	69,545	-	69,545	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	81,372	-	81,372	-	69,545	-	69,545	-
Total	3,089,135	1,505,350	1,611,411	-	3,013,033	984,991	2,069,733	-

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.



3.2 Details of line item 30 «Securities issued»: subordinated securities

Subordinated securities amount to € 764.030 million and are made up of the loans indicated below:

- bond loan of € 72.625 million from 26/2/2010 and maturity on 26/2/2017 with a forecast annual repayment of 20% from 26/2/2013. This loan was issued with an interest rate of 4% which will gradually rise to 5%; the coupon current at year end is 5.00%.
- bond loan of € 140.089 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. It has an interest rate of 4.50% which will gradually rise to 6%; the coupon current at year end is 5.50%.
- bond loan of € 16.373 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 2.50%.
- bond loan of € 26.943 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 2.50%.
- bond loan of € 29.466 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 2.50%.
- bond loan of € 203.392 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%.
- bond loan of € 275.142 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.

Section 4 Financial liabilities held for trading - line item 40

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	31/12/2016					31/12/2015				
	NV	Fair Value			FV*	NV	Fair Value			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	-	-	87,616	-	-	-	-	97,310	-	-
1.1 For trading	-	-	87,616	-	-	-	-	97,310	-	-
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	-	-	87,616	-	-	-	-	97,310	-	-
Total A+B	-	-	87,616	-	-	-	-	97,310	-	-

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 € 30.471 million relates entirely to deferred taxation. There is no current taxation due to the considerable increase in advances paid, 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 tax years up to 2011 have been closed. For 2011, the Bank received a notice of assessment for not applying VAT on part of the commissions received as a custodian bank for the amount of € 0.325 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. Since the assessment for 2011 took account of the above Resolution and did not require the payment of penalties, the Bank decided to terminate the dispute by paying the amount requested.

Under Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, it was possible to transform D.T.A. (Deferred Tax Assets) into tax credits by paying a fee and subject to certain conditions. The bank has applied to retain this right if necessary in the future, even without having paid any fee as the conditions for payment did not apply.

Section 10 Other liabilities - line item 100

10.1 Other liabilities: breakdown

	31/12/2016	31/12/2015
Amounts at the disposal of third parties	322,704	234,944
Taxes to be paid on behalf of third parties	45,211	54,379
Taxes to be paid	1,544	1,138
Employee salaries and contributions	22,618	12,178
Suppliers	13,820	9,919
Transit accounts for sundry entities	2,412	10,162
Invoices to be received	11,477	11,709
Credits in transit for financial transactions	2,490	3,968
Value date differentials on portfolio transactions	27,820	151,261
Directors' and statutory auditors' emoluments	1,047	1,080
Loans disbursed to customers to be finalised	9,543	18,039
Miscellaneous credit items being settled	91,605	58,390
Accrued expenses not allocated	1,281	723
Deferred income not allocated	13,269	13,772
Allowance for risks on guarantees and commitments	22,535	19,093
Residual items	76,714	32,798
Total	666,090	633,553

This line item shows an increase of 5.14%. Residual items include the extraordinary contribution for 2016 of € 26.355 million to be paid to the National Resolution Fund.

Section 11 Post-employment benefits - line item 110

11.1 Termination indemnities: change in the year

	2016	2015
A. Opening balance	40,864	42,442
B. Additions	9,432	7,555
B.1 Provisions	7,751	7,555
B.2 Other changes	1,681	-
C. Decreases	8,025	9,133
C.1 Payments made	1,033	1,207
C.2 Other changes	6,992	7,926
D. Closing balance	42,271	40,864

11.2 Other information

Other increases relate to provisions for actuarial losses.

Other decreases relate to payments to the Arca Previdenza Fund for a total of € 4.905 million, compared with € 4.703 million the previous year, payments to INPS of € 1.980 million and tax on the annual revaluation of € 0.107 million, compared with € 0.081 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. We have chosen to use the AA-rated discount rate. 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 € 39.224 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:

	31/12/2016	31/12/2015
Discount rate	1.54%	2.05%
Rate of inflation	1.50%	1.50%
Annual rate of increase in termination indemnities	1.50%	1.50%

The discount rate has been chosen according to the I-Boxx Corporates Eurozone AA 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	31/12/2016	31/12/2015
1. Pension and similar obligations	130,874	117,912
2. Other provisions for risks and charges	43,456	41,690
2.1 legal disputes	26,395	25,114
2.2 personnel expenses	16,309	15,814
2.3 other	752	762
Total	174,330	159,602

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	117,912	41,690	159,602
B. Additions	17,224	18,717	35,941
B.1 Provisions for the year	2,385	18,516	20,901
B.2 Changes due to the passage of time	-	-	-
B.3 Changes due to variations in the discount rate	10,096	-	10,096
B.4 Other changes	4,743	201	4,944
C. Decreases	4,262	16,951	21,213
C.1 Utilisations during the year	3,405	15,356	18,761
C.2 Changes due to variations in the discount rate	-	-	-
C.3 Other changes	857	1,595	2,452
D. Closing balance	130,874	43,456	174,330

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 403 employees and 246 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. 2,137 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

	2016	2015
At 1 January	117,912	117,043
service cost	2,230	2,321
interest cost	2,384	2,190
actuarial gains/losses	10,095	(1,164)
payments	(3,405)	(3,555)
other provisions	1,658	1,077
At 31 December	130,874	117,912

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the pension plan are summarised in the following table:

	31/12/2016	31/12/2015
Fixed-yield securities	81,256	73,825
Variable-yield securities	2,138	4,000
Mutual funds invested in shares	12,291	10,944
Mutual funds invested in property	16,189	15,616
Other assets	19,000	13,527
Total	130,874	117,912

The amount of the fund increases by € 12.962 million, +10.99%.

Payments of benefits amount to € 3.405 million compared with € 3.520 million. The contributions paid by the employees totalled € 0.239 million (€ 0.241 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:

	31/12/2016	31/12/2015
Discount rate	1.54%	2.05%
Expected increase in salaries	0.50%	0.50%
Underlying rate of pension increases	0.97%	1.00%
Annual rate of inflation	1.50%	1.00%

The average discount rate was determined with reference to the I-Boxx Corporates Eurozona AA 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% increase in the discount rate, liability of € 121.637 million
- 0.25% decrease in the discount rate, liability of € 132.909 million
- +0.25% increase in the discount rate, liability of € 129.095 million
- 0.25% decrease in the discount rate, liability of € 125.130 million

In addition, the liability in the coming years was also analysed; as a result, the payments for the next five 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 flow	3.639	3.529	3.454	3.454	3.390

12.4 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2016	31/12/2015
Provision for legal disputes	26,395	25,114
Provision for personnel expenses	16,309	15,814
Other provisions	752	762
Total	43,456	41,690

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 € 6.203 million, and other disputes that have arisen in the ordinary course of business for € 20.192 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 31/12/2016 as the discount rate.

They increase by € 1.280 million for the difference between the provisions for the year of € 3.959 million and the release of prior year provisions of € 2.679 million.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. The total increase came to € 0.495 million, + 3.13%.

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 2015 profit, while the reduction of € 0.110 million was a consequence of payments made during the year.

Section 14 *Equity - items 130, 150, 160, 170, 180, 190 and 200*

14.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, par value € 3 each, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2016.

At the year-end, the Bank held treasury shares with a carrying value of € 25.322 million.

14.2 Share capital - Number of shares: change in the year

Items/Type	Ordinary	Other
A. Shares in existence at the start of the year	453,385,777	-
- fully paid	453,385,777	-
- not fully paid	-	-
A.1 Treasury shares (-)	(3,650,000)	-
A.2 Shares in circulation: opening balance	449,735,777	-
B. Additions	-	-
B.1 New issues	-	-
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- others	-	-
- free of charge	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchases of treasury shares	-	-
C.3 Business disposals	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	449,735,777	-
D.1 Treasury shares (+)	3,650,000	-
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

It amounts to € 79.005 million, unchanged on last year.



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 € 803.541 million, + 9.25% 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 € 240.752 million, +18,86%, following the allocation of € 38.208 million from 2015 profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to €452.177 million (+7.18%), following the allocation of € 30.019 million out of the 2015 profit and dividends on treasury shares of € 0.256 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 provision amounts to € 35 million (having been used for € 25.322 million), a decrease of € 58 million as a result of the shareholders' resolution.

Reserve pursuant to art. 13 of Legislative Decree 124/93, € 0.142 million.

Other reserves of € 75.470 million increased by € 57.561 million, +321.41% compared with the previous year. This reflects the transfer from the reserve for the purchase of treasury shares for € 58 million, as well as the change in deferred tax assets recorded in the previous year on the capitalisation of costs related to the increase in share capital made in 2014, net of tax.

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 Legislative 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	31/12/2016	31/12/2015
1) Financial guarantees:	857,392	711,613
a) Banks	184,133	167,388
b) Customers	673,259	544,225
2) Commercial guarantees:	3,055,894	3,119,746
a) Banks	86,744	85,506
b) Customers	2,969,150	3,034,240
3) Irrevocable commitments to make loans	1,329,446	1,016,507
a) Banks	72,099	31,031
i) certain to be called on	58,552	18,298
ii) not certain to be called on	13,547	12,733
b) Customers	1,257,347	985,476
i) certain to be called on	337,055	353,486
ii) not certain to be called on	920,292	631,990
4) Commitments underlying credit derivatives: protection sold	-	-
5) Assets lodged to guarantee the commitments of third parties	467,639	467,639
6) Other commitments	9	9
Total	5,710,380	5,315,514

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2016	31/12/2015
1. Financial assets held for trading	163,123	516,624
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	2,350,417	2,307,917
4. Held-to-maturity investments	-	-
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	1,003,158	1,070,686
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.

Loans and receivables with customers comprise the residential mortgages used to guarantee the loans obtained from the ECB and secured bank bonds (Covered bonds).

4. Management and intermediation for third parties

Type of service	31/12/2016
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	1,478,871
b) Collective	-
3. Custody and administration of securities	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,697,857
1. securities issued by the reporting bank	-
2. other securities	1,697,857
b) third-party securities on deposit (excluding portfolio management): other	16,719,508
1. securities issued by the reporting bank	2,755,438
2. other securities	13,964,070
c) Third-party securities on deposit with third parties	17,514,763
d) own securities on deposit with third parties	8,041,356
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		Net amount at 31/12/2016 (f = c-d-e)	Net amount at 31/12/2015
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	58,127	-	58,127	14,063	43,030	1,034	2,107
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2016	58,127	-	58,127	14,063	43,030	1,034	-
Total 31/12/2015	81,851	-	81,851	19,775	59,969	-	2,107

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 31/12/2016 that is not correlated with deposits received in guarantee amounts to € 1.034 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 mandatory (should be in June 2017), 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

Technical forms	Gross amount of financial liabilities (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		Net amount at 31/12/2016 (f = c-d-e)	Net amount at 31/12/2015
				Financial instruments (d)	Cash deposits given in guarantee (e)		
1. Derivatives	76,182	-	76,182	14,063	62,028	91	51
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2016	76,182	-	76,182	14,063	62,028	91	-
Total 31/12/2015	81,725	-	81,725	19,775	61,899	-	51

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 31/12/2016	Total 31/12/2015
1. Financial assets held for trading	9,050	-	-	9,050	14,490
2. Available-for-sale financial assets	30,535	-	-	30,535	56,238
3. Held-to-maturity investments	417	-	-	417	750
4. Loans and receivables with banks	-	4,209	-	4,209	5,546
5. Loans and receivables with customers	1,844	529,954	-	531,798	627,023
6. Financial assets at fair value through profit or loss	-	-	-	-	2
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	3,220	3,220	-
Total	41,846	534,163	3,220	579,229	704,049

1.3 Interest and similar income: other information

Interest income decreased significantly, -17.73%, from € 704.049 million to € 579.229 million because of the reduction in interest rates on loans to customers and of financial investments.

1.3.1 Interest and similar income on foreign currency assets

Items	31/12/2016	31/12/2015
Interest and similar income on foreign currency assets	25,999	28,12



1.4 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	Total 31/12/2016	Total 31/12/2015
1. Due to central banks	(894)	-	-	(894)	(1,705)
2. Due to banks	(2,239)	-	-	(2,239)	(1,178)
3. Due to customers	(81,887)	-	-	(81,887)	(138,267)
4. Securities issued	-	(72,651)	-	(72,651)	(83,434)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	(6,358)	(6,358)	-
8. Hedging derivatives	-	-	-	-	-
Total	(85,020)	(72,651)	(6,358)	(164,029)	(224,584)

1.6 Interest and similar expense: other information

Interest expense has decreased from € 224.584 million to € 164.029 million, - 26.96%. The reduction of € 60.555 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

Items	31/12/2016	31/12/2015
Interest and similar expense on foreign currency liabilities	(2,217)	182

1.6.2 Interest expense on finance lease transactions

Items	31/12/2016	31/12/2015
Interest expense on finance lease transactions	(11)	(25)

Section 2 Commissions - line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2016	31/12/2015
a) guarantees given	28,783	28,506
b) credit derivatives	-	-
c) management, intermediation and consultancy services:	74,431	73,138
1. trading in financial instruments	-	-
2. trading in foreign currencies	10,594	11,417
3. portfolio management	9,404	8,891
3.1. individual	9,404	8,891
3.2. collective	-	-
4. custody and administration of securities	1,544	1,574
5. custodian bank	2,349	1,854
6. placement of securities	25,222	23,675
7. order receipt and transmission	9,489	11,665
8. consultancy	175	-
8.1 investments	-	-
8.2 corporate finance	175	-
9. distribution of third-party services	15,654	14,062
9.1 portfolio management	-	-
9.1.1. Individual	-	-
9.1.2. Collective	-	-
9.2 insurance products	12,454	10,606
9.3 other products	3,200	3,456
d) collection and payment services	68,534	66,484
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	29,863	29,410
j) other services	62,175	67,090
Total	263,786	264,628

«Other services» mainly consist of loan commissions of € 52.757 million and international/foreign exchange fees of € 6.296 million.



2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts	31/12/2016	31/12/2015
a) bank branches		
1. portfolio management	9,404	8,891
2. placement of securities	25,222	23,675
3. third-party products and services	15,654	14,062
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	31/12/2016	31/12/2015
a) guarantees received	(388)	(390)
b) credit derivatives	-	-
c) management and intermediation services	(1,648)	(1,610)
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	(1,648)	(1,610)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
d) collection and payment services	(9,252)	(9,640)
e) other services	(2,986)	(3,198)
Total	(14,274)	(14,838)

«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

Income	31/12/2016		31/12/2015	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	3,648	490	915	208
B. Available-for-sale financial assets	3,039	-	1,409	315
C. Financial assets at fair value through profit or loss	-	307	-	-
D. Equity investments	10,707	-	13,426	-
Total	17,394	797	15,750	523

Dividends from equity investments amounted to € 4.937 million paid by Factorit spa, € 3.142 million by Arca Vita spa, € 0.415 million by Unione Fiduciaria spa, € 2.114 million by Arca Holding spa and € 0.100 by Rajna Immobiliare srl.

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)] 31/12/2016
1. Financial assets held for trading	6,092	33,194	(28,593)	(7,441)	3,252
1.1 Fixed-yield securities	4,233	4,518	(415)	(5,563)	2,773
1.2 Variable-yield securities	321	3,905	(21,407)	(1,878)	(19,059)
1.3 Mutual funds	636	2,574	(5,412)	-	(2,202)
1.4 Loans	-	-	-	-	-
1.5 Other	902	22,197	(1,359)	-	21,740
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	-	-	-	-	784
4. Derivatives	14,669	55,249	(16,596)	(44,715)	8,553
4.1 Financial derivatives:	14,669	55,249	(16,596)	(44,715)	8,553
- On debt securities and interest rates	13,691	32,295	(15,617)	(30,842)	(473)
- On equities and equity indices	-	20,975	-	(11,950)	9,025
- On currency and gold	-	-	-	-	(54)
- Other	978	1,979	(979)	(1,923)	55
4.2 Credit derivatives	-	-	-	-	-
Total	20,761	88,443	(45,189)	(52,156)	12,589

The net trading income amounted to € 12.589 million on € 45.585 million, - 72.38%. Trading profits amount to € 25.753 million on € 43.753 million. Trading income on other financial assets of € 22.197 million is primarily made up of exchange gains. Exchange differences, which last year amounted to €2.203 million, have decreased to € 0.784 million and relate almost entirely to securities denominated in US dollars. The difference between capital gains and losses on financial assets and liabilities is negative for € 22,501 million compared with a negative balance of € 10.812 million. The net result of derivative trading is positive for € 8.553 million compared with € 10.441 million. 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

Items/income items	31/12/2016			31/12/2015		
	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
Financial assets						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	82,093	(5,762)	76,331	145,500	(5,574)	139,926
3.1 Fixed-yield securities	77,642	(4,056)	73,586	116,438	(789)	115,649
3.2 Variable-yield securities	3,390	(1,706)	1,684	349	-	349
3.3 Mutual funds	1,061	-	1,061	28,713	(4,785)	23,928
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	82,093	(5,762)	76,331	145,500	(5,574)	139,926
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	891	(1,211)	(320)	2,038	(1,930)	108
Total liabilities	891	(1,211)	(320)	2,038	(1,930)	108

Section 7 Net change in value of financial assets and liabilities at fair value - line item 110

7.1 Net gains 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)] 31/12/2016
1. Financial assets	3,761	-	(334)	-	3,427
1.1 Fixed-yield securities	-	-	-	-	-
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	3,761	-	(334)	-	3,427
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	-	-	-	-	880
4. Credit and financial derivatives	-	-	-	-	-
Total	3,761	-	(334)	-	4,307

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)				Total 31/12/2016	Total 31/12/2015
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B		
A. Loans and receivables with banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	(12,335)	(396,628)	(30,347)	4,243	102,029	-	100,861	(232,177)	(381,403)
Purchased impaired loans	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
Other receivables	(12,335)	(396,628)	(30,347)	4,243	102,029	-	100,861	(232,177)	(381,403)
- Loans	(12,335)	(392,240)	(30,017)	4,243	102,029	-	100,861	(227,459)	(377,394)
- Fixed-yield securities	-	(4,388)	(330)	-	-	-	-	(4,718)	(4,009)
C. Total	(12,335)	(396,628)	(30,347)	4,243	102,029	-	100,861	(232,177)	(381,403)

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 31/12/2016	Total 31/12/2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Variable-yield securities	-	(9,897)	-	-	(9,897)	(7,216)
C. Mutual funds	-	(15,292)	-	-	(15,292)	(987)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(25,189)	-	-	(25,189)	(8,203)

Key:

A = interest

B = other write-backs

Adjustments concern listed and unlisted variable-yield securities and certain mutual funds, which have been subjected to impairment testing given that their equity value is lower than the original cost.

The most significant adjustments concern the shares of the Atlante Fund for € 13.950 million, the investment in Release spa for € 6.315 million, in Banca Valsabbina for € 1.501 million and the amount due from the IDPF-voluntary scheme for the intervention in favour of Cassa di Risparmio di Cesena for € 1.007 million.

8.3 Net impairment losses on held-to-maturity investments: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)		Total 31/12/2016	Total 31/12/2015
	Specific			Specific			
	Write-offs	Other	Portfolio	A	B		
A. Debt securities	-	-	-	-	-	-	(9,965)
B. Loans to banks	-	-	-	-	-	-	-
C. Loans to customers	-	-	-	-	-	-	-
D. Total	-	-	-	-	-	-	(9,965)

Key:

A = interest

B = other write-backs

There are no impairment losses on held-to-maturity investments.



8.4 Net impairment losses on other financial transactions: breakdown

Transactions/Income items	Adjustments (1)			Adjustments (2)				Total 31/12/2016	Total 31/12/2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	-	(3,329)	(113)	-	-	-	-	(3,442)	(916)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to make loans	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	-	(3,329)	(113)	-	-	-	-	(3,442)	(916)

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	31/12/2016	31/12/2015
1) Employees	(180,063)	(176,815)
a) Wages and salaries	(110,433)	(108,421)
b) Social security contributions	(31,292)	(31,045)
c) Termination indemnities	-	-
d) Pension expenses	-	-
e) Provision for employee termination indemnities	(7,751)	(7,555)
f) Provision for pension and similar obligations:	(6,834)	(6,643)
- defined contribution	-	-
- defined benefits	(6,834)	(6,643)
g) Payments to external supplementary pension funds:	(2,770)	(2,643)
- defined contribution	(2,770)	(2,643)
- defined benefits	-	-
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(20,983)	(20,508)
2) Other working personnel	(257)	(2,637)
3) Directors and Statutory auditors	(1,514)	(1,548)
4) Retired personnel	-	-
5) Recovery of expenses for personnel on secondment to other firms	242	205
6) Reimbursement of expenses for personnel on secondment to the company	(432)	(414)
Total	(182,024)	(181,209)

9.2 Average number of employees by category

	31/12/2016	31/12/2015
1) Employees	2,647	2,619
a) Managers	26	22
b) Officials	546	535
c) Other employees	2,075	2,062
2) Other personnel	5	71
Total	2,652	2,690
	31/12/2016	31/12/2015
- Number of employees at year-end	2,676	2,646
- Other personnel	5	73

9.3 Defined-benefit pension plans: total costs

Income items/Amounts	31/12/2016	31/12/2015
Service cost	2,230	2,321
Interest cost	2,384	2,190
Contributions from employees	(239)	(241)
Reductions and payments	2,459	2,373
Total charge to income statement (A)	6,834	6,643
Portion of yield from assets servicing the fund (B)	4,662	4,361
Total charge (A-B)	2,172	2,282

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 € 1.911 million. An additional provision of € 4.662 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». The amount of € 10.095 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 shown 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	31/12/2016	31/12/2015
Telephone, post and data transmission	(12,247)	(11,532)
Maintenance of property, equipment and investment property	(8,328)	(8,442)
Rent of buildings	(25,435)	(25,563)
Security	(5,967)	(5,902)
Transportation	(1,719)	(2,040)
Professional fees	(28,603)	(22,464)
Office materials	(1,901)	(1,942)
Electricity, heating and water	(4,968)	(5,319)
Advertising and entertainment	(2,979)	(2,740)
Legal	(14,835)	(14,370)
Insurance	(1,472)	(1,435)
Company searches and information	(6,653)	(5,883)
Indirect taxes and dues	(48,964)	(49,860)
Software and hardware rental and maintenance	(11,197)	(10,707)
Data entry by third parties	(1,374)	(1,281)
Cleaning	(5,407)	(5,202)
Membership fees	(1,886)	(1,943)
Services received from third parties	(3,801)	(2,841)
Outsourced activities	(16,923)	(20,402)
Deferred charges	(2,466)	(2,798)
Goods and services for employees	(1,043)	(1,054)
Other	(53,618)	(49,722)
Total	(261,786)	(253,442)

Other expenses include € 43.911 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

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 € 1.280 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 3.959 million and the use or release of provisions set aside in previous years of € 2.679 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)	31/12/2016	31/12/2015
A. Property, equipment and investment property					
A,1 Owned	(13,172)	-	-	(13,172)	(12,529)
- For business purposes	(13,172)	-	-	(13,172)	(12,529)
- For investment purposes	-	-	-	-	-
A,2 Acquired under finance leases	(1,019)	-	-	(1,019)	(1,019)
- For business purposes	(1,019)	-	-	(1,019)	(1,019)
- For investment purposes	-	-	-	-	-
Total	(14,191)	-	-	(14,191)	(13,548)

The finance lease charges paid during the year amounted to € 0.617 million, compared with € 0.733 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	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	31/12/2016	31/12/2015
A. Property, equipment and investment property					
A.1 Owned	(13,433)	-	-	(13,433)	(12,317)
- Internally generated	-	-	-	-	-
- Other	(13,433)	-	-	(13,433)	(12,317)
A.2 Acquired under finance leases	-	-	-	-	-
Total	(13,433)	-	-	(13,433)	(12,317)

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year; accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 13 *Other operating income and expense - Line item 190*

This caption amounts to € 64.901 million and comprises other operating income of €68.918 million, net of other operating expenses of € 4.017 million.

13.1 Other operating expenses: breakdown

	31/12/2016	31/12/2015
Out-of-period expense	(3,103)	(3,139)
Other	(914)	(581)
Total	(4,017)	(3,720)

13.2 Other operating income: breakdown

	31/12/2016	31/12/2015
Recovery of charges on deposits and overdrafts	268	109
Rental income from buildings	1,098	1,141
Recovery of taxes	42,563	43,726
Financial income of pension and similar obligations plan	4,662	4,361
Out-of-period income - other	2,476	3,784
Other	17,851	19,810
Total	68,918	72,931

The sub-item «other» includes € 8.145 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 gains (losses) on equity investments - line item 210*

14.1 Net gains (losses) on equity investments: breakdown

Income item/amount	31/12/2016	31/12/2015
A. Income	-	3,002
1. Revaluations	-	-
2. Profit from disposals	-	-
3. Write-backs	-	-
4. Other income	-	3.002
B. Charges	(1,680)	(2,424)
1. Write-downs	(340)	(425)
2. Impairment writedowns	(1,340)	(1,999)
3. Loss from disposals	-	-
4. Other charges	-	-
Profit (loss)	(1,680)	578

This item is negative for € 1.680 million, whereas last year it was positive for € 0.578 million; it relates to the subsidiary Pirovano Stelvio Spa for € 0.340 million and the associate Banca della Nuova Terra Spa for € 1.340 million.

Section 17 *Net gains on sales of investments - line item 240*

17.1 Net gains on sales of investments: breakdown

Income item/amount	31/12/2016	31/12/2015
A. Buildings	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	10	7
- Gains on disposal	13	7
- Losses on disposal	(3)	-
Profit (loss)	10	7

Section 18 *Income taxes - line item 260*

18.1 Income taxes: breakdown

Income items/Amounts	31/12/2016	31/12/2015
1. Current taxes (+/-)	(8,500)	(78,000)
2. Change in prior period income taxes (+/-)	-	-
3. Reduction in current taxes (+)	-	-
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(16,162)	33,654
5. Change in deferred tax liabilities (+/-)	(809)	311
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(25,471)	(44,035)

This line item comes in at € 25.471 million, down by 42.16%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 24.14% compared with 30.56%. The decline reflects the reduction in taxation linked to the changes in IRAP taxation during the year and to the deductibility of loan writedowns and losses.

18.2 Reconciliation between the theoretical and current tax burden

INCOME TAXES	Imponibile	Imposta
Theoretical tax burden	105,519	29,018
Increases	31,935	8,782
Decreases	(121,091)	(33,300)
Effective tax burden	16,363	4,500
IRAP (REGIONAL BUSINESS TAX)	Imponibile	Imposta
Theoretical tax burden	105,519	5,877
Increases	82,936	4,620
Decreases	(116,642)	(6,497)
Effective tax burden	71,813	4,000
Total effective tax burden	-	8,500

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 non-deductible provisions for risks and charges, interest expense, losses and writedowns of equity investments classified as PEX, administrative expenses, amortisation and depreciation.

The principal deductions relate to the non-taxable portion of dividends received, the deductible portion of IRAP, the use of taxed provisions, the effect of the ACE regulation and the share of adjustments to loans of previous years that became deductible during the year.

IRAP (REGIONAL BUSINESS TAX)

The main add-backs concern non-deductible personnel expenses, adjustments for impairment of AFS securities, interest expense, non-deductible amortisation and depreciation and other administrative expenses.

The principal deductions relate to the portion of adjustments to loans of previous years that became deductible during the year and the share of non-taxable dividends.

Section 21 *Earnings per share*

21.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2016	31/12/2015
number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

21.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the 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.

	31/12/2016	31/12/2015
Basic EPS - €	0.177	0.221
Diluted EPS - €	0.177	0.221



PART D *Comprehensive income*

Statement of comprehensive income

Items/Amounts	Gross amount	Income taxes	Net amount
10. Profit for the year	-	-	80,048
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	(11,446)	3,148	(8,299)
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 assets:	(59,940)	20,484	(39,456)
a) changes in fair value	19,155	(4,554)	14,601
b) transfer to income statement	(79,095)	25,038	(54,057)
- adjustments for impairment	374	(124)	250
- gains/losses on disposals	(79,469)	25,162	(54,307)
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	(71,386)	23,632	(47,755)
140. Comprehensive income (Item 10+130)	-	-	32,293

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 Risk 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.

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 strategic guidelines established by the Corporate Bodies during the planning process and in compliance with the risk limits set, the lending policy defines the size and composition of the loan book, in order to guarantee an adequate balance between the risk profile accepted and the return earned. The guidelines cover the products, segments, sectors and categories of counterparty that maximise forecast profitability while, at the same time, governing the quality of the portfolio and ensuring capital adequacy on a prospective basis. For planning purposes, the guidelines establish objectives for the operational offices, covering the quality of the portfolio, as well as its growth and profitability. These objectives must be achieved while respecting the capital adequacy requirements and risk limits.

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.

- *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.
- *Problem Loans Management Department.* It oversees the performance of credit quality and verifies the effectiveness of the actions taken to settle credit anomalies and recover the debt. It monitors in particular critical performing, non-performing and past due positions classified as unlikely-to-pay and implements, either directly or via the network, the appropriate actions to minimise the risks and prepare appropriate initiatives to protect the bank's credit. It also supports the network in managing positions subject to restructuring and bankruptcy proceedings, searching for negotiated solutions to business crises.
- *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 Problem Loans Management Department.
- *Risk Control Department.* The Risk Control Department defines, develops and maintains the models underlying the rating system through the Credit Models Development Office; it checks the reliability and effectiveness of the estimates produced by them and, where necessary, takes steps to update them. The department also analyses, using 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. From an organisational point of view, a thorough review of the structure was carried out during the year, in order to make credit risk control and monitoring of the loan portfolio quality even more effective; in particular, the current structure involves the following organisational units:
 - *Integrated Risk Office:* it has control over the definition and implementation of the RAF, ICAAP, stress tests and the Group's Recovery Plan;
 - *Credit Risk Organisation Office:* with the constant aim to increase efficiency and adoption of best market practices, it organises and monitors the overall activities carried out by the offices responsible for credit risk monitoring and management, with particular attention to the evolution of the internal rating system;
 - *Credit Models Development Office:* it designs, develops and maintains models and metrics adopted for the measurement of credit risk for both regulatory and management purposes;
 - *Lending Policies Office:* it oversees the planning of lending policies in compliance with the RAF and monitors their timely application;
 - *Asset Quality Office:* it monitors the overall quality of the credit portfolio through aggregate analysis and, where necessary, looking more closely at individual balances;
 - *Large exposures office and rating desk:* it evaluates the more significant credit exposures in terms of risk, preparing the related analyses and performing verifications of the exceptions to the rating assessments expressed by the operating structures.This Department also includes the *Validation Office*, which is devoted to verifying the internal risk management systems and assessment of corporate activities used for both regulatory and management purposes.
- *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 Economic Operators (family businesses, personal businesses and practising professionals), Small Business (non-financial partnerships and companies with sales unknown or less than € 1.5 million and total credit lines at Group level of less than € 1 million), SMEs (non-financial partnerships and companies with sales between € 1.5 million and € 100 million, or sales unknown or less than € 1.5 million and total credit lines at Group level of € 1 million or more), Corporate non-profit institutions (non-profit entities and associations with sales of € 1.5 million or more or, if less or unknown, with total credit lines of € 1 million or more), Retail non-profit institutions, Large Enterprises (non-financial partnerships and companies with sales in excess of € 100 million), Public Enterprises and non-resident, non-financial companies.

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 and are split into 14 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in eight risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad», «Insolvent» and «Not classified».

Together, at the end of December 2016, the sub-portfolios subject to these rating systems account for 79.74% of lending to customers (93.28% 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 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 estimating and calibrating includes: non-performing, unlikely to pay and past due loans, including those significantly overdrawn for more than 90 consecutive days. 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 counterparty/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.

With regard to credit risk and the extension of the way it is measured to the various operational areas, the Bank has established objectives for the control of expected loss (cost of credit risk) that branches have applied for some time in the preparation of their annual budgets. The spread and the margin applied on loans are adjusted by a correction factor to take account of the credit risk based on PD and LGD parameters deriving from internal models. The objective is to ensure closer correlation between the profitability performance assigned to each productive unit and its actual ability to accept and manage risk, thus indicating growth paths for lending that are as effective as possible in risk-return terms. 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.

Exceptions to the internal rating system are applied to certain operational segments. An override is proposed by the branch or, for certain segments (Large Enterprises, Public Enterprises and Corporate Non-Profit Institutions) by the Credit Assessment Office, and requires central approval from the Large Exposures office and rating desk.

The use of indicators of risk-adjusted value creation (EVA) meets the need to assess more selectively certain loan positions and to control more closely the quality of loans granted. Using a specific application already integrated within the electronic credit line system, it is possible to determine a measure of profitability that is adjusted for credit risk (expected loss based on the customer's rating) and for the opportunity cost of the regulatory capital absorbed. This is applied to the individual lending relationship, resulting in an estimate of the value added by current or potential exposures. By consolidating the controls applied to contain risk in the selection, management and monitoring phases, this tool makes it possible to identify poorly performing accounts more precisely and, therefore, take action to restore profitability. In order to orient the price of loans in a more efficient and fair manner, according to EVA logics, on the request for new finance or a review of relationships, the pricing procedure in use has also been revised and refined during the year.

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. Operating units are supported in these activities by a series of reports produced internally or by external contributors; with regard to the Parent Company, particular importance is attached to the report on changes in the risk factors at counterparty level calculated by the rating system. Specific head office units are dedicated to analysing the different information available, in order to assess continuously the merit class of each exposure and identify those potentially subject to excessive risk. The depth of this analysis is linked to the needs expressed. The bank also has a process of identification, resolution and monitoring of forbore exposures (i.e. credit exposures subject to concession, for which changes in contractual conditions or refinancing have been granted due to financial difficulties on the part of the debtor); forbore as an attribute is transversal to all loans, whatever their administrative status. In addition, a range of management information is generated periodically in order to monitor better, via meaningful analysis, the changes in portfolio risk.

With regard to the monitoring of loans that appear anomalous, all overdrawn situations are analysed carefully with a view to taking timely action in relation to problem positions.

The Problem Loans Management 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 the identification of potentially problematic counterparties and promotes actions to mitigate credit risk. These positions are appropriately analysed and, where there are clear signs of difficulty, they are classified as «impaired», depending on how serious the situation is.

The task of monitoring and managing anomalous loans is given to specific central offices, which make use of «corporate managers» located throughout the territory and who 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 Risk 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 counterparties that are persistently overdrawn. In order to deal with deteriorating relationships promptly and effectively supervise the overall quality of the loans portfolio, the bank has adopted monitoring processes and support tools that promote actions leading to the regularisation of the relationships.

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.

In accordance with the above regulations, specific procedures are followed for loan applications deemed to be «of greater significance», based on the size of the exposure and the amount of the request for new lines of credit. In particular, these applications and the related investigation report prepared by the loan investigation office are sent to the Large exposures office and rating desk, which assesses the consistency of the operation, at both the individual and consolidated levels, with the system of risk objectives identified in the RAF (Risk Appetite Framework).

In addition to the normal analysis by the loan investigation office, large exposures are also examined by the Large exposures office and rating desk in order to provide additional support for the approval process.

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. Clearly it is fundamental with regard to unsecured guarantees to check the quality of the guarantor's assets. This analysis is not limited to the initial phase of the relationship, but is repeated over the life of the relationship. If the guarantor is found to be economically unsuitable, the Bank reviews the relationship in order to verify the continued reliability of the borrowing counterparty.

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).

With regard to mortgage guarantees, the bank adopts reliable principles and standards for the valuation of properties in order to obtain realistic and detailed estimates of the value of the assets as collateral. The Bank has also 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, residential and commercial buildings are assessed at least once a year, partly with a view to complying with the supervisory instructions. Property must meet specific requirements in order to mitigate lending risk (value of the property independent of the creditworthiness of the counterparty, loan repayments independent of cash flows deriving from the asset, and residential property used directly or rented). These requirements are checked by the branches and the electronic credit application is processed for subsequent checks by the investigation office and the approval committees.

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» (Non-Performing Exposures), if there are serious signs of tension and, depending on the nature and gravity of the anomaly, in compliance with the EU Implementation Regulation 2015/227 which approved the Implementing Technical Standard (ITS), issued by the European Banking Authority (EBA), when they meet one of the following criteria:

- they are due from counterparties that are not deemed able to meet their loan obligations in full without the enforced collection of guarantees, regardless of whether or not any amounts are overdue, or the number of days that payments are past due;
- the debtor has large exposures (as defined with reference to the thresholds of significance established in the Supervisory regulations) that are past due by more than 90 days.

Depending on the nature and gravity of the anomaly, they are split into the following sub-categories:

- Non-performing loans, 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;
- Unlikely to pay, all exposures to debtors that, in the opinion of the Bank, are unlikely to pay in full (principal and/or interest) their loan obligations without recourse to the enforced collection of guarantees; this assessment is made regardless of whether or not there are any past due amounts (or instalments);
- Past due and/or impaired overdrawn, cash exposure, other than bad or unlikely to pay loans, which have remained unpaid and/or overdrawn continuously for more than 90 days according to the current regulations.

The loans not allocated to the above categories are deemed to be performing exposures.

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 loans, 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;
- unlikely to pay, an assessment is made of the probability that the debtor will meet its contractual obligations in full, in order to re-establish the original conditions of reliability and profitability of the relationship, or, if this is impossible, steps are taken to transfer the position to the non-performing category. For unlikely to pay loans subject to restructuring agreements, checks are made continuously to ensure that the agreed conditions are met;
- past due and/or impaired overdrawn exposures 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 unlikely-to-pay loan 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 loans and unlikely-to-pay loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery.



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 unlikely-to-pay 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.

With reference to past due and/or impaired overdrawn exposures, the adjustment is 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.

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	Unlikely-to-pay loans	Past due exposures, impaired	Past due exposures, not impaired	Other non-impaired exposures	Total 31/12/2016
1. Available-for-sale financial assets	-	317	-	-	6,309,924	6,310,241
2. Held-to-maturity investments	-	-	-	-	117,023	117,023
3. Loans and receivables with banks	-	639	-	-	2,759,267	2,759,906
4. Loans and receivables with customers	763,817	1,303,385	220,694	412,841	18,631,174	21,331,911
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-
Total 31/12/2016	763,817	1,304,341	220,694	412,841	27,817,388	30,519,081
Total 31/12/2015	730,320	1,153,055	415,460	598,639	25,272,377	28,169,851

The word exposures is understood as excluding equities and mutual funds.

The table below shows the analysis of the ageing of past due amounts by portfolio with reference to non-impaired financial assets, in line with IFRS 7 (paragraph 37, letter a).

Portfolio/quality	Past due exposures, not impaired					Other exposures not past due
	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		
4. loans and receivables with customers	271,314	47,698	73,682	20,147	18,631,174	

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Impaired assets			Not impaired assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Available-for-sale financial assets	317	-	317	6,309,924	-	6,309,924	6,310,241
2. Held-to-maturity investments	-	-	-	117,023	-	117,023	117,023
3. Loans and receivables with banks	639	-	639	2,759,267	-	2,759,267	2,759,906
4. Loans and receivables with customers	4,252,881	1,964,985	2,287,896	19,169,723	125,708	19,044,015	21,331,911
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-	-
Total 31/12/2016	4,253,837	1,964,985	2,288,852	28,355,937	125,708	28,230,229	30,519,081
Total 31/12/2015	4,114,402	1,815,567	2,298,835	26,006,928	135,912	25,871,016	28,169,851

With reference to financial assets at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial write-offs recorded over the years in relation to the above portfolios total € 74.241 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

Portfolio/quality	Assets obviously of poor quality		Other assets Net exposure
	Accumulated unrealised losses	Net exposure	
1. Financial assets held for trading	14	322	791,472
2. Hedging derivatives	-	-	-
Total 31/12/2016	14	322	791,472
Total 31/12/2015	47	614	1,669,519



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

Type of exposure/Amounts	Gross exposure				Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
	Impaired assets							
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
A. Cash exposures								
a) Non-performing loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
b) Unlikely-to-pay loans	639	-	-	-	-	-	-	639
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
c) Impaired past due exposures	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
d) Not Impaired past due exposures	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
e) Other not impaired exposure	-	-	-	-	3,000,470	-	-	3,000,470
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
Total A	639	-	-	-	3,000,470	-	-	3,001,109
B. Off-balance sheet exposures								
a) Impaired	-	-	-	-	-	-	-	-
b) Not impaired	-	-	-	-	816,914	-	-	816,914
Total B	-	-	-	-	816,914	-	-	816,914
Total (A+B)	639	-	-	-	3,817,384	-	-	3,818,023

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.1.4 Cash exposures to banks: dynamics of impaired exposures

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
A. Opening gross exposure	-	10,391	-
- of which: sold but not eliminated from the balance sheet	-	-	-
B. Increases	-	489	-
B.1 transfers from performing loans	-	-	-
B.2 transfers from other categories of impaired exposure	-	-	-
B.3 other increases	-	489	-
- of which: business combinations	-	-	-
C. Decreases	-	10,241	-
C.1 transfers to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	276	-
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposure	-	-	-
C.7 other decreases	-	9,965	-
- of which: business combinations	-	-	-
D. Closing gross exposure	-	639	-
- of which: sold but not eliminated from the balance sheet	-	-	-

A.1.5 Impaired cash exposures to banks: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance
A. Total opening adjustments	-	-	9,965	-	-	-
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-	-
B. Increases	-	-	-	-	-	-
B.1 adjustments	-	-	-	-	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposure	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
- business combinations	-	-	-	-	-	-
C. Decreases	-	-	9,965	-	-	-
C.1 write-backs on valuation	-	-	-	-	-	-
C.2 write-backs due to collections	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of impaired exposure	-	-	-	-	-	-
- business combinations	-	-	-	-	-	-
C.6 other decreases	-	-	9,965	-	-	-
D. Total closing adjustments	-	-	-	-	-	-
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-	-



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

Type of exposure/Amounts	Gross exposure				Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
	Impaired assets							
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
A. Cash exposures								
a) Non-performing loans	14,756	7,357	56,514	1,972,911	-	1,287,721	-	763,817
- of which: exposures subject to forbearance	9,053	178	6,354	51,120	-	40,886	-	25,819
b) Unlikely-to-pay loans	790,425	51,372	204,514	899,544	-	642,153	-	1,303,702
- of which: exposures subject to forbearance	323,930	10,045	27,324	88,312	-	131,045	-	318,566
c) Impaired past due exposures	58,648	33,621	56,537	106,999	-	35,111	-	220,694
- of which: exposures subject to forbearance	4,697	2,838	3,081	12,089	-	3,255	-	19,450
d) Not Impaired past due exposures	-	-	-	-	416,718	-	3,877	412,841
- of which: exposures subject to forbearance	-	-	-	-	36,748	-	427	36,321
e) Other not impaired exposure	-	-	-	-	25,639,995	-	121,831	25,518,164
- of which: exposures subject to forbearance	-	-	-	-	411,584	-	4,587	406,997
Total A	863,829	92,350	317,565	2,979,454	26,056,713	1,964,985	125,708	28,219,218
B. Off-balance sheet exposures								
a) Impaired	93,262	-	-	-	-	17,913	-	75,349
b) Not impaired	-	-	-	-	4,913,292	-	4,623	4,908,669
Total B	93,262	-	-	-	4,913,292	17,913	4,623	4,984,018
Total (A+B)	957,091	92,350	317,565	2,979,454	30,970,005	1,982,898	130,331	33,203,236

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 Impaired cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
A. Opening gross exposure	1,875,221	1,745,394	483,397
- of which: sold but not eliminated from the balance sheet	725	952	1,768
B. Increases	430,229	702,341	171,447
B.1 transfers from performing loans	60,872	304,148	150,229
B.2 transfers from other categories of impaired exposure	300,587	237,141	-
B.3 other increases	68,770	161,052	21,218
C. Decreases	253,912	501,880	399,039
C.1 transfers to performing loans	345	57,519	96,804
C.2 write-offs	114,808	-	-
C.3 collections	116,893	125,626	18,654
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposure	3,962	265,759	268,007
C.7 other decreases	17,904	52,976	15,574
D. Closing gross exposure	2,051,538	1,945,855	255,805
- of which: sold but not eliminated from the balance sheet	34	3,240	2,833

A.1.7bis Cash exposures to customers: dynamics of exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: not impaired
A. Opening gross exposure	367,845	253,934
- of which: sold but not eliminated from the balance sheet	-	-
B. Increases	260,485	313,361
B.1 transfers from performing loans not subject to forbearance	43,675	220,622
B.2 transfers from performing loans subject to forbearance	31,180	-
B.3 transfers from performing loans subject to forbearance and impaired	-	32,022
B.4 other increases	185,630	60,717
C. Decreases	89,309	118,963
C.1 transfers to performing loans not subject to forbearance	-	51,599
C.2 transfers to performing loans subject to forbearance	32,022	-
C.3 transfers to performing loans subject to forbearance and impaired	-	31,180
C.4 write-offs	-	-
C.5 collections	24,528	14,573
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	32,759	21,611
D. Closing gross exposure	539,021	448,332
- of which: sold but not eliminated from the balance sheet	-	-



A.1.8 Impaired cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance
A. Total opening adjustments	1,144,901	18,924	592,764	98,849	67,937	2,728
- of which: sold but not eliminated from the balance sheet	177	-	157	-	223	-
B. Increases	304,737	24,892	245,418	72,065	21,500	2,378
B.1 adjustments	45,676	115	48,555	14,598	1,484	431
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposure	116,691	12,527	36,982	1,000	-	-
B.4 other increases	142,370	12,250	159,881	56,467	20,016	1,947
C. Decreases	161,917	2,930	196,029	39,869	54,326	1,852
C.1 write-backs on valuation	29,552	968	47,960	10,403	44	-
C.2 write-backs due to collections	9,883	324	2,790	605	689	9
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	114,808	-	-	-	-	-
C.5 transfers to other categories of impaired exposure	3,484	-	111,680	12,239	38,509	1,288
C.6 other decreases	4,190	1,638	33,599	16,622	15,084	555
D. Total closing adjustments	1,287,721	40,886	642,153	131,045	35,111	3,254
- of which: sold but not eliminated from the balance sheet	7	-	500	-	357	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash loans and off-balance sheet items by external rating class

Exposure	External rating classes							Unrated	Total 31/12/2016
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
A. Cash exposures	209,887	6,110,391	1,353,412	414,965	45,891	-	23,557,397	31,691,943	
B. Derivatives	-	23,376	2,905	394	-	-	63,873	90,548	
B.1 Financial derivatives	-	23,376	2,905	394	-	-	63,873	90,548	
B.2 Credit derivatives	-	-	-	-	-	-	-	-	
C. Guarantees given	11,666	67,195	206,293	90,137	60,077	-	3,945,555	4,380,923	
D. Commitments to make loans	49,455	-	8,006	23,214	5,764	-	1,243,022	1,329,461	
E. Other	-	-	-	-	-	-	-	-	
Total	271,008	6,200,962	1,570,616	528,710	111,732	-	28,809,847	37,492,875	

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 a 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 Distribution of cash loans 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	13,171	15,147	68,134	218,157	471,050	715,125	397,252
B. Derivatives	-	5	159	33	62	4	25
B.1 Financial derivatives	-	5	159	33	62	4	25
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	226	803	1,548	4,517	3,841	4,468	11,082
D. Commitments to make loans	4	-	610	732	4,041	1,849	5,534
E. Other	-	-	-	-	-	-	-
Total	13,401	15,955	70,451	223,439	478,994	721,446	413,893

SMALL ECONOMIC OPERATORS - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	34,519	99,186	177,843	315,174	256,485	214,222	159,011
B. Derivatives	149	6	23	7	4	5	51
B.1 Financial derivatives	149	6	23	7	4	5	51
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	6,370	5,418	9,347	5,548	994	7,920	7,016
D. Commitments to make loans	206	78	1,008	976	708	3,557	2,198
E. Other	-	-	-	-	-	-	-
Total	41,244	104,688	188,221	321,705	258,191	225,704	168,276

SMALL BUSINESSES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	24,817	34,482	88,934	157,428	183,385	228,150	228,631
B. Derivatives	8	7	15	5	3	18	36
B.1 Financial derivatives	8	7	15	5	3	18	36
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	15,501	12,479	16,604	17,657	22,587	22,849	16,394
D. Commitments to make loans	279	1,891	769	2,539	2,303	1,499	1,833
E. Other	-	-	-	-	-	-	-
Total	40,605	48,859	106,322	177,629	208,278	252,516	246,894

08	09	10	11	12	13	Insolvent	Total 31/12/2016
356,016	217,348	116,766	153,333	136,056	127,357	384,157	3,389,069
21	307	51	9	1	1	62	740
21	307	51	9	1	1	62	740
-	-	-	-	-	-	-	-
7,492	2,479	2,816	1,404	1,219	1,018	535	43,448
2,083	1,556	725	347	730	464	1,731	20,406
-	-	-	-	-	-	-	-
365,612	221,690	120,358	155,093	138,006	128,840	386,485	3,453,663

08	09	10	11	12	13	Insolvent	Total 31/12/2016
152,790	126,426	126,042	97,179	73,099	76,949	254,578	2,163,503
4	21	-	14	-	1	12	297
4	21	-	14	-	1	12	297
-	-	-	-	-	-	-	-
5,237	6,392	3,467	2,763	1,576	1,612	1,198	64,858
906	839	106	122	26	50	450	11,230
-	-	-	-	-	-	-	-
158,937	133,678	129,615	100,078	74,701	78,612	256,238	2,239,888

08	09	10	11	12	13	Insolvent	Total 31/12/2016
182,986	140,734	120,936	94,648	82,041	86,457	346,448	2,000,077
-	4	8	10	-	-	5	119
-	4	8	10	-	-	5	119
-	-	-	-	-	-	-	-
10,420	8,984	7,387	3,720	3,308	3,567	9,627	171,084
7,524	4,392	4,078	336	856	252	648	29,199
-	-	-	-	-	-	-	-
200,930	154,114	132,409	98,714	86,205	90,276	356,728	2,200,479



SMEs - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	115,645	337,301	434,268	570,451	594,541	783,268	761,814
B. Derivatives	325	491	187	391	427	1,686	1,066
B.1 Financial derivatives	325	491	187	391	427	1,686	1,066
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	58,102	125,544	169,938	102,923	203,137	93,050	76,134
D. Commitments to make loans	1,600	7,265	7,762	8,999	33,174	115,633	15,575
E. Other	-	-	-	-	-	-	-
Total	175,672	470,601	612,155	682,764	831,279	993,637	854,589

LARGE AND PUBLIC ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	17,594	35,989	182,673	380,064	137,708	447,665	323,167
B. Derivatives	95	35	227	55	-	7,071	1
B.1 Financial derivatives	95	35	227	55	-	7,071	1
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	61,363	41,284	174,489	162,496	193,500	350,047	267,684
D. Commitments to make loans	-	4,606	151,325	-	4,000	83,614	24,506
E. Other	-	-	-	-	-	-	-
Total	79,052	81,914	508,714	542,615	335,208	888,397	615,358

NON-RESIDENT NON-FINANCIAL BUSINESSES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	-	9,587	-	903	2,944	115,091	11,083
B. Derivatives	-	-	-	-	-	-	-
B.1 Financial derivatives	-	-	-	-	-	-	-
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	-	326	-	37,822	132,298	215	29,958
D. Commitments to make loans	-	-	-	-	-	-	-
E. Other	-	-	-	-	-	-	-
Total	-	9,913	-	38,725	135,242	115,306	41,041



08	09	10	11	12	13	Insolvent	Total 31/12/2016
477,133	386,136	310,607	262,953	238,669	133,983	1,201,424	6,608,193
529	41	-	22	10	-	150	5,325
529	41	-	22	10	-	150	5,325
-	-	-	-	-	-	-	-
48,285	42,371	31,650	38,551	17,587	3,604	21,415	1,032,291
11,916	14,696	11,019	6,600	772	6,222	14,846	256,079
-	-	-	-	-	-	-	-
537,863	443,244	353,276	308,126	257,038	143,809	1,237,835	7,901,888

08	09	10	11	12	13	Insolvent	Total 31/12/2016
353,029	65,470	815	-	-	-	52,229	1,996,403
-	-	-	-	-	-	-	7,484
-	-	-	-	-	-	-	7,484
-	-	-	-	-	-	-	-
187,142	36,244	12,670	-	3,004	-	16,792	1,506,715
31,804	10,217	-	-	-	-	6,871	316,943
-	-	-	-	-	-	-	-
571,975	111,931	13,485	-	3,004	-	75,892	3,827,545

08	09	10	11	12	13	Insolvent	Total 31/12/2016
4,502	3,967	5,401	-	2	-	5,148	158,628
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,253	1,678	-	-	-	-	-	204,550
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,755	5,645	5,401	-	2	-	5,148	363,178



CORPORATE NON-PROFIT INSTITUTIONS - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	2,005	6,902	8,755	16,350	15,028	39,942	45,111
B. Derivatives	-	-	-	-	-	80	-
B.1 Financial derivatives	-	-	-	-	-	80	-
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	18,164	41,723	17,449	9,516	13,560	7,212	896
D. Commitments to make loans	5,000	-	-	-	-	-	-
E. Other	-	-	-	-	-	-	-
Total	25,169	48,625	26,204	25,866	28,588	47,234	46,007

RETAIL NON-PROFIT INSTITUTIONS - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. Cash exposures	2,168	689	2,287	3,666	2,916	11,338	2,152
B. Derivatives	-	-	-	-	199	-	-
B.1 Financial derivatives	-	-	-	-	199	-	-
B.2 Credit derivatives	-	-	-	-	-	-	-
C. Guarantees given	1,110	628	1,303	894	1,761	252	557
D. Commitments to make loans	-	50	-	-	-	-	-
E. Other	-	-	-	-	-	-	-
Total	3,278	1,367	3,590	4,560	4,876	11,590	2,709

BANKS - Exposure	01	02	03	04
A. Cash exposures	-	-	50,156	70,128
B. Derivatives	-	-	234	730
B.1 Financial derivatives	-	-	234	730
B.2 Credit derivatives	-	-	-	-
C. Guarantees given	-	-	24,711	21
D. Commitments to make loans	-	-	-	-
E. Other	-	-	-	-
Total	-	-	75,101	70,879

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 first class identifies customers with the lowest risk, while the thirteenth class indicates the maximum risk; situations of insolvency go into another category;

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 31/12/2016
58,048	2,665	15,184	-	-	-	4,369	214,359
-	-	-	-	-	-	-	80
-	-	-	-	-	-	-	80
-	-	-	-	-	-	-	-
2,664	-	-	-	-	-	349	111,533
-	-	-	-	-	-	16	5,016
-	-	-	-	-	-	-	-
60,712	2,665	15,184	-	-	-	4,734	330,988

08	09	10	11	12	13	Insolvent	Total 31/12/2016
4,450	1,086	1,288	587	119	807	2,250	35,803
-	-	-	-	-	-	18	217
-	-	-	-	-	-	18	217
-	-	-	-	-	-	-	-
659	331	8	-	29	29	9	7,570
-	-	100	-	-	-	-	150
-	-	-	-	-	-	-	-
5,109	1,417	1,396	587	148	836	2,277	43,740

Internal rating classes							Total 31/12/2016
05	06	07	08	09	Insolvent		
2,090	23,437	18,014	2,281	22,467	-		188,573
-	-	680	-	-	-		1,644
-	-	680	-	-	-		1,644
-	-	-	-	-	-		-
-	19	-	-	424	-		25,175
1,091	-	-	-	333	-		1,424
-	-	-	-	-	-		-
3,181	23,456	18,694	2,281	23,224	-		216,816



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. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. 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 means that the real value of the guarantees may exceed that shown in the table.

A.3.1 Guaranteed exposures to banks

	Net exposure	Secured guarantees (1)			Other secured guarantees
		Buildings mortgaged	Buildings under finance lease	Securities	
1. Guaranteed cash exposures	181,830	-	-	1,267	46,950
1.1 fully guaranteed	71,783	-	-	1,267	-
- of which: impaired	-	-	-	-	-
1.2 partially guaranteed	110,047	-	-	-	46,950
- of which: impaired	-	-	-	-	-
2. Guaranteed off-balance sheet exposures:	15,854	-	-	73	1,600
2.1 fully guaranteed	14,663	-	-	60	1,289
- of which: impaired	-	-	-	-	-
2.2 partially guaranteed	1,191	-	-	13	311
- of which: impaired	-	-	-	-	-

A.3.2 Guaranteed exposures to customers

	Net exposure	Secured guarantees (1)			Other secured guarantees
		Buildings mortgaged	Buildings under finance lease	Securities	
1. Guaranteed cash exposures:	12,806,528	8,900,560	-	1,046,645	152,767
1.1. fully guaranteed	12,143,059	8,896,230	-	943,058	105,953
- of which: impaired	1,933,836	1,714,268	-	9,070	4,347
1.2. partially guaranteed	663,469	4,330	-	103,587	46,814
- of which: impaired	103,310	3,813	-	11,452	1,974
2. Guaranteed off-balance sheet exposures:	1,365,471	103,137	-	51,632	57,746
2.1. fully guaranteed	1,190,188	103,137	-	41,966	41,034
- of which: impaired	32,237	4,856	-	1,565	2,103
2.2. partially guaranteed	175,283	-	-	9,666	16,712
- of which: impaired	3,884	-	-	362	389

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2016
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	4,306	-	73,826	-	126,349	
-	-	-	-	-	4,306	-	66,210	-	71,783	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	7,616	-	54,566	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	13,790	-	27	-	15,490	
-	-	-	-	-	13,314	-	-	-	14,663	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	476	-	27	-	827	
-	-	-	-	-	-	-	-	-	-	

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2016
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	64,969	9,588	16,649	2,355,494	12,546,672	
-	-	-	-	-	34,771	8,139	13,247	2,082,164	12,083,562	
-	-	-	-	-	2,506	1,567	345	188,927	1,921,030	
-	-	-	-	-	30,198	1,449	3,402	273,330	463,110	
-	-	-	-	-	2,071	423	418	70,216	90,367	
-	-	-	-	-	55,790	-	6,066	1,006,131	1,280,502	
-	-	-	-	-	2,001	-	1,622	970,944	1,160,704	
-	-	-	-	-	-	-	-	16,795	25,319	
-	-	-	-	-	53,789	-	4,444	35,187	119,798	
-	-	-	-	-	143	-	-	2,071	2,965	

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 counterparty 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)

Exposures/Counterparties	Government			Other public entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures						
A.1 Non-performing loans	-	-	-	-	-	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.2 Unlikely-to-pay loans	-	-	-	-	-	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.3 Past due exposures, impaired	-	-	-	-	-	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.4 Not impaired exposures	6,734,686	-	-	70,887	-	33
- of which exposures subject to forbearance	-	-	-	-	-	-
Total A	6,734,686	-	-	70,887	-	33
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Unlikely-to-pay loans	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Not impaired exposures	49,570	-	-	26,810	-	36
Total B	49,570	-	-	26,810	-	36
Total (A+B) 31/12/2016	6,784,256	-	-	97,697	-	69
Total (A+B) 31/12/2015	7,343,672	-	-	143,670	-	-

B.2 Territorial distribution of cash and off-balance sheet exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures				
A.1 Non-performing loans	757,700	1,253,189	6,109	30,682
A.2 Unlikely-to-pay loans	1,300,577	641,365	2,354	459
A.3 Past due exposures, impaired	219,610	34,943	860	142
A.4 Not impaired exposures	24,796,714	124,604	1,069,667	873
Total A	27,074,601	2,054,101	1,078,990	32,156
B. Off-balance sheet exposures				
B.1 Non-performing loans	6,365	8,311	-	-
B.2 Unlikely-to-pay loans	64,496	9,597	29	1
B.3 Other impaired assets	4,459	3	-	-
B.4 Not impaired exposures	4,698,919	4,328	203,786	287
Total B 4,774,239	22,239	203,815	288	5,836
Total A+B 31/12/2016	31,848,840	2,076,340	1,282,805	32,444
Total A+B 31/12/2015	31,525,847	1,931,498	509,114	25,089

As regards the geographical distribution of exposures to customers resident in Italy, note that assets included under «Loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (74.3%) and Centre (16%), followed by the North East (8.8%) and the South and Islands (0.9%).

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
8,185	40,859	-	-	-	-	619,720	1,070,913	-	135,912	175,949	-
-	-	-	-	-	-	24,523	39,907	-	1,296	979	-
26,173	22,177	-	-	-	-	1,075,889	556,178	-	201,640	63,798	-
7,356	7,866	-	-	-	-	276,857	111,911	-	34,353	11,268	-
1,825	317	-	-	-	-	123,318	20,090	-	95,551	14,704	-
57	10	-	-	-	-	14,910	2,499	-	4,483	746	-
4,604,100	-	16,550	12,858	-	14	10,804,799	-	101,275	3,703,675	-	7,836
-	-	-	-	-	-	383,590	-	4,829	59,728	-	185
4,640,283	63,353	16,550	12,858	-	14	12,623,726	1,647,181	101,275	4,136,778	254,451	7,836
-	-	-	-	17	-	6,154	8,000	-	211	295	-
723	67	-	-	-	-	61,222	9,268	-	2,580	263	-
-	-	-	-	-	-	3,938	3	-	521	-	-
779,308	-	124	3,358	-	5	3,762,167	-	4,181	287,456	-	277
780,031	67	124	3,358	17	5	3,833,481	17,271	4,181	290,768	558	277
5,420,314	63,420	16,674	16,216	17	19	16,457,207	1,664,452	105,456	4,427,546	255,009	8,113
3,971,997	53,322	13,195	11,753	17	5	16,234,215	1,539,980	118,175	4,386,484	226,866	9,047

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
8	20	-	3,806	-	24
732	322	39	7	-	-
220	26	2	-	2	-
39,339	24	22,680	204	2,605	3
40,299	392	22,721	4,017	2,607	27
-	-	-	-	-	1
-	-	-	-	-	-
-	-	-	-	-	-
5,836	8	19	-	109	-
8	19	-	109	1	-
46,135	400	22,740	4,017	2,716	28
47,408	233	7,195	3,756	2,227	31



B.3 Territorial distribution of cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures				
A.1 Non-performing loans	-	-	-	-
A.2 Unlikely-to-pay loans	639	-	-	-
A.3 Past due exposures, impaired	-	-	-	-
A.4 Not impaired exposures	1,670,973	-	1,254,474	-
Total A	1,671,612	-	1,254,474	-
B. Off-balance sheet exposures				
B.1 Non-performing loans	-	-	-	-
B.2 Unlikely-to-pay loans	-	-	-	-
B.3 Other impaired assets	-	-	-	-
B.4 Not impaired exposures	66,621	-	741,744	-
Total B	66,621	-	741,744	-
Total A+B 31/12/2016	1,738,233	-	1,996,218	-
Total A+B 31/12/2015	973,790	9,965	2,020,190	-

B.4 Significant risks

	31/12/2016	31/12/2015
Number of positions	12	10
Book value - nominal exposure	13,099,806	12,382,243
Weighted value - risk position	3,734,670	3,244,018

The exposure limit of 10% of capital for supervisory purposes - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers.

On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 6,125 million; risk position, 51 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,676 million; risk position, 263 million), principally in relation to lending and funding repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
41,098	-	31,088	-	2,837	-
41,098	-	31,088	-	2,837	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
729	-	7,371	-	450	-
729	-	7,371	-	450	-
41,827	-	38,459	-	3,287	-
32,042	-	34,466	-	3,226	-



C. Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

Type of underlying asset/Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	-	-	-	-	-	-
Mortgages	62,026	13,155	-	-	-	-
Alba 6 Spv 27.06.2014/25.10.2045	-	-	-	-	-	-
Lease contracts	298,119	924	-	-	-	-

C.3 Special purpose vehicle for securitisation

Name	Registered offices of the company	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	NO	402,081
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	277,679

C.4 Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv Srl and BNT Portfolio Spv Srl have not been consolidated as there are not the requirements of IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-

Assets			Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior	
-	14,820	299,047	-	75,168	
-	14,821	291,653	-	-	



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

Technical forms/Portfolio	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets		
	A	B	C	A	B	C	A	B	C
A. Cash assets	-	-	-	-	-	-	610,161	-	-
1. Fixed-yield securities	-	-	-	-	-	-	610,161	-	-
2. Variable-yield securities	-	-	-	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-	-	-	-
Total 31/12/2016	-	-	-	-	-	-	610,161	-	-
<i>of which: impaired</i>	-	-	-	-	-	-	-	-	-
Total 31/12/2015	136,022	-	-	-	-	-	587,925	-	-
<i>of which: impaired</i>	-	-	-	-	-	-	-	-	-

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 at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total 31/12/2016
1. Due to customers	-	-	610,237	-	-	-	610,237
a) for assets recognised in full	-	-	610,237	-	-	-	610,237
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 31/12/2016	-	-	610,237	-	-	-	610,237
Total 31/12/2015	139,300	-	587,769	-	-	-	727,069



Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2016	31/12/2015
-	-	-	-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	610,161	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	723,947
-	-	-	-	-	-	-	-	-	-	-



E.3 Disposals with recourse limited solely to the assets sold: fair value

Technical forms/Portfolio	Financial assets held for trading		Financial assets at fair value through profit or loss		Available-for-sale financial assets	
	A	B	A	B	A	B
A. Cash assets	-	-	-	-	610,161	-
1. Fixed-yield securities	-	-	-	-	610,161	-
2. Variable-yield securities	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-
Total assets	-	-	-	-	610,161	-
C. Associated liabilities	-	-	-	-	-	-
1. Due to customers	-	-	-	-	(610,237)	-
2. Due to banks	-	-	-	-	-	-
Total liabilities	-	-	-	-	(610,237)	-
Net value 31/12/2016	-	-	-	-	(76)	-
Net value 31/12/2015	(3,278)	-	-	-	156	-

E4. Covered bond operations

On 6 November 2013, the Board of Directors of the Parent Company 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 Company.

On 30 May 2014, 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.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract.

Two additional assignments were carried out in 2016. The first, on 1 February 2016, relating to a total portfolio of € 576 million of performing loans in connection with the issue of a second series of covered bonds totalling € 500 million on 4 April 2016. The second, on 1 November 2016, relating to a portfolio of performing loans totalling € 226 million.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IAS 39. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Company 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;
- 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

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	31/12/2016	31/12/2015
-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(610,237)	(727,069)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(610,237)	(727,069)
-	-	-	-	-	-	(76)	-
-	-	-	-	-	-	-	(3,122)

counterparts involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are 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 srl, 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
Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500.000.000
Type of rate	Fixed
Parameter	0.750%
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 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.

As regards the treatment of derivative instruments (derivatives in the strictest sense), the offices deal in interest-rate options and interest rate swaps.

Compared with last year, there has been a significant reduction in bond exposure, especially as regards Italian government bonds. This resulted in an increase in the weighting of variable-yield securities within the entire securities portfolio held for trading (excluding those servicing pensions and similar obligations of employees), which represent 22.9% compared with 9.6% last 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.

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.

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 are based on a system for the limitation of risk within the financial activities, especially market risk (exchange rate, share price).

This system has the following characteristics. 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 financial business. With reference to the maximum acceptable loss determined by the Board, the Managing Director establishes appropriate potential exposure limits in terms of the Value at Risk (VaR). The Financial and Operating Risk Office, within the Risk Control Department, measures risk on a daily basis, produces the related reports and monitors compliance with credit limits. The «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets in compliance with the identified exposure limits.

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 methodology used for the analysis of sensitivity to interest rate risk 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.

VaR is a probabilistic estimate of the maximum amount that can be lost with reference to a specific time horizon and a given probability level (consistent with the investor's level of risk aversion).

The model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known riskmetrics methodology. According to this methodology, the total risk arises from the sensitivity of each position to changes in market factors and in the volatility of their yields, as well as their degree of correlation. At the reporting date, the following assets in terms of financial instruments exposed to interest rate risk included in the trading portfolios held for supervisory purposes are covered by the VaR model: for interest rate risk: debt securities, repurchase agreements and forward contracts on exchange rates, in addition to other financial derivatives (derivatives in the strictest sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps); for price risk: variable-yield securities. 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 and warrants are treated using the delta-gamma methodology, which is more able to reflect the risk profile of transactions where the relationship between the value of the position and the price of the underlying instrument (risk factor) is not linear.

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.

The policies and procedures for comparison of the model's results with actual results («back-testing») regarding the trading portfolio for supervisory purposes, limited to debt securities on the one hand, and variable-yield securities and mutual funds on the other, consist of a comparison between the daily VaR and the change in market value on the following day for the same positions used to calculate the VaR (theoretical loss) and the difference between capital gains, write-backs, capital losses, and the realised gains and losses on transactions in the shares held in the portfolio, as reported by the securities procedure (actual loss). For back-testing purposes, the VaR information and the theoretical and actual losses include both the price risk and the exchange risk element deriving from shares, funds and sicavs denominated in foreign currencies.

As for the changes that have taken place in the risk exposure, measured in terms of VaR, compared with the previous year, based on interest rate risk the total average VaR has gone up from 1.705 million to 2.475 mainly because of fixed-yield securities (from 1.700 million to 2.474); on the Price risk the global VaR at period end decreased from 6.355 million to 3.594.

In addition, the ALM procedure generated the following data with regard to the fixed-yield securities held in the trading portfolio for supervisory purposes, funding and lending repo transactions, forward exchange rate agreements, interest rate options and interest rate swaps: the effect of a change in interest rates of +200 basis points over twelve months on the future interest margin – the difference between the future interest income and the future interest expense – would be 18.567 million, whereas a change in interest rates of -200 basis points would increase in the interest margin by 1.067 million euro; the effect of an instantaneous change in interest rates by +200 basis points on equity – the difference between the present value of assets and liabilities – would be a loss of 35.413 million, whereas a change in interest rates by -200 basis would result in a profit of 0.264 million euro.



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	-	873,050	317,626	8,040	72,768	126,973	60	-
1.1 Fixed-yield securities	-	174,113	317,626	8,040	72,768	126,973	60	-
- with early repayment option	-	27,406	-	-	-	3,979	-	-
- other	-	146,707	317,626	8,040	72,768	122,994	60	-
1.2 Other assets	-	698,937	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	4,762,956	681,238	200,919	1,065,778	629,258	5,828	-
3.1 With underlying security	-	49,455	-	-	49,400	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	49,455	-	-	49,400	-	-	-
+ Long positions	-	-	-	-	49,400	-	-	-
+ Short positions	-	49,455	-	-	-	-	-	-
3.2 Without underlying security	-	4,713,501	681,238	200,919	1,016,378	629,258	5,828	-
- Options	-	9,738	9,531	28,512	257,107	11,770	768	-
+ Long positions	-	4,879	4,771	14,267	128,554	5,885	384	-
+ Short positions	-	4,859	4,760	14,245	128,553	5,885	384	-
- Other derivatives	-	4,703,763	671,707	172,407	759,271	617,488	5,060	-
+ Long positions	-	2,399,923	337,635	86,200	379,354	308,744	2,530	-
+ Short positions	-	2,303,840	334,072	86,207	379,917	308,744	2,530	-

**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	-	-	14	-	-	-	-	-
1.1 Fixed-yield securities	-	-	14	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	14	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other assets	-	-	-	-	-	-	-	-
3. Financial derivatives	-	3,140,142	1,491,482	508,474	938,285	270,974	5,774	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	3,140,142	1,491,482	508,474	938,285	270,974	5,774	-
- Options	-	8,580	7,285	15,293	996	-	-	-
+ Long positions	-	4,291	3,646	7,653	499	-	-	-
+ Short positions	-	4,289	3,639	7,640	497	-	-	-
- Other Derivati	-	3,131,562	1,484,197	493,181	937,289	270,974	5,774	-
+ Long positions	-	1,518,042	740,237	246,703	468,879	135,487	2,887	-
+ Short positions	-	1,613,520	743,960	246,478	468,410	135,487	2,887	-



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	127,178	-	-	-	2,956	15,873	4
- 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	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
D. Derivatives on stock indices							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-



3. Trading portfolio for supervisory purposes – internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. Cash assets	2,474
1.1 Fixed-yield securities	2,474
1.2 Other assets	-
2. Cash liabilities	-
2.1 Repurchase agreements	-
2.2 Other assets	-
3. Financial derivatives	3
3.1 With underlying security	-
- Options	-
+ Long positions	-
+ Short positions	-
- Other derivatives	-
+ Long positions	-
+ Short positions	-
3.2 Without underlying security	3
- Options	-
+ Long positions	-
+ Short positions	-
- Other derivatives	3
+ Long positions	2,215
+ Short positions	2,215
Total interest rate risk	2,475
A. Variable-yield securities	3,533
- Long positions	3,533
- 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	-
- Short positions	-
D. Derivatives on stock indices	-
- Long positions	-
- Short positions	-
Total Price risk transactions table 2	3,533
Mutual funds	708
Forward contracts on other instruments (goods)	-
- Long positions	443
- Short positions	443
Options on other instruments (goods)	-
- Long positions	-
- Short positions	-
Total Price risk	3,594
Total Interest rate risk and price risk	5,019

Interest rate risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	1,456
minimum	547
maximum	3,653

With regard to the distribution of VaR during the year, the average VaR for each month in 2016 is presented below.

January	1,499
February	1,391
March	1,290
April	1,098
May	885
June	891
July	962
August	675
September	1,739
October	1,391
November	2,811
December	2,902

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 8 out of 252 observations, the number of days on which theoretical losses exceeded VaR was 7 out of 252 observations.

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), forward contracts on exchange rates, options on interest rates, interest rate swaps, 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 +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April.



The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date.

In thousands of euro	Change in interest margin				31/12/2015 at period end
	31/12/2016				
Exposure to risk	at period end	average	minimum	maximum	
positive parallel shift	18,567	24,058	33,403	17,586	26,766
negative parallel shift	1,067	234	1,067	-134	-15
flat rotary shift	36,163	46,285	64,820	34,225	n.d.
steep rotary shift	1,065	255	1,065	-247	n.d.
short-term positive shift	37,670	48,223	67,416	35,587	n.d.
short-term negative shift	1,065	255	1,065	-246	n.d.
long-term positive shift	-104	3	167	-104	n.d.
long-term negative shift	109	15	109	-38	n.d.
medium-term positive shift	697	1,442	2,425	676	n.d.
medium-term negative shift	233	44	233	-59	n.d.
worst-case scenario	-104	3	109	-247	n.d.

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April.

Equity is understood as being the difference between the present value assets and liabilities items.

In thousands of euro	Change in equity value				31/12/2015 at period end
	31/12/2016				
Exposure to risk	at period end	average	minimum	maximum	
positive parallel shift	-27,667	-35,413	-26,368	-41,865	-38,315
negative parallel shift	2,264	264	4,166	-4,550	6,841
flat rotary shift	-32,885	-44,541	-29,576	-56,186	n.d.
steep rotary shift	2,248	264	4,194	-4,568	n.d.
short-term positive shift	-42,103	-54,791	-38,922	-67,049	n.d.
short-term negative shift	2,264	264	4,165	-4,550	n.d.
long-term positive shift	-12,352	-14,977	-12,352	-16,315	n.d.
long-term negative shift	2,292	-513	2,338	-4,569	n.d.
medium-term positive shift	-22,077	-25,889	-22,077	-27,676	n.d.
medium-term negative shift	2,292	-319	2,808	-4,567	n.d.
worst-case scenario	-42,103	-54,791	-38,922	-67,049	n.d.

Price risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	7,652
minimum	3,244
maximum	16,372

With regard to the distribution of VaR during the year, the average VaR for each month in 2016 is presented below.

January	7,939
February	11,568
March	9,413
April	7,483
May	6,356
June	8,910
July	13,308
August	8,779
September	5,214
October	4,813
November	4,313
December	3,868

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 7 out of 252 observations, the number of days on which theoretical losses exceeded VaR was 7 out of 252 observations.

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 sight deposits, but with appropriate modelling of the maturities) and fixed-rate lending transactions (principally long-term loans and fixed-yield securities); 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 processes for the management and control of interest rate risk are based on a system of thresholds, with reference to which, as defined in the context of the Risk Appetite Framework, the propensity to accept interest-rate risk in relation to the bank book is expressed in quantitative terms by the assignment of a value limit to the percentage quotient between the capital required to cover the risk measured using the «Sensitivity Analysis in Full Evaluation» method, under stable conditions, with the simulation of a parallel shift in the reference curves by +/- 200 basis points, and total own funds. Monitoring of this indicator is done monthly. The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the principal assumptions and underlying parameters, the model used supports «Sensitivity Analysis in Full Evaluation» for analysing the sensitivity of equity and the «Repricing Analysis» for analysing the sensitivity of net interest income, only from a static standpoint, considering solely the transactions outstanding at the reference date. Specifically, the first methodology is used to determine the flows of principal and interest generated by the individual assets and liabilities held in the bank book. This calculation uses, where necessary, the coupon rate applied to each instruments or, if not predetermined, the market curve associated with the risk factor to which the rate is indexed. Next, the present values of the assets and liabilities concerned are calculated by summing their cash flows as discounted using the yield curves.

Then these curves are subjected to a parallel shock of +/- 200 basis points, in order to simulate other scenarios involving, respectively, an increase and a decrease in market rates. The flows of interest and principal, as redetermined with reference to the modified curves, are discounted with reference to the new rate curves to obtain the «stressed discounted value» of each asset and liability.

In the event that a downward or upward shift of the market curves produced negative interest rate values, they would be subject to a restriction that interest rates cannot be negative.

Then, for each operation, the change in present value is calculated as the difference between the «stressed present value» and the «non-stressed present value».

In this way, the model estimates the sensitivity of the bank book, in terms of change in the economic value of equity due to an increase or decrease in market rates, by summing for each operation in the bank book the change in present value obtained above.

The results of the model are asymmetrical as, in the case of a downward or upward shift in the curves, the interest rate values would be subject to the restriction that interest rates cannot be negative; furthermore, the bank book may contain transactions with a cap or a floor on the coupon rate. In this case, for the sake of prudence, the risk exposure is taken to be the greatest sensitivity of the bank book obtained from the two rate scenarios.

In addition, euro loan and deposit current accounts and savings deposits, which are highly stable in volume terms and whose rates are not usually established by contract, are represented by behavioural models that take account of the persistence of their volume and their elasticity with respect to changes in market rates.

Another type of operations subject to its own modelling from December 2016 is mortgages and unsecured loans in euro granted by the Parent Company. In these operations, the borrower has an early extinction option with respect to the contractual maturity of the loan, which can be exercised at any time.

The adoption of a specific behavioural model makes it easier to track this situation, which is known as «Prepayment». This model is defined using a historical series of a suitable length in terms of time, containing prepayments and other variables that can be used to differentiate behaviours.

The above analyses are supplemented by the results of applying the repricing analysis methodology that, following parallel shocks to the market rate curves of +/- 200 basis points, measures the sensitivity of net interest income for the current year to the positioning of the flows of principal at the time when the funding and lending operations start to become sensitive to changes in market interest rates.

Ideally, the bank book – comprising both income-earning items and interest-bearing items – is subdivided between transactions that are sensitive to changes in interest rates and those that are not.

The second type, mostly comprising fixed-rate transactions, is neutral when it comes to determining the sensitivity of net interest income; the first, represented by variable-rate transactions, is conditioned by changes in rates.

The difference between the net interest income generated by each transaction following the application of shocked market curves, and that generated under current market conditions, determines the marginal contribution to overall sensitivity.

Summing this differential for all the operations comprising the bank book determines the total sensitivity of net interest income to the risk of changes in market 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», including the investments that service employees' pension and similar obligations.

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 assets», while the portfolio of «Financial assets carried at fair value» includes those securities to which the Bank decided to apply the fair value option.

Limited to financial assets classified as «available-for-sale financial assets», there is also a process of internal control and management of interest rate risk and price risk similar to that detailed in the qualitative information on «Interest rate risk and price risk – supervisory portfolio». The methodology used for calculating the daily Value at Risk (VaR) is also the same as the one explained above.

Daily monitoring of exposure to risk is also carried out, again through the VaR methodology, as well as of the overall financial instruments exposed to price rate risk included in the banking book, even if it no longer has to be shown in a specific table in the notes: variable-yield securities (including equity investments) and mutual funds. The price risk on foreign currency mutual funds also includes exchange risk.

Any early redemption options purchased and granted are treated as if not exercised.

The strategies for governing the bank book interest-rate risk (but not price risk) include, as part of the stress testing of the principal economic, financial and equity variables, carrying out joint simulations to determine the impact of adverse shocks on:

- the economic value of equity;
- the performance of the total net interest income.

Consistent with the «Sensitivity Analysis in Full Evaluation» and «Repricing Analysis» methods explained above, stress tests are carried out monthly by performing simulative analyses that involve the use of multiple scenarios regarding rate trends aimed at identifying the trend of the interest rate risk profile in particularly adverse market conditions. The main objective of stress tests is to estimate the impact on risk exposure caused by sudden and unpredictable changes in the general level of interest rates caused by a change in one or more specific risk factors.

These simulations envisage ten market rate trend scenarios which include parallel shifts of the reference curves, rotary shifts and shifts on the short, medium and long term.

To assess the performance of exposure to interest rate risk in adverse conditions, the most penalising value in terms of sensitivity reached in the above scenarios is used for prudence sake. The stress analysis is carried out both in terms of the fair value interest rate risk profile, and in terms of cash flow interest rate risk.



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

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 indeterminata
3. Financial derivatives	1,215	95,650	1,069	1,763	50,724	73,442	94,705	-
3.1 With underlying security	-	-	-	-	-	-	-	-
Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	1,215	95,650	1,069	1,763	50,724	73,442	94,705	-
Options	1,215	95,650	1,069	1,763	50,724	73,442	94,705	-
+ Long positions	403	17,619	450	1,197	31,577	45,589	59,897	-
+ Short positions	812	78,031	619	566	19,147	27,853	34,808	-
Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	950,720	563,537	26	107	171,813	3,260	7,356	-
+ Long positions	122,196	543,537	26	107	171,813	3,260	7,356	-
+ Short positions	828,524	20,000	-	-	-	-	-	-

This table only shows financial derivatives as an interest rate 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), forward contracts on exchange rates, options on interest rates, interest rate swaps 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 +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date.

In thousands of euro	Change in interest margin				
	31/12/2016				31/12/2015
	at period end	average	minimum	maximum	at period end
Exposure to risk					
positive parallel shift	-28,477	-46,509	-28,477	-57,894	-83,932
negative parallel shift	-204	64	622	-550	-1,245
flat rotary shift	-59,943	622	-59,943	-127,735	n.d.
steep rotary shift	-201	-550	623	-1,083	n.d.
short-term positive shift	-62,391	-102,044	-62,391	-133,037	n.d.
short-term negative shift	-201	-1,125	538	-4,481	n.d.
long-term positive shift	429	1,430	3,618	429	n.d.
long-term negative shift	-248	-2,955	-237	-11,423	n.d.
medium-term positive shift	985	4,501	12,687	-68	n.d.
medium-term negative shift	-283	-739	-185	-1,277	n.d.
worst-case scenario	-62,391	-102,044	-62,391	-133,037	n.d.

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April.

Equity is understood as being the difference between the present value assets and liabilities items.

In thousands of euro	Change in equity value				
	31/12/2016				31/12/2015
	at period end	average	minimum	maximum	at period end
Exposure to risk					
positive parallel shift	-92,736	-100,112	-66,097	-149,857	-147,219
negative parallel shift	28,955	26,605	56,322	-15,612	103,350
flat rotary shift	69,931	119,225	168,669	16,023	n.d.
steep rotary shift	-53,204	-51,777	-10,242	-69,814	n.d.
short-term positive shift	-71,733	-60,451	7,225	-189,425	n.d.
short-term negative shift	4,204	2,647	26,683	-17,305	n.d.
long-term positive shift	-89,423	-123,964	-74,022	-177,895	n.d.
long-term negative shift	5,726	3,195	28,311	-17,089	n.d.
medium-term positive shift	-19,897	-74,472	-19,897	-167,191	n.d.
medium-term negative shift	4,937	3,076	27,482	-16,999	n.d.
worst-case scenario	-92,736	-123,964	-74,022	-189,425	n.d.

With respect to fixed-yield securities classified as «available-for-sale financial assets», information on the average, minimum and maximum VaR is given below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	12.269
minimum	5.660
maximum	30.875



With regard to the distribution of VaR during the year, the average VaR for each month in 2016 is presented below.

January	10,677
February	12,333
March	10,729
April	9,280
May	7,525
June	8,685
July	10,322
August	7,098
September	10,716
October	10,218
November	23,563
December	26,282

With reference to debt securities forming part of «available-for-sale financial assets», the number of days on which actual losses exceeded VaR was 5 out of 252 observations, the number of days on which theoretical losses exceeded VaR was 6 out of 252 observations.

Price risk

With reference to the closing date, above we report provide the VaR figures of the banking book, including equity investments.

Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	11,791
- of which equity investments	9,548
Mutual funds	1,196
Total	12,464

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	22,098
minimum	12,464
maximum	42,498

With regard to the distribution of VaR during the year, the average VaR for each month in 2016 is presented below.

January	24,377
February	32,370
March	27,013
April	22,404
May	17,856
June	25,311
July	33,051
August	23,277
September	16,344
October	14,726
November	14,466
December	14,763

With regard to variable-yield securities (shares and mutual funds) classified as «available-for-sale financial assets», information on the average, minimum and maximum VaR is given below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	4,798
minimum	3,016
maximum	9,912

With regard to the distribution of VaR during the year, the average VaR for each month in 2016 is presented below.

January	4,575
February	6,114
March	5,158
April	4,499
May	3,942
June	5,490
July	7,700
August	5,588
September	4,086
October	3,459
November	3,389
December	3,554

With reference to variable-yield securities included in «available-for-sale financial assets», actual losses never exceeded VaR, while the number of days when theoretical losses exceeded VaR was 2 out of a total of 252 observations.

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 in section 2.1 above.

At the balance sheet date, the following assets in terms of financial instruments exposed to exchange rate risk are covered by the VaR model: all of the foreign currency assets and liabilities (excluding gold, the African Financial Community franc, the Peruvian new sol, the



Kenyan shilling, the new Bulgarian lev, the Bahraini dinar, the 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; 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 and forward contracts on commodities), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps.

The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

B. Hedging of exchange risk

The Bank has not arranged any specific hedges of exchange risk.

The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations and the tighter limits on VaR established by General Management.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. Financial assets	717,200	54,446	10,948	681,401	5,556	19,254
A.1 Fixed-yield securities	14					
A.2 Variable-yield securities	26,930			141,101		
A.3 Loans to banks	308,741	53,759	3,645	9,803	5,556	19,192
A.4 Loans to customers	381,515	687	7,303	530,497		62
A.5 Other financial assets						
B. Other assets	4,355	1,232	190	2,692	94	941
C. Financial liabilities	611,785	55,979	22,079	532,866	5,524	21,251
C.1 Due to banks	131,942	2,926	271	449,517	1,635	6,415
C.2 Due to customers	479,843	53,053	21,808	83,349	3,889	14,836
C.3 Fixed-yield securities						
C.4 Other financial liabilities						
D. Other liabilities	5,270	834	2	1,064	28	34
E. Financial derivatives	1,959,059	204,480	73,083	129,458	34,841	275,944
- Options	31,834	320	-	-	-	-
+ long positions	15,928	160				
+ short positions	15,906	160				
- Other derivatives	1,927,225	204,160	73,083	129,458	34,841	275,944
+ long positions	916,748	102,506	41,434	56,196	17,365	138,853
+ short positions	1,010,477	101,654	31,649	73,262	17,476	137,091
Total assets	1,654,231	158,344	52,572	740,289	23,015	159,048
Total liabilities	1,643,438	158,627	53,730	607,192	23,028	158,376
Net balance (+/-)	(10,793)	283	1,158	(133,097)	13	(672)

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	-
Variable-yield securities	727
Net balance between other assets and liabilities	1,359
Financial derivatives	1,285
- Options	-
+ Long positions	213
+ Short positions	212
- Other derivatives	1,286
+ Long positions	13,162
+ Short positions	14,433
Total transactions table 1	754
- Interest Rate Swap	16
+ Long positions	9,988
+ Short positions	9,972
Total	770

Details of the principal currencies

US Dollars	73
Sterling	2
Japanese Yen	9
Swiss Francs	736
Canadian Dollars	-
Other currencies	5
Total	770

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	1,903
minimum	77
maximum	5,935

With regard to the distribution of VaR during the year, the average VaR for each month in 2016 is presented below.

January	1,240
February	3,904
March	3,814
April	3,277
May	2,733
June	2,986
July	1,128
August	924
September	767
October	708
November	560
December	692



2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

Underlying assets/Type of derivative	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Fixed-yield securities and interest rates	4,183,768	-	3,788,579	-
a) Options	24,947	-	23,821	-
b) Swaps	4,158,821	-	3,764,758	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Variable-yield securities and stock indices	11	-	11	-
a) Options	11	-	11	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	2,354,482	-	2,077,729	-
a) Options	60,593	-	109,869	-
b) Swaps	-	-	-	-
c) Forwards	2,293,889	-	1,967,860	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	26,882	-	15,378	-
5. Other underlying assets	-	-	-	-
Total	6,565,143	-	5,881,697	-

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

Underlying assets/Type of derivative	POSITIVE FAIR VALUE			
	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Trading portfolio for supervisory purposes	90,548	-	103,487	-
a) Options	1,221	-	2,022	-
b) Interest rate swaps	61,913	-	77,377	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	25,912	-	23,561	-
f) Futures	-	-	-	-
g) Other	1,502	-	527	-
B. Bank book – for hedging purposes	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Bank book – other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	90,548	-	103,487	-

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

Underlying assets/Type of derivative	NEGATIVE FAIR VALUE			
	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Trading portfolio for supervisory purposes	87,616	-	97,310	-
a) Options	1,142	-	1,899	-
b) Interest rate swaps	59,223	-	72,714	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	25,775	-	22,196	-
f) Futures	-	-	-	-
g) Other	1,476	-	501	-
B. Bank book – for hedging purposes	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Bank book – other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	87,616	-	97,310	-

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	-	-	4,039,502	259	-	139,219	4,788
- positive fair value	-	-	52,985	13	-	8,808	145
- negative fair value	-	-	59,246	-	-	16	-
- future exposure	-	-	21,634	-	-	249	9
2. Variable-yield securities and stock indices							
- notional value	-	-	-	11	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currency and gold							
- notional value	368,580	-	1,293,515	172,938	-	389,237	130,213
- positive fair value	3,293	-	16,127	3,165	-	2,740	1,770
- negative fair value	-	-	14,376	4,094	-	6,555	1,853
- future exposure	3,686	-	13,008	1,729	-	3,815	1,303
4. Other assets							
- notional value	-	-	13,441	-	-	13,441	-
- positive fair value	-	-	989	-	-	513	-
- negative fair value	-	-	506	-	-	970	-
- future exposure	-	-	1,344	-	-	1,344	-

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				
	3,145,205	2,199,934	1,220,004	6,565,143
A.1 Financial derivatives on fixed-yield securities and interest rates	772,225	2,191,539	1,220,004	4,183,768
A.2 Financial derivatives on variable-yield securities and stock indices	-	11	-	11
A.3 Financial derivatives on exchange rates and gold	2,346,098	8,384	-	2,354,482
A.4 Financial derivatives on other instruments	26,882	-	-	26,882
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 31/12/2016	3,145,205	2,199,934	1,220,004	6,565,143
Total 31/12/2015	2,576,694	2,782,118	522,885	5,881,697

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, manifests itself firstly 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 is primarily committed to have a wide and stable retail funding base, which by definition is widely diversified; further significant sources of funding are represented by national and international entities and companies, from which the Bank has never had problems raising money at market conditions, given its high reputation. The Bank also makes use of loans granted by the European Central Bank (Targeted Longer-Term Refinancing Operations), amounting to 1.1 billion euro at 31 December 2016.

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 bonds. 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 operations 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 Risk Control Department using a variety of indicators and different analytical time horizons. Focusing on the principal indicators used for short-term analysis, the profile of liquidity mismatches is determined and highlighted in specific tables, covering the following three months, using operational treasury and similar data and the counterbalancing capacity. These tables are made available to the Bank of Italy on a weekly basis. The long-term liquidity position is also monitored monthly, with no time limits.

The short and long-term regulatory indicators, Liquidity Coverage Ratio and Net Stable Funding Ratio, are also quantified monthly and quarterly, respectively. Further risk measures relating to the concentration of funding and its cost are also monitored on a monthly basis, as is the composition of the counterbalancing capacity as required by supervisory regulations (the so-called Additional Liquidity Monitoring Metrics).

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

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	6,248,730	860,205	395,004	2,248,727	681,097	1,181,865	1,246,600	9,604,293	7,230,159	952,355
A.1 Government securities	-	-	1,081	625	6,345	6,941	287,690	3,616,563	2,800,075	-
A.2 Other fixed-yield securities	20	-	646	20,016	6,249	25,957	22,966	131,606	579,349	317
A.3 Mutual funds	418,454	-	-	-	-	-	-	-	-	-
A.4 Loans	5,830,256	860,205	393,277	2,228,086	668,503	1,148,967	935,944	5,856,124	3,850,735	952,038
- Banks	195,582	90,002	75,148	70,011	55,322	517,591	3,655	400,000	-	952,038
- Customers	5,634,674	770,203	318,129	2,158,075	613,181	631,376	932,289	5,456,124	3,850,735	-
Cash liabilities	23,845,528	602,506	11,075	39,147	243,457	206,857	336,193	2,624,425	1,129,530	-
B.1 Current accounts and deposits	23,684,960	1,630	9,253	15,042	93,759	93,471	82,691	9,867	-	-
- Banks	396,556	-	-	-	-	-	-	-	-	-
- Customers	23,288,404	1,630	9,253	15,042	93,759	93,471	82,691	9,867	-	-
B.2 Fixed-yield securities	81,695	19	121	24,103	128,078	110,964	239,904	1,443,194	1,095,834	-
B.3 Other liabilities	78,873	600,857	1,701	2	21,620	2,422	13,598	1,171,364	33,696	-
Off-balance sheet transactions	872,786	272,368	777,349	459,685	703,230	191,403	245,814	550,634	107,545	-
C.1 Financial derivatives with exchange of capital	-	252,336	777,349	276,511	699,543	187,123	182,946	57,537	627	-
- Long positions	-	145,288	389,142	139,518	352,146	95,348	91,481	53,487	416	-
- Short positions	-	107,048	388,207	136,993	347,397	91,775	91,465	4,050	211	-
C.2 Financial derivatives without exchange of capital	43,015	-	-	-	-	-	-	-	-	-
- Long positions	21,340	-	-	-	-	-	-	-	-	-
- Short positions	21,675	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	828,528	20,000	-	183,086	3,289	2,786	61,433	491,410	106,286	-
- Long positions	4	-	-	183,086	3,289	2,786	61,433	491,410	106,286	-
- Short positions	828,524	20,000	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	1,243	32	-	88	398	1,494	1,435	1,687	632	-
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: 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	149,619	193,139	110,460	219,159	185,398	39,268	57,498	185,551	247,027	-
A.1 Government securities	-	-	-	-	-	14	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	53,162	-	-	-	-	-	-	-	-	-
A.4 Loans	96,457	193,139	110,460	219,159	185,398	39,254	57,498	185,551	247,027	-
- Banks	43,918	181,488	78,773	36,985	30,264	13,905	10,316	-	5,553	-
- Customers	52,539	11,651	31,687	182,174	155,134	25,349	47,182	185,551	241,474	-
Cash liabilities	574,413	252,950	288,588	99,385	16,565	12,896	4,525	123	-	-
B.1 Current accounts and deposits	574,413	252,950	288,588	99,385	16,258	12,896	4,525	123	-	-
- Banks	111,292	250,833	138,566	88,264	3,245	-	244	-	-	-
- Customers	463,121	2,117	150,022	11,121	13,013	12,896	4,281	123	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	307	-	-	-	-	-
Off-balance sheet transactions	88,200	208,240	831,886	323,315	772,478	254,286	273,875	8,501	655	-
C.1 Financial derivatives with exchange of capital	-	208,240	829,751	322,838	768,418	253,933	273,632	7,846	-	-
- Long positions	-	60,360	414,495	160,088	381,942	125,108	136,935	4,159	-	-
- Short positions	-	147,880	415,256	162,750	386,476	128,825	136,697	3,687	-	-
C.2 Financial derivatives without exchange of capital	81,175	-	-	-	-	-	-	-	-	-
- Long positions	42,113	-	-	-	-	-	-	-	-	-
- Short positions	39,062	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	2,467	-	1,044	-	1,423	-	-	-	-	-
- Long positions	2,467	-	-	-	-	-	-	-	-	-
- Short positions	-	-	1,044	-	1,423	-	-	-	-	-
C.4 Irrevocable commitments to make loans	4,558	-	1,091	477	2,637	353	-	-	-	-
- Long positions	-	-	1,091	477	2,637	353	-	-	-	-
- Short positions	4,558	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	243	655	655	-
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	-	-	-	-	-	-	-	-	-	-

Section 4 *Operational risks*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The 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. The scope of operational risk includes legal risk and IT risk, if this causes and economic or balance sheet loss, but excludes strategic and reputational risks.

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 governance and operational risk management and measurement system, which is being constantly refined, to minimise the impact.

The model adopted by the Bank for the governance of operational risks makes the Risk Control function responsible for defining and coordinating the processes of identifying and measuring the risk profile. This function provides the necessary guidelines to the central offices which, to the extent of their responsibilities, gather information about operational risk events, as well as about the assessment and monitoring of the potential exposure to that risk.

The system adopted for managing operational risk is based on an approach that involves the identification, measurement and mitigation of both a quantitative and qualitative nature. This involves, on the one hand, the recognition of any losses already incurred and, on the other hand, an estimate of the bank's potential future risk.

The above system comprises the following components:

- a process of loss data collection, designed for the accurate detection of risk events that generate losses and the registration not only of monetary values, but also of qualitative information which, put briefly, specify when, how, where and why the event has occurred, in order to orient and emphasize the mitigation measures;
- a risk self-assessment process regarding the potential exposure to operational risk that periodically seeks to identify and quantify the principal risks to which the Bank is exposed, in order to facilitate the activation of measures to prevent and mitigate the risk exposure in question.

The Bank adopts a Basic Indicator Approach (BIA) to the measurement of operational risk, in order to identify the minimum capital required to cover that risk. The approach involves applying a single regulatory coefficient (15%) to the average of the last three observations of the Significant Indicators, calculated in compliance with the EC regulations.

In line with previous years, the management model for assessing exposure to operational risk in both qualitative and quantitative terms has been strengthened significantly.

Specifically, with reference to the process of loss data collection, we proceeded to increase the data available in terms of integration of the economic effects relating to past events, with particular reference to the historical recognition of provisions and disbursements incurred for legal disputes.

As regards the risk self-assessment process regarding the potential exposure to operational risk (RSA), the scope of the assessed risks was subject to revision and expansion in order to include the critical issues relating to the changing organisational and regulatory context within the company; particular attention has been paid to gathering suggestions on risk prevention and mitigation.

To support the execution of the processes described above, the dedicated IT application was the subject of evolutionary revision in terms of its functionality and usability by those involved in risk identification and assessment.



In addition, the activities carried on made it possible to refine the method of reporting in support of different corporate structures and bodies, providing a more operationally effective analysis in line with the orientation of the Supervisory Authorities, and contributing to more appropriate monitoring of changes in the risk profile.

Legal risk

Significant operational risks include the economic events linked to litigation, proceedings and disputes in which the bank is being sued.

Given the peculiarities of such phenomena, the process of detection and monitoring of legal risk relies on close and constant cooperation between the structures assigned to handling legal dossiers and the structures responsible for assessing the risk exposure.

The operational losses associated with legal risk include the prudent accounting provisions made to cover the cost of litigation that could be lost; provisions are periodically revised as a result of favourable pronouncements obtained by the bank in the definition of the damages and/or specialist indications.

The expenses incurred for services rendered by lawyers and cases lost in court are also included in operating losses related to legal risk. In general, in the last financial year, there has been a downsizing of prudential provisions for litigation related to usury and compound interest.

IT risk

Upon completion of the evidence gathered as part of the operational risk management process in general, there are critical issues relating to the use of information and communication technology, namely risks that have arisen, or that could arise, from the malfunctioning of procedures and/or equipment and/or breaches or attempts to breach IT security.

The approach used for integration with IT risk, in line with the general structure of operational risk management, provides, on the one hand, the collection and classification of IT incidents, or events that have occurred as a result of errors or failures in computer systems (quantitative approach); and, on the other hand, the identification and assessment of threats inherent in the IT system in order to identify areas where risk could potentially occur and consequently quantify the gravity of the situation (qualitative approach).

In light of the evidence relating to the process of collecting losses and prospective evaluation of operational risk in general, we paid particular attention to monitoring and minimising the risks associated with so-called cyber security, or to violations or attempted breach of IT security perpetrated by the theft of access data to SCRIGNO Internet Banking, aimed in most cases at carrying out fraudulent payment instructions.

Stronger security structures have made it possible to identify such illegal operations more effectively and promptly block execution of the transactions, avoiding potential damage to the customer.

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 cards, forging cheques, fraudulent payment orders, which are normally mitigated by taking out suitable insurance.

The following chart shows the operational losses identified by the Parent Company over the past five years (2012 - 2016) as part of the Loss Data Collection process, using the regulatory classification for operational risk events:

Internal fraud - Events perpetrated by persons within the Bank in order to obtain a personal advantage and resulting in a loss for the Bank.

External fraud - Events perpetrated by persons outside of the Bank, such as fraud, theft and improper appropriation in order to obtain a personal advantage and resulting in a loss for the Bank.

Employment and safety at work - Action contrary to the instructions governing employment, health and safety in the workplace, as well as such related events as discrimination or failure to apply equal conditions.

Customers, products and business practices - Events connected with the violation of regulations and/or the adoption of improper commercial practices in relations with customers.

Damage to material assets - External events deriving from natural or accidental causes that result in damage to physical assets or their defective functioning.

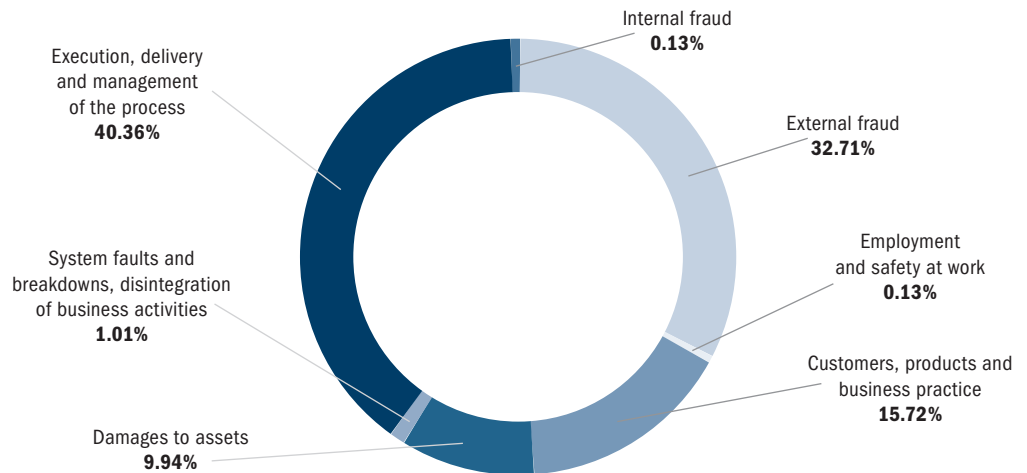
System faults and breakdowns, disintegration of business activities - Events relating to the non-availability, inefficiency, malfunctioning or blockage of the Bank's IT systems and/or their components.

Process execution, delivery and management - Unintentional errors / delays in the daily execution and management of operational and supporting processes, as well as disputes with commercial counterparties and suppliers.

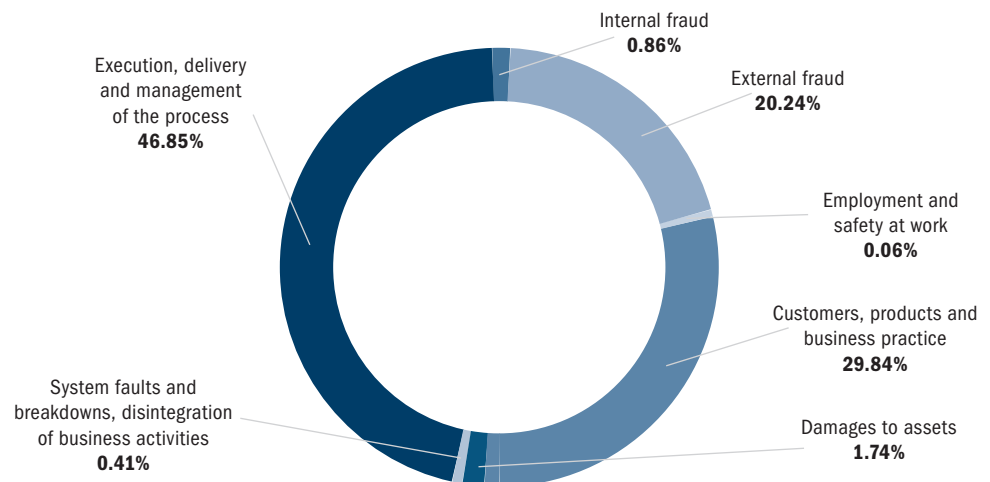


Banca Popolare di Sondrio - Sources of operational losses (from 01/01/2012 - 31/12/2016)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



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 31/12/2016 amounted to € 7,454 million and was structured as follows:

- a) Italian government securities: € 6,733 million;
- b) Securities of other issuers: € 26 million;
- c) Loans to government departments: € 67 million;
- d) Loans to state-owned or local government-owned enterprises: € 623 million;
- e) Loans to other public administrations and miscellaneous entities: € 5 million.



PART F *Information on equity*

Section 1 *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 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 adequate capital 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 last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

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.

B. 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	31/12/2016	31/12/2015
1. Share capital	1,360,157	1,360,157
2. Share premium reserve	79,005	79,005
3. Reserves	803,541	735,498
- retained earnings	803,541	735,498
a) legal	240,752	202,544
b) statutory	452,177	421,902
c) treasury shares	35,000	93,000
d) other	75,612	18,052
- other	-	-
4. Equity instruments	-	-
5. (Treasury Shares)	(25,322)	(25,322)
6. Valuation reserves	37,357	85,112
- Available-for-sale financial assets	73,484	112,940
- 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	(36,127)	(27,828)
- Portions of valuation reserves related to subsidiaries carried at equity	-	-
- Special revaluation regulations	-	-
7. Profit (loss)	80,048	100,064
Total	2,334,786	2,334,514

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

Assets/Values	Total 31/12/2016		Total 31/12/2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	20,848	(5,869)	59,381	(1,522)
2. Variable-yield securities	45,896	-	43,538	-
3. Mutual funds	12,659	(50)	12,224	(681)
4. Loans	-	-	-	-
Total	79,403	(5,919)	115,143	(2,203)



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	57,859	43,538	11,543	-
2. Positive changes	14,856	6,342	1,773	-
2.1 Increases in fair value	13,340	6,342	1,474	-
2.2 Release to the income statement of negative reserves	1,516	-	299	-
- from impairment	-	-	299	-
- from disposals	1,516	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	57,736	3,984	707	-
3.1 Reductions in fair value	6,418	-	137	-
3.2 Impairment writedowns	-	-	49	-
3.3 Transfer to income statement from positive reserves: from disposals	51,318	3,984	521	-
3.4 Other changes	-	-	-	-
4. Closing balance	14,979	45,896	12,609	-

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 € 36.127 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

A. 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).

While the CRR Regulation is directly applicable in national law, Directive CRD IV was 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 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 supervisory regulations envisaged a transition period, still in progress, 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.

Following the entry into force of the ECB Regulation, since October 2016, larger banks have to include in or deduct from CET 1, respectively, gains and losses arising from exposures to EU central governments classified as AFS according to the following percentages: 60% for 2016 (4); 80% for 2017. The amounts that remain after application of these percentages (i.e. 40% for 2016 and 20% for 2017) should not be counted for the purposes of calculating Own Funds, continuing to be subjected to sterilisation: under the transitional arrangements laid down in CRR, in fact, the national arrangements already in force on 31 December 2013 still apply.



B. QUANTITATIVE INFORMATION

	31/12/2016	31/12/2015
A. Common Equity Tier 1-CET1 before the application of prudential filters	2,297,882	2,207,558
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)	2,297,882	2,207,558
D. Elements to be deducted from CET1	14,313	40,787
E. Transitional instructions - Impact on CET1 (+/-)	(7,717)	4
F. Total Common Equity Tier 1-CET1 (C - D +/- E)	2,275,852	2,166,775
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	474,149	501,689
Of which: T2 instruments subject to transitional instructions	-	27,540
N. Elements to be deducted from T2	14,316	6,153
O. Transitional instructions - Impact on T2 (+/-)	103,057	184,696
P. Total Tier 2 - T2 (M - N +/- O)	562,890	680,232
Q. Total Own funds (F + L + P)	2,838,742	2,847,007

The composition of own funds takes account of the profit for the period, 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.

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 ratio of 4.50%;
- Tier 1 ratio of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions are provided for:

- 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; currently this is not being implemented in Italy 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 2016:

- CET 1 ratio of 7%;
- Tier 1 ratio of 8.5%;
- 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.

With the SREP decision of 20 November 2015, the European Central Bank, within its powers, raised the level of capital required to guarantee appropriate coverage of the Group's risks. In particular, the minimum Common Equity Tier 1 ratio was raised to 9.25%, but no increases were made to the general regulatory requirements for the Tier 1 Capital Ratio and the Total Capital Ratio. Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

Last December the European Central Bank sent the bank the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 January, for the year 2017. The new minimum capital levels required of our Banking Group are:

- a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.50%);
- a minimum requirement of total capital ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.25%) and an additional Second Pillar requirement (1.50%).

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios this year. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 31 December 2016, the bank expressed the following coefficients on an individual basis:

- CET 1 Capital ratio 11.15%;
- Tier 1 Capital ratio 11.15%;
- Total Capital ratio 13.91%.



B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. Assets at risk				
A.1 Credit and counterparty risk	-	-	-	-
1. Standardised approach	34,947,369	32,428,485	17,626,124	18,000,009
2. Approach based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	360,145	245,802	315,447	220,738
B. Capital adequacy requirements				
B.1 Credit and counterparty risk			1,435,326	1,457,660
B.2 Loan adjustment risk			1,782	861
B.3 Regulation risks			-	-
B.4 Market risks			-	-
1. Standard methodology			68,830	57,910
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			-	-
1. Basic method			126,964	134,445
2. Standardised approach			-	-
3. Advanced method			-	-
B.7 Total precautionary requirements			1,632,902	1,650,876
C. Risk assets and capital ratios				
C.1 Risk-weighted assets			20,411,275	20,635,950
C.2 Common Equity Tier 1/Risk-weighted assets (CET 1 capital ratio)			11.15%	10.50%
C.3 Tier 1 capital/ Risk-weighted assets (Total capital ratio)			11.15%	10.50%
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)			13.91%	13.80%

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 Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	1/1/2016-31/12/2016	31/12/2018	249	-	-	174
STOPPANI LINO ENRICO	Deputy Chairman	1/1/2016-31/12/2016	31/12/2016	137	-	-	14
PEDRANZINI MARIO ALBERTO (*)	Director	1/1/2016-31/12/2016	31/12/2016	151	-	-	139
BIGLIOLI PAOLO	Director	1/1/2016-31/12/2016	31/12/2016	47	-	-	-
CORRADINI CECILIA	Director	23/4/2016-31/12/2016	31/12/2016	29	-	-	-
CREDARO LORETTA	Director	1/1/2016-31/12/2016	31/12/2017	48	-	-	-
FALCK FEDERICO	Director	1/1/2016-31/12/2016	31/12/2018	44	-	-	-
FERRARI ATTILIO PIERO	Director	1/1/2016-31/12/2016	31/12/2017	44	-	-	-
FONTANA GIUSEPPE	Director	1/1/2016-31/12/2016	31/12/2017	39	-	-	-
GALBUSERA CRISTINA	Director	1/1/2016-31/12/2016	31/12/2018	46	-	-	-
MELZI DI CUSANO NICOLÒ	Director	1/1/2016-31/12/2016	23/04/2016	13	-	-	10
PROPERSI ADRIANO	Director	1/1/2016-31/12/2016	31/12/2017	44	-	-	-
RAINOLDI ANNALISA	Director	1/1/2016-31/12/2016	31/12/2016	42	-	-	-
ROSSI SERENELLA	Director	23/4/2016-31/12/2016	31/12/2018	29	-	-	-
SOZZANI RENATO	Director	1/1/2016-31/12/2016	31/12/2017	76	-	-	3
TRACCA DOMENICO	Director	1/1/2016-31/12/2016	31/12/2018	57	-	-	2
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	1/1/2016-31/12/2016	31/12/2017	97	-	-	8
DEPPERU DONATELLA	Auditor	1/1/2016-31/12/2016	31/12/2017	77	-	-	-
VITALI MARIO	Auditor	1/1/2016-31/12/2016	31/12/2017	79	-	-	13
MORELLI DANIELE	Alternate auditor	1/1/2016-31/12/2016	31/12/2017	-	-	-	2
PEDRANZINI MARIO ALBERTO (*)	General Manager	1/1/2016-31/12/2016		-	86	72	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2016-31/12/2016		-	50	169	914

(*) 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 € 2.765 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.104 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	957	6,422	34	40	-	480
Statutory auditors	293	256	7	4	-	-
Management	15	1,069	-	10	-	-
Family members	3,032	17,279	67	140	125	10,570
Subsidiaries	2,759,279	351,690	24,596	15,024	882,743	9,861
Associated companies	770,595	211,802	2,867	538	49,148	2,343
Other related parties	243,817	69,524	2,714	123	8,821	32,679

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 € 692 million to Alba Leasing spa and for € 75 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 130 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 of 19/3/83	Revaluation Law 413 of 30/12/91	Total as of 31/12/2016	Accumulated depreciation as of 31/12/2016	Net book value as of 31/12/2016
ABBIATEGRASSO - Via S. Maria - Ang P. Garibaldi	2,261,103	0	0	0	2,261,103	205,566	2,055,536
APRICA - Corso Roma, 140	450,765	0	356,355	146,929	954,049	629,744	324,305
BERBENNO DI VALTELLINA - Via Raneè, 542	15,038,512	0	0	99,417	15,137,929	5,982,837	9,155,092
BERGAMO - Via Broseta, 64/B	3,794,328	0	0	0	3,794,328	1,072,210	2,722,118
BERGAMO - Via G. D'Alzano, 5	2,324,744	0	0	0	2,324,744	340,794	1,983,950
BERGAMO - Via Ghislandi Vittore, 4	1,288,525	0	0	0	1,288,525	96,639	1,191,886
BORMIO - Via Roma, 64	439,238	46,481	573,267	136,524	1,195,510	297,756	897,755
BORMIO - Via Roma Angolo Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,599,147	2,030,480
BRENO - Piazza Ronchi, 4	1,529,470	0	0	87,467	1,616,937	800,421	816,517
CAMOGLI - Via Cuneo, 9	220,960	0	0	0	220,960	3,314	217,645
CHIAVENNA - Via Dolzino, 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,354,387	1,107,902
CHIESA VALMALENCO - Via Roma, 138	800,868	17,560	664,795	133,250	1,616,473	704,388	912,083
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	259,002	15,235
DELEBIO - Piazza S. Carporo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,456,000	745,992
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	957,061	642,434
DOMASO - Via Statale Regina, 71	581,714	0	0	53,817	635,531	164,915	470,617
DONGO - Piazza V. Matteri, 14	3,268,365	0	0	415,551	3,683,916	1,292,473	2,391,444
EDOLO - Piazza Martiri Della Libertà, 16	1,058,736	0	0	509,161	1,567,897	1,406,651	161,247
GENOA - Via XXV Aprile, 7	10,239,131	0	0	0	10,239,131	2,256,053	7,983,077
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	378,476	273,601
GRAVEDONA - Piazza Garibaldi, 10/12	3,400,645	0	0	223,957	3,624,602	980,467	2,644,136
GRAVEDONA - Via Tagliaferri, 5	309,900	0	0	0	309,900	41,836	268,064
GROSIO - Via Roma, 67	95,936	7,230	229,791	51,484	384,441	249,796	134,644
GROSOTTO - Via Statale, 73	452,238	12,911	147,146	42,099	654,394	305,507	348,887
ISOLACCIA VALDIDENTRO - Via Nazionale, 31	403,788	0	290,229	272,602	966,619	633,512	333,107
LECCO - Corso Martiri Della Liberazione, 63/65	9,574,332	0	351,191	2,124,557	12,050,080	7,288,564	4,761,515
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	157,936	52,645
LIVIGNO - Via S. Antoni, 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	1,935,327	4,715,618
LODI - Via Garibaldi, 23/25 - Angolo Via Marsala	2,290,813	0	0	0	2,290,813	98,905	2,191,908
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	641,258	56,016
MANTOVA - Corso Vittorio Emanuele, 26	5,623,642	0	0	0	5,623,642	253,064	5,370,578
MARCHIROLO - Via Cav. Emilio Busetti, 7/A	1,089,019	0	0	0	1,089,019	452,083	636,936
MAZZO VALTELLINA - Via S. Stefano, 18	641,635	16,010	163,550	48,833	870,028	253,927	616,101
MELEGNANO - Piazza Garibaldi, 1	2,278,017	0	0	0	2,278,017	238,835	2,039,181
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	190,101	61,838
MILAN - Via A. Messina, 22	150,000	0	0	0	150,000	29,250	120,750
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	57,983	0
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	55,605	0
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	177,768	19,752
MILAN - Via Porpora, 104	5,318,962	0	0	165,381	5,484,343	1,790,898	3,693,445
MILAN - Via S. Maria Fulcorina, 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	5,893,729	10,656,120
MILAN - Via S. Maria Fulcorina, 11	493,165	0	0	0	493,165	429,053	64,111
MILAN - Via Sangallo, 16	4,752	0	0	11,915	16,667	15,000	1,667
MILAN - Via Sforza, 48	2,796,878	0	0	0	2,796,878	121,929	2,674,949
MILAN - Via Solari, 15	422,156	0	0	0	422,156	177,306	244,851

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total as of 31/12/2016	Accumulated depreciation as of 31/12/2016	Net book value as of 31/12/2016
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	731,095	467,421
MORBEGNO - Piazza Caduti Della Libertà, 6	2,101,004	0	1,088,606	704,283	3,893,893	2,335,419	1,558,474
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	69,550	2,898
MORBEGNO - Via Garibaldi, 81	435,688	25,823	0	56,050	517,561	415,510	102,051
MOZZO - Via G. D'annunzio, 4	26,424	0	0	14,259	40,683	31,733	8,950
NOVATE MEZZOLA - Via Roma, 13	1,053,471	0	251,282	89,219	1,393,972	321,141	1,072,831
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	844,803	81,789
PONTE VALTELLINA - Piazza Della Vittoria, 1	51,496	12,911	258,098	86,540	409,045	273,398	135,647
REGOLEDO DI COSIO VALTELLINO - Via Roma, 7	134,617	0	0	78,405	213,022	160,440	52,581
REGOLEDO DI COSIO VALTELLINO - Piazza S. Martino, 14	132,135	0	0	0	132,135	1,982	130,153
ROME - Piazza Filippo il Macedone, 75	2,400,000	0	0	0	2,400,000	900,000	1,500,000
ROME - Via della Farnesina, 154	928,169	0	0	0	928,169	236,683	691,486
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	335,732	165,033
S. PIETRO BERBENNO - Via Nazionale Ovest, 110	1,288,306	22,208	328,181	122,795	1,761,490	595,597	1,165,896
S. SIRO - Via Statale Regina	467,692	0	0	0	467,692	229,842	237,851
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	119,392	17,840
SESTO CALENDE - Piazza Mazzini, 10	443,111	0	0	0	443,111	46,527	396,584
SONDALO - Via Zubiani, 2/4/6/8/10	21,757	25,823	312,456	158,005	518,041	403,918	114,123
SONDRIO - Corso V. Veneto, 7	858,944	0	0	1,190,813	2,049,757	828,650	1,221,107
SONDRIO - Largo Pedrini, 8	363,862	0	0	22,527	386,389	214,591	171,797
SONDRIO - Lungo Mallero Cadorna, 24	3,441,301	0	196,254	451,249	4,088,804	1,299,598	2,789,205
SONDRIO - Piazzale Tocalli - Via Delle Prese	348,608	0	0	0	348,608	277,144	71,465
SONDRIO - Piazza Garibaldi, 1	16,056,897	0	0	0	16,056,897	907,499	15,149,399
SONDRIO - Piazza Garibaldi, 16	1,563,597	351,191	7,810,125	3,142,651	12,867,564	7,539,410	5,328,154
SONDRIO - Via Bernina, 1	181,930	0	82,385	45,795	310,110	179,093	131,017
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	404,257	0
SONDRIO - Via Cesura, 4	388,303	0	0	64,149	452,452	142,442	310,010
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	185,630	61,877
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	47,389	9,026
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	506,171	242,788
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	94,801	44,552
TIRANO - Piazza Cavour, 20	392,571	0	1,736,322	718,576	2,847,469	1,973,760	873,709
TURIN - Via XX Settembre, 37	6,473,624	0	0	0	6,473,624	873,767	5,599,856
TRESCORE BALNEARIO - Piazza Cavour, 6	1,292,789	0	0	0	1,292,789	135,743	1,157,046
TRESENTA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	418,332	35,458
TREVISO - Corso Del Popolo, 50	3,734,089	0	0	0	3,734,089	56,011	3,678,078
VALMADRERA - Via S. Rocco, 31/33	1,348,914	0	0	0	1,348,914	101,169	1,247,746
VERCELLI - Piazza Mazzucchelli, 12	1,773,241	0	0	0	1,773,241	132,993	1,640,248
VILLA DI CHIAVENNA - Via Roma, 39	197,712	0	0	7,639	205,351	205,351	0
VILLA DI TIRANO - Traversa Foppa, 25	440,817	0	0	7,651	448,468	260,985	187,483
GRAND TOTAL	154,549,815	781,632	22,496,863	19,084,124	196,912,434	71,100,839	125,811,594



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	423
Other emoluments	KPMG spa	Banca Popolare di Sondrio	140
Audit of the financial statements	KPMG SA	Banca Popolare di Sondrio (SUISSE) SA	570
Audit of the financial statements	KPMG spa	Factorit spa	70
Other emoluments	KPMG spa	Factorit spa	24
Audit of the financial statements	KPMG spa	Popso Covered Bond srl	30
Audit of the financial statements	KPMG spa	Sinergia Seconda srl	25
Audit of the financial statements	KPMG spa	Pirovano Stelvio spa	12
Consultancy services	KPMG Advisory spa*	Banca Popolare di Sondrio	2,244

* 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 2016

(in Swiss francs)

ASSETS	2016	2015
Liquid assets	744,365,898	725,000,488
Loans and receivables with banks	402,831,405	500,026,746
Loans and receivables with customers	435,224,929	471,300,093
Mortgage loans	3,288,027,752	3,053,192,850
Positive replacement value of derivative products	8,975,089	20,036,429
Financial assets	51,489,235	50,003,939
Accrued income and prepayments	5,523,458	5,751,318
Equity investments	1,190,728	1,122,881
Property, equipment and investment property	23,167,603	24,969,186
Other assets	45,584,416	63,482,012
Total assets	5,006,380,513	4,914,885,942
Total subordinated receivables	0	0

LIABILITIES	2016	2015
Due to banks	1,173,829,277	1,221,024,754
Customer deposits	2,959,351,387	2,919,018,697
Negative replacement value of derivative products	67,342,270	62,596,323
Treasury liabilities	153,001,000	181,862,000
Due to issuers of construction bonds and loans	274,900,000	161,900,000
Accrued liabilities and deferred income	19,011,554	17,344,327
Other liabilities	4,017,971	9,272,701
Reserves	7,847,365	6,855,164
Reserve for general banking risks	15,000,000	15,000,000
Share capital	180,000,000	180,000,000
Legal reserve from share capital	0	0
Legal reserve from profits	140,011,976	125,915,344
Optional retained earnings	0	0
Profit for the year	12,067,713	14,096,632
Total liabilities	5,006,380,513	4,914,885,942
Total subordinated commitments	0	0

OFF-BALANCE SHEET TRANSACTIONS	2016	2015
Contingent liabilities	198,328,206	204,682,006
Undrawn lines of credit	189,111,683	193,065,688
Irrevocable commitments	23,057,993	19,141,500
Derivative products	3,219,540,638	3,543,278,363
- Gross positive replacement value	8,975,089	20,036,429
- Gross negative replacement value	67,342,270	62,596,323
Fiduciary transactions	34,919,733	39,931,346



INCOME STATEMENT

(in Swiss francs)

	2016	2015
Interest income:		
- Interest income and discounts	59,325,683	64,888,685
- Interest income and dividends from equity investments	767,181	601,224
- Interest and dividends from trading activity	44	780
Interest expense	-20,797,539	-29,180,129
Gross interest income	39,295,369	36,310,560
Change in adjustments for loss risks and losses from interest-earning operations	-241,749	-6,999,663
Net interest income	39,053,620	29,310,897
Fee and commission income:		
- on trading in securities and investments	17,748,796	25,978,526
- on lending transactions	2,080,285	1,602,241
- on services	7,799,019	8,495,676
Fee and commission expense	-2,498,175	-3,084,772
Net fee and commission income and income from services	25,129,925	32,991,671
Profits from financial transactions and fair value option	21,851,371	29,097,253
Profit (loss) on disposal of financial assets	-643,267	61,507
Income from equity investments	10,120	0
Net proceeds from properties	190,999	215,173
Other ordinary income	1,106,693	53,079
Other ordinary charges	-444,052	-970,162
Other ordinary result	220,493	-640,403
Operating expenses		
Personnel costs	-44,421,970	-43,970,131
Other operating expenses	-21,499,718	-22,228,236
Operating expenses	-65,921,688	-66,198,367

	2016	2015
Adjustments to equity investments and depreciation of property, equipment and investment property and amortisation of intangible assets	-4,455,951	-5,123,539
Change in provisions and other adjustments and losses	-136,419	-351,547
Profit for the year	15,741,351	19,085,965
Extraordinary income	415,520	89,481
Extraordinary charges	-56,771	-423,814
Change in reserve for general banking risks	0	0
Income taxes	-4,032,387	-4,655,000
Profit for the year	12,067,713	14,096,632
ALLOCATION OF PROFIT		
Profit for the year	12,067,713	14,096,632
Retained earnings	0	0
Earnings available for allocation	12,067,713	14,096,632
Proposal of the Board of Directors to allocate the 2016 profit of CHF 12,067,713 to the legal reserve from profits.		
Retained earnings	0	0



FACTORIT SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(in euro)

ASSET ITEMS	31/12/2016	31/12/2015
10. Cash and cash equivalents	1,315	3,838
40. Available-for-sale financial assets	350,000	1,060,000
60. Receivables	2,160,157,275	1,596,359,245
100. Property, equipment and investment property	514,185	394,390
110. Intangible assets	89,145	118,658
120. Tax assets	36,418,871	39,299,204
a) current	9,175,924	11,617,422
b) deferred	27,242,947	27,681,782
of which as per Law 214/2011	25,238,577	26,566,924
140. Other assets	5,854,232	9,671,063
TOTAL ASSETS	2,203,385,023	1,646,906,398

EQUITY AND LIABILITY ITEMS	31/12/2016	31/12/2015
10. Payables	1,968,727,056	1,390,556,917
70. Tax liabilities	2,202,847	10,813,828
a) current	163,518	8,774,666
b) deferred	2,039,329	2,039,162
90. Other liabilities	12,368,320	20,595,891
100. Post-employment benefits	2,363,578	2,350,613
110. Provisions for risks and charges:	3,427,950	3,303,372
b) other provisions	3,427,950	3,303,372
120. Share capital	85,000,002	85,000,002
150. Share premium reserve	11,030,364	11,030,364
160. Reserves	115,270,549	102,670,876
170. Valuation reserves	-235,029	-175,138
180. Profit (loss) for the year	3,229,386	20,759,673
TOTAL LIABILITIES AND EQUITY	2,203,385,023	1,646,906,398

INCOME STATEMENT	31/12/2016	31/12/2015
10. Interest and similar income	25,937,168	35,382,640
20. Interest and similar expense	-4,064,970	-6,380,014
NET INTEREST INCOME	21,872,198	29,002,626
30. Fee and commission income	24,146,154	27,609,358
40. Fee and commission expense	-3,525,190	-4,757,824
NET FEE AND COMMISSION INCOME	20,620,964	22,851,534
60. Net trading income	-16,960	18,362
TOTAL INCOME	42,476,202	51,872,522
100. Net impairment losses on:	-18,360,734	-2,830,058
a) financial assets	-18,568,657	-2,905,813
b) other financial operations	207,923	75,755
110. Administrative expenses:	-21,977,037	-22,522,246
a) personnel expenses	-13,358,251	-12,747,770
b) other administrative expenses	-8,618,786	-9,774,476
120. Depreciation and net impairment losses on property, equipment and investment property	-158,056	-148,614
130. Amortisation and net impairment losses on intangible assets	-54,712	-64,162
150. Net accruals to provisions for risks and charges	-141,639	1,349,289
160. Other operating income and expenses	2,018,014	2,462,574
OPERATING PROFIT (LOSS)	3,802,038	30,119,305
180. Net gains on sales of investments	52,585	0
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	3,854,623	30,119,305
190. Income taxes	-625,237	-9,359,632
PROFIT (LOSS) OF CURRENT OPERATIONS NET OF INCOME TAXES	3,229,386	20,759,673
PROFIT (LOSS) FOR THE YEAR	3,229,386	20,759,673



PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(in euro)

ASSETS	31/12/2016	31/12/2015
B) NON-CURRENT ASSETS		
I Intangible assets		
03 Industrial patent rights and intellectual property rights	4,379	837
06 Assets in process of formation and advances	2,672	0
Total I	7,051	837
II Property, equipment and investment property		
01 Land and buildings	2,695,536	2,766,192
02 Equipment and machinery	65,472	86,773
03 Industrial and commercial equipment	18,609	25,997
04 Other assets	4,324	3,344
05 Assets under construction and advances	7,676	7,676
Total II	2,791,617	2,889,982
III Financial assets		
01 Equity investments		
b) in associated companies	370,473	345,279
d-bis) in other companies	1,992	1,992
Total 1	372,465	347,271
Total III	372,465	347,271
TOTAL NON-CURRENT ASSETS	3,171,133	3,238,090
C) CURRENT ASSETS		
I Inventories		
04 Finished products and merchandise	21,591	20,653
Totale I	21,591	20,653
II Receivables		
01 Loans and receivables with customers		
a) due within 12 months	22,439	9,004
Total 1	22,439	9,004
04 Due from parent companies		
a) due within 12 months	134,383	156,898
Total 4	134,383	156,898
05-bis Due from tax authorities		
a) due within 12 months	13,073	29,570
Total 5-bis	13,073	29,570
05-quater Due from others		
a) due within 12 months	2,366	8,115
Total 5-quater	2,366	8,115
Total II	172,261	203,587
IV Cash and banks		
01 Bank and post office deposits	601	44
03 Cash and cash equivalents on hand	196	345
Total IV	797	389
TOTAL CURRENT ASSETS	194,649	224,629
D) ACCRUED INCOME AND PREPAYMENTS	7,862	8,593
TOTAL ASSETS	3,373,644	3,471,312

LIABILITIES AND EQUITY	31/12/2016	31/12/2015
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
VI Other reserves		
08 Payments to cover losses	232,397	232,397
13 Miscellaneous other reserves	1	2
Total VI	232,398	232,399
IX Loss for the year	(340,158)	(425,283)
TOTAL EQUITY	2,154,303	2,069,179
C) POST-EMPLOYMENT BENEFITS	170,045	159,161
D) PAYABLES		
07 Trade payables		
a) due within 12 months	55,704	81,016
Total 07	55,704	81,016
10 Due to associated companies		
a) due within 12 months	10,110	6,750
Total 10	10,110	6,750
11 Due to parent companies		
a) due within 12 months	931,106	1,109,163
Total 11	931,106	1,109,163
12 Taxes payable		
a) due within 12 months	8,845	8,876
Total 12	8,845	8,876
13 Due to social security institutions		
a) due within 12 months	9,316	7,924
Total 13	9,316	7,924
14 Other payables		
a) due within 12 months	30,915	25,243
Total 14	30,915	25,243
TOTAL PAYABLES	1,045,996	1,238,972
E) ACCRUED EXPENSES AND DEFERRED INCOME	3,300	4,000
TOTAL LIABILITIES	3,373,644	3,471,312

INCOME STATEMENT	31/12/2016	31/12/2015
A) PRODUCTION VALUE		
01 Revenues from sales and services	1,215,874	1,097,829
05 Other revenues and income		
b) other	69,390	41,476
Total 5	69,390	41,476
TOTAL PRODUCTION VALUE	1,285,264	1,139,305
B) PRODUCTION COSTS		
06 Raw materials, consumables and goods	(267,087)	(262,941)
07 Services	(688,416)	(669,706)
09 Personnel costs		
a) wages and salaries	(493,097)	(457,609)
b) social security contributions	(158,396)	(141,521)
c) termination indemnities	(28,340)	(26,553)
e) other costs	(206)	(149)
Total 9	(680,039)	(625,832)
10 Depreciation, amortisation and writedowns		
a) amortisation of intangible assets	(3,026)	(1,443)
b) depreciation of property, equipment and investment property	(109,003)	(123,592)
Total 10	(112,029)	(125,035)
11 Change in raw materials, consumables and goods	937	(4,224)
14 Sundry operating costs	(57,291)	(56,562)
TOTAL PRODUCTION COSTS	(1,803,925)	(1,744,300)
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	(518,661)	(604,995)
C) FINANCIAL INCOME AND CHARGES		
15 Income from equity investments		
b) in associated companies	21,884	12,766
Total 15	21,884	12,766
17 Interest and other financial charges		
c) versus parent companies	(1,927)	(469)
e) versus others	(785)	(780)
Total 17	(2,712)	(1,249)
TOTAL FINANCIAL INCOME AND CHARGES	19,172	11,517
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
18 Revaluations		
a) of equity investments	25,194	11,297
Total 18	25,194	11,297
TOTAL ADJUSTMENTS	25,194	11,297
PRE-TAX PROFIT (LOSS)	(474,295)	(582,181)
20 Current income taxes and change in deferred tax assets and liabilities		
a) Current taxes	(246)	0
d) Income (charges) from membership of tax consolidation/tax transparency	134,383	156,898
Total 20	134,137	156,898
21 LOSS OF THE YEAR	(340,158)	(425,283)

The prior-year figures have been reclassified for comparison purposes.



SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(in euro)

ASSETS	31/12/2016	31/12/2015
A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS	0	0
Of which already called €		
B) NON-CURRENT ASSETS		
I - Intangible assets	0	0
II - Property, equipment and investment property		
1) Land and buildings		
1 - owned	62,959,968	64,678,307
2) Equipment and machinery		
1 - owned	77,532	96,041
Total property, equipment and investment property	63,037,500	64,774,348
III - Financial assets		
1) equity investments in		
a) subsidiary companies	10,108,857	10,108,857
Total financial assets	10,108,857	10,108,857
TOTAL NON-CURRENT ASSETS	73,146,357	74,883,205
C) CURRENT ASSETS		
I - Inventories	0	0
II - Receivables		
1) loans and receivables with customers		
a) due within 12 months	13,713	15,374
2) due from subsidiary companies		
a) due within 12 months	15,545	5,544
5 bis) due from tax authorities		
a) due within 12 months	161,896	9,281
5 quater) due from others		
a) due within 12 months	3,371	41,125
Total receivables	194,525	71,324
III - Financial assets not held as non-current assets	0	0
IV - Cash and banks		
3) cash and cash equivalents on hand	0	33
Total cash and banks	0	33
TOTAL CURRENT ASSETS	194,525	71,357
D) ACCRUED INCOME AND PREPAYMENTS		
TOTAL ACCRUED INCOME AND PREPAYMENTS	0	0
TOTAL ASSETS	73,340,882	74,954,562

LIABILITIES AND EQUITY	31/12/2016	31/12/2015
A) EQUITY		
I - Share capital	60,000,000	60,000,000
II - Share premium reserve	0	0
III - Valuation reserves	0	0
IV - Legal reserve	2,040,000	2,040,000
V - Statutory reserves	0	0
VI - Other reserves		
d) rounding differences on conversion to euro	0	2
VII - Reserve for cash flow hedges	0	0
VI - Reserve for treasury shares	0	0
VIII - Retained earnings	4,618,438	3,979,588
IX - Net profit for the year	472,457	638,849
X - Negative reserve for treasury shares in portfolio	0	0
TOTAL EQUITY	67,130,895	66,658,439
B) RESERVES FOR RISKS AND CHARGES		
TOTAL RESERVES FOR RISKS AND CHARGES	0	0
C) POST-EMPLOYMENT BENEFITS	0	0
D) PAYABLES		
6) advance payments		
a) due within 12 months	0	100,458
7) due to suppliers		
a) due within 12 months	103,988	174,271
9) due to subsidiary companies		
a) due within 12 months	340,250	139,779
11) due to parent companies		
a) due within 12 months	5,741,910	7,829,683
12) taxes payable		
a) due within 12 months	0	24,137
14) other payables		
a) due within 12 months	941	941
TOTAL PAYABLES	6,187,089	8,269,269
E) ACCRUED EXPENSES AND DEFERRED INCOME		
1) accrued expenses and deferred income	22,898	26,854
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	22,898	26,854
TOTAL LIABILITIES AND EQUITY	73,340,882	74,954,562

INCOME STATEMENT	31/12/2016	31/12/2015
A) PRODUCTION VALUE		
1) revenues from sales and services		
d) residential rents	28,000	7,000
e) office rents	3,565,650	3,569,760
f) residential property expense reimbursements	288	316
g) office expense reimbursements	17,679	17,671
5) Other revenues and income		
c) other revenues	3,130	292
TOTAL PRODUCTION VALUE	3,614,747	3,595,039
B) PRODUCTION COSTS		
7) for services		
c) residential property management expenses	1,510	1,144
d) office management expenses	577,437	339,827
10) depreciation, amortisation and writedowns		
b) depreciation of property, equipment and investment property	1,743,087	1,692,951
14) sundry operating costs		
a) other operating costs and charges	108,536	120,643
b) non-deductible charges	304,628	309,418
TOTAL PRODUCTION COSTS	2,735,198	2,463,983
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	879,549	1,131,056
C) FINANCIAL INCOME AND CHARGES		
17) interest and other financial charges		
c) from parent companies	114,638	102,795
d) from others	299	140
TOTAL FINANCIAL INCOME AND CHARGES	- 114,937	- 102,935
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
PRE-TAX PROFIT (LOSS)	764,612	1,028,121
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	245,746	332,666
b) IRAP (Regional business tax)	46,409	56,606
c) Deferred taxes	0	0
23) PROFIT FOR THE YEAR	472,457	638,849

Attestation pursuant to art. 154-bis of Decree 58/98 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 2016 and 31 December 2016.

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 2016:

- 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 2017

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)

Independent auditors' report pursuant to 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.

Report on the separate financial statements

We have audited the accompanying separate financial statements of Banca Popolare di Sondrio S.C.p.A. (the "bank"), which comprise the balance sheet as at 31 December 2016, the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and notes thereto.

Directors' responsibility for the separate financial statements

The bank's directors are responsible for the preparation of separate financial statements that give a true and fair view 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 and article 43 of Legislative decree no. 136/15.

Independent auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In



making those risk assessments, we consider internal control relevant to the bank's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the bank's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended 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 and article 43 of Legislative decree no. 136/15.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the separate financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the bank's directors, with the separate financial statements of Banca Popolare di Sondrio S.C.p.A. as at and for the year ended 31 December 2016. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above 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 2016.

Milan, 27 March 2017


KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

Banca Popolare di Sondrio

**CONSOLIDATED FINANCIAL
STATEMENTS
OF THE BANCA POPOLARE DI SONDRIO
BANKING GROUP**

REPORT ON OPERATIONS

Shareholders,

As Parent Company 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 Company holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, CHF 180,000,000, which is fully paid-up.

Factorit spa - Milan.

The Parent Company holds 60.5% of the capital of Factorit spa, Euro 85,000,002.

Sinergia Seconda Srl – Milan.

The Parent Company holds all the capital of Sinergia Seconda Srl, Euro 60,000,000.

Popso Covered Bond srl - Conegliano

The Parent Company holds 60% of the capital of Popso Covered Bond srl, Euro 10,000.

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) 180,000	100
Factorit spa	Milan	85,000	60.5
Sinergia Seconda srl	Milan	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	19.264
Arca Vita spa	Verona	208,279	14.837
Banca della Nuova Terra spa	Milan	31,315	19.609
Arca Holding spa	Milan	50,000	21.137
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 Company's financial statements contains information on the international, Swiss and Italian economic situation during the year 2016.

TERRITORIAL EXPANSION

Once again moving against the general trend, our policy of expanding the commercial network continued during 2016, in line with the established guidelines for the Group. Banca Popolare di Sondrio opened 5 branches, raising the total to 337.

At the end of 2016, the Group had a total of 356 branches.

GROUP PERFORMANCE

FUNDING

In general, liquidity was abundant throughout 2016 due to the expansionary monetary policy adopted and the maintenance of interest rates at historically low levels. Against this background, the Group achieved a satisfactory increase in funding.

Direct funding from customers amounted to 30,934 million, +4.76%.
Indirect funding from customers amounted to 28,409 million, +0.61%.

Insurance premium income came to 1,266 million, +15.11%.

Total funding from customers therefore amounted to 60,609 million (+2.96%).

Amounts due to banks totalled 2,505 million, +8.79%. As in prior years, this total includes the refinancing operations arranged with the European Central Bank, which amounted to 1,100 million at the end of the year. Indirect funding from banks rose from 2,460 million to 3,623 million, +47.27%.

Total deposits from customers and banks therefore came to 66,737 million (+4.89%).

The table «Direct funding from customers» shows the various components in more detail with respect to the Notes.

Considering the individual components, current accounts in euro and foreign currency rose to 26,197 million, +10.09%, and make up 84.69% of all direct funding. Bonds increased by 1.25% to 3,150 million, going against the general trend of the system. Time deposit accounts have fallen to 355 million, -71.64%. Repo transactions also fell to 610 million, -16.07%; savings deposits decreased at a slower pace to 540 million, -5.51%. Certificates of deposit dropped to 3 million, -39.50%, and remain entirely marginal. Bank drafts amounted to 78 million, +21.65%.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	2016	%	2015	%	% Change
Savings deposits	540,046	1.75	571,509	1.94	-5.51
Certificates of deposit	3,264	0.01	5,395	0.02	-39.50
Bonds	3,150,367	10.18	3,111,549	10.54	1.25
Repo transactions	610,237	1.97	727,070	2.46	-16.07
Bank drafts and similar	78,150	0.25	64,242	0.22	21.65
Current accounts	23,641,895	76.43	21,277,751	72.05	11.11
Time deposit accounts	355,475	1.15	1,253,473	4.24	-71.64
Foreign currency accounts	2,554,701	8.26	2,517,406	8.53	1.48
Total	30,934,135	100.00	29,528,395	100.00	4.76

TOTAL DEPOSITS

(in thousands of euro)	2016	%	2015	%	% Change
Total direct funding from customers	30,934,135	46.35	29,528,395	46.41	4.76
Total indirect funding from customers	28,409,167	42.57	28,237,275	44.38	0.61
Total insurance-related deposits	1,265,888	1.90	1,099,735	1.73	15.11
Total	60,609,190	90.82	58,865,405	92.52	2.96
Due to banks	2,504,510	3.75	2,302,136	3.62	8.79
Indirect funding from banks	3,622,959	5.43	2,460,008	3.86	47.27
Grand total	66,736,659	100.00	63,627,549	100.00	4.89



LENDING

Despite the continuation of multiple uncertainties, the economic recovery was confirmed during the year, not least due to the historically low lending rates that have benefited households and businesses. First-home mortgage demand from the latter has indeed been lively. That said, the improvement in the macroeconomic situation has significantly reduced the flow of new impaired loans.

Lending totalled 25,313 million, up by 5.49% compared with the prior year when a contraction of 0.06% was reported. The general trend fluctuated during the year: downwards in the early months and more lively in the last quarter. The ratio of loans to deposits is 81.83% compared with 81.27% last year.

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

The growth in other unsecured loans was particularly significant: +29.97% to 5,280 million or 20.86% of the total loans and receivables with customers. By contrast, mortgage loans increased by 2.81% to 9,470 million or 37.41% of total lending. This line item includes loans assigned but not derecognised of 1,387 million in relation to the issue of covered bonds by the Parent Company. These loans were not derecognised because the requirements of IAS 39 were not met. Current account overdrafts have decreased from

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	2016	%	2015	%	% Change
Current accounts	4,834,195	19.10	5,261,348	21.93	-8.12
Foreign currency loans	1,175,623	4.64	1,355,350	5.65	-13.26
Advances	407,575	1.61	427,592	1.78	-4.68
Advances subject to collection	197,294	0.78	217,489	0.91	-9.29
Discounted portfolio	4,537	0.02	6,459	0.03	-29.76
Artisan loans	40,513	0.16	36,047	0.15	12.39
Agricultural loans	26,950	0.11	25,867	0.11	4.19
Personal loans	219,897	0.87	199,710	0.83	10.11
Other unsecured loans	5,280,407	20.86	4,062,907	16.93	29.97
Mortgage loans	9,470,151	37.41	9,211,530	38.39	2.81
Non-performing loans	767,900	3.03	734,682	3.06	4.52
Repo transactions	698,937	2.76	706,060	2.94	-1.01
Fixed-yield securities	360,145	1.42	245,802	1.02	46.52
Factoring	1,829,340	7.23	1,505,700	6.27	21.49
Total	25,313,464	100.00	23,996,543	100.00	5.49

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2016	31/12/2015	(+/-)	% change
Impaired loans	Gross exposure	4,425,892	4,253,913	171,979	4.04
	Adjustments	2,043,501	1,891,705	151,796	8.02
	Net exposure	2,382,391	2,362,208	20,183	0.85
- Non-performing loans	Gross exposure	2,099,717	1,927,608	172,109	8.93
	Adjustments	1,331,817	1,192,926	138,891	11.64
	Net exposure	767,900	734,682	33,218	4.52
- Unlikely to pay loans	Gross exposure	1,987,517	1,840,192	147,325	8.01
	Adjustments	664,922	630,597	34,325	5.44
	Net exposure	1,322,595	1,209,595	113,000	9.34
- Past due and/or impaired overdrawn exposures	Gross exposure	338,658	486,113	-147,455	-30.33
	Adjustments	46,762	68,182	-21,420	-31.42
	Net exposure	291,896	417,931	-126,035	-30.16
Performing loans	Gross exposure	23,070,964	21,793,988	1,276,976	5.86
	Adjustments	139,891	159,653	-19,762	-12.38
	Net exposure	22,931,073	21,634,335	1,296,738	5.99
Total loans and receivables with customers	Gross exposure	27,496,856	26,047,901	1,448,955	5.56
	Adjustments	2,183,392	2,051,358	132,034	6.44
	Net exposure	25,313,464	23,996,543	1,316,921	5.49

5,261 to 4,834 million, -8.12%. The factoring loans granted by Factorit spa amounted to 1,829 million, +21.49%, and personal loans totalled, 220 million, +10.11%. Fixed-yield securities total 360 million at the end of 2016, compared with 246 million previously (+46.52%). They derive from the securitisation of loans to customers made by Banca della Nuova Terra spa and Alba Leasing spa. Foreign currency loans declined to 1,176 million, -13.26%; advances eased to 408 million, -4.68%; advances subject to collection were also lower at 197 million, -9.29%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, were down, from 706 to 699 million, -1.01 %.

Total impaired loans amount to 2,382 million, +0.85%, representing 9.41% of loans and receivables with customers, compared with 9.84% at the end of 2015. This slight increase is particularly significant when compared with the rises in 2015 and 2014 of 14.15% and 12.56% respectively. The dynamic benefited from the upturn in the general economic cycle, given that the highly prudential Group policies on classification and provisions are unchanged.

Writedowns of impaired loans totalled 2,044 million, +8.02%, representing 46.17% of the gross amount, compared with 44.47% at the end of 2015 and 43.21% at the end of 2014. The table gives an overview of impaired and performing loans.

Net non-performing loans amount to 768 million, +4.52%, corresponding to 3.03% of total loans and receivables with customers, compared with 3.06%

at 31 December 2015. Although higher, the rate of increase was slower than in the prior year, when the rise was 19.56%, and the total remains significantly lower in percentage terms with respect to the banking system as a whole. 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 1,332 million, +11.64%, representing 63.43% of the gross amount compared with 61.89% last year and 61.14% in 2014. 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 73.32%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, that the debtor is deemed unlikely to settle in full, without recourse by the bank to the collection of guarantees or similar forms of protection. These have risen to 1,323 million, +9.34%, corresponding to 5.22% of total loans and receivables with customers, compared with 5.04% in the previous year. The related adjustments totalled 665 million, +5.44%, with coverage of 33.45% compared with 34.27% at the end of 2015.

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 292 million, -30.16%, and represent 1.15% of total loans and receivables with customers compared with 1.74% in the previous year. The related adjustments amounted to 47 million, -31.42%.

In addition to the adjustment of impaired loans, provisions against performing loans totalled 140 million, -12.38%, representing coverage of 0.61% compared with 0.73% in the previous year. This reduction in coverage mainly correlates with the improvement in asset quality. Adjustments totalled 2,183 million overall, +6.44%.

As required by Consob Communication no. DEM/RM11070007 of 5 August 2011, we note that loans and receivables with customers include loans to central and local government for 275 million, local or state-owned enterprises for 628 million and various other entities for 15 million.

TREASURY AND TRADING OPERATIONS

The performance of the financial markets is discussed in the report on operations presented by the Parent Company.

The net interbank position at the end of 2016 reflected borrowing of 718 million, which was down by 604 million from 1,322 million at 31 December 2015. The change was due to the good liquidity position of the Group, given the inflow of funds from customers and the reduction in the overall size of the securities portfolio.

A Target Long Term Refinancing Operation (TLTRO II) amounting to

1,100 million, arranged with the ECB on 23 June 2016 by the Parent Company, was still outstanding at year end. The operations arranged in September and December 2014, totalling 1,098 million, were repaid on that date. The new operation will expire on 24 June 2020, with an early redemption option from 27 June 2018.

Ignoring this operation (TLTRO II), the net interbank position at the end of 2016 would have been 382 million positive.

The exposure to liquidity risk is monitored both in the short term, taking a three-month view every day, and over the long term with a monthly check.

The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are considerably higher than the established minimums. The Group has a substantial portfolio of refinanceable assets that, net of the haircuts applied, total 7,768 million, of which 5,377 available and 2,391 committed.

The portfolios of financial assets at the end of 2016 total 7,877 million, -6.23%. The following schedule analyses these assets and indicates the change between years:

FINANCIAL ASSETS

(in thousands of euro)	2016	2015	% Change
Financial assets held for trading (HFT)	1,019,712	1,859,435	-45.16
<i>of which, derivatives</i>	56,581	64,058	-11.67
Financial assets carried at fair value (CFV - Carried at Fair Value)	96,303	94,495	1.91
Available for sale financial assets (AFS - Available For Sale)	6,644,437	6,321,023	5.12
Held-to-maturity investments (HTM - Held to Maturity)	117,023	125,777	-6.96
Total	7,877,475	8,400,730	-6.23

Consistent with the past, the portfolio mostly comprises domestic government securities, although the amount has contracted considerably following disposals, especially of securities about to mature. The intensive volume of trading during the year, in line with the comparative period, with a particular emphasis on the HFT and AFS portfolios. The good market tone, especially in the first part of the year, facilitated the disposal of securities, mostly government bonds, with the realisation of substantial disposal/trading profits. At the same time, similar new securities with a limited duration were purchased.

The ECB's expansionary policy has caused the yields on public debt securities to fall to historical minimums, being zero or even negative in the case of shorter maturities. In order to obtain better yields, securities with less short maturities have been purchased, thus raising the average duration to just over 4 years. As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2016 these

portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 6,777 million.

Financial assets held for trading

Financial assets held for trading (HFT), as shown in the following table, amount to 1,020 million and have decreased by 45.16%.

(in thousands of euro)	2016	2015	% change
Floating-rate Italian government securities	398,469	810,126	-50.81
Fixed-rate Italian government securities	54,438	492,905	-88.96
Bank bonds	212,690	222,632	-4.47
Bonds of other issuers	33,236	55,260	-39.86
Bonds of other issuers in foreign currency (USD)	11,383	-	-
Securitisations	27,507	31,265	-12.02
Variable-yield securities and mutual funds	225,408	183,189	23.05
Net book value of derivative contracts	56,581	64,058	-11.67
Total	1,019,712	1,859,435	-45.16

The composition of the HFT portfolio remains simple and transparent. Italian government securities are preferred, representing 44.42% of the portfolio despite the reduction to 453 million from 1,303 million previously.

The profit from trading has contracted sharply, while considerable volatility during the year resulted in significant net unrealised losses.

The overall profit from managing the HFT portfolio was 31,545 million, compared with 65,714 million in 2015. This reflects a loss from trading in securities of 18,600 million and a profit of 50,145 million from currency, exchange and derivative transactions and exchange differences. Analysing «net trading income» in detail with regard to fixed-yield securities as a whole, net trading losses totalled 0.739 million, while unrealised gains and losses amounted to 4.233 million and 0.905 million respectively. Then we have to add profits of 4.624 million and net losses of 25.813 million on variable-yield securities and mutual funds. This situation compares with net trading income of 8.237 million in 2015, of which net profits of 19.807 million; unrealised gains of 9.835 million; unrealised losses of 21.405 million.

As mentioned, the HFT portfolio continues to include a heavy weighting of Italian government bonds, 453 million, representing 44.42% of the total. Corporate bonds amount to 257 million, down by 21 million, of which 213 million relate to bank issues, mostly covered bonds. Securities that are part of securitisations are all senior and have decreased to 28 million. Floating-rate government securities total 398 million, while the fixed-rate securities of 54 million, -88.96%, have decreased due to the disposal of BTP and BOT. Shares and quotas in UCITS have increased to 225 million, +23.05%. Derivatives have fallen by 11.67% to 57 million and comprise: derivatives on debt securities and interest rates, 20 million; derivatives on variable-yield securities, stock indices, currency, gold and precious metals, 37 million.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV), entirely held by the Parent Company, amount to 96 million, +1.91%, and almost entirely relate to various types of funds and sicavs. The increase essentially reflects the year-end valuations.

Available-for-sale financial assets

Available-for-sale financial assets (AFS) total 6,644 million, +5.12%. The increase reflects the different dynamics of the various components. Among these, Italian government securities have decreased by 9.57% to 5,440 million because, with a view to diversification, they have been replaced in part by fixed-income Spanish and French government securities totalling 815 million.

In accordance with the usual operational guidelines, this portfolio holds part of the liquidity invested largely in Italian government securities, partly to replace similar securities within the HFT portfolio that are sold or redeemed. The objective is to contain, at least in part, the effect on the income statement of the volatility present in the financial markets. The bond component has been increased slightly to 55 million, with the purchase of fixed-income corporate and financial securities from various issuers. Variable-yield securities are basically unchanged at 102 million, while the units in UCITS have increased to 232 million, +17.85%. The considerable disposals of the period resulted in significant profits, albeit much lower than in the comparative period. 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 valuation reserves against available-for-sale financial assets have decreased by 39.456 million, net of tax effect, thus reducing the positive valuation reserves from 112.940 million to 73.484 million.

Impairment tests were performed on those equity investments with negative valuation reserves resulting 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 5,499 million, relating to government securities and corporate bonds; units in UCITS of 59 million and shares of 17 million; in addition, positive changes in fair value came to 29 million. Other increases of 119 million mainly relate to the recognition of trading profits, coupons, discounts and the period element of the amortised cost adjustment. The decreases were recognised on the sale of debt securities, 5,125 million, and shares, 10 million. Additionally, refunds amounted to 100 million and impairment adjustments totalled 25.189 million. Of these, 13.950 million related to the quotas held in Fondo Atlante, to which the Parent Company is committed for up to 50 million. This fund was established to help stabilise the banking system and has intervened in the crises faced by Banca Popolare di Vicenza and Veneto Banca. A further 6.315 million reflects the write-down of the investment in Release spa, while the remainder related to listed and unlisted shares and units in UCITS. Adverse fair value adjustments

amounted to 10 million. Other decreases of 127 million related to coupons, the elimination of capital gains already recognised in equity, trading losses and the negative components of the amortised cost adjustment.

Held-to-maturity investments

The portfolio of held-to-maturity investments (HTM) amounts to 117 million, a decrease of 6.96% that was a consequence of redemptions. Investments comprise prime bonds and government securities, a large part 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 Parent Company 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 2016, the above securities amount to 29 million, following redemptions, with a similar fair value, compared with 52 million in the prior year, -43.67%.

Asset management

Once again, the asset management sector achieved substantial net inflows. The current scenario, with rates close to zero and customers needing professional help in order to identify suitable investments, has facilitated this further growth.

Our Group has confirmed its ability to compete actively in this specific market. In fact, the volume of business during 2016 grew in line with the general trend and the aggregates have been strengthened even further. The assets managed in various forms totalled 4,809 million at the end of 2016, up by 4.44% since 31 December 2015, of which 2,270 million, +7.98%, relates to the mutual funds managed by Arca SGR; 795 million, +25.34%, to other types of UCITS, including the Popso (SUISSE) Investment Fund Sicav; 1,744 million, -6.63%, to asset management.

BPS stock

Following the excellent performance achieved in 2015 (+34.11%), the price of BPS stock, traded on the market organised by Borsa Italiana, was dragged down by the general poor performance of the banking sector. The fall was limited to 24.66%, as BPS is one of the most defensive stocks in the sector.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company holds 3,650,000 treasury shares with a carrying amount of 25.322 million, which is unchanged since the end of 2015. There are also 8,792 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies.

EQUITY INVESTMENTS

Equity investments amount to 209 million. The increase of 11 million essentially reflects the measurement at equity of these investments, except for the least significant.

The reader is referred to the report accompanying the Parent Company's 2016 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 the disclosure requirements of article 5 of the above Consob Regulation, between 1 January and 31 December 2016, the competent bodies of the Parent Company approved the following transactions of greater significance with related parties (the other Group companies did not carry out any transactions of greater significance during 2016):

- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; granting of a revolving facility for commercial guarantees in favour of non-residents of € 65,000,000 repayable on demand; renewal of lines of credit totalling € 2,105,916,197 repayable on demand; resolutions of 23/4/2016;
- Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 100,000,000 repayable on demand; renewal of lines of credit totalling € 2,315,000,000 repayable on demand; resolutions of 29/6/2016;
- Alba Leasing spa, associated company; renewal of lines of credit totalling € 470,528,202 repayable on demand; resolution of 6/10/2016;
- Factorit spa, subsidiary; granting of a financial credit limit for commercial guarantees to be given to residents of € 100,000 repayable on demand; resolution of 17/11/2016;
- Alba Leasing spa, associated company; granting of an overdraft facility of € 400,000,000 repayable on demand; renewal of lines of credit totalling € 48,028,202 repayable on demand; resolutions of 20/12/2016;

- Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 35,000,000 repayable on demand and a revolving facility for guarantees in favour of residents of € 10,000,000 repayable on demand; resolutions of 20/12/2016;
- Factorit spa, subsidiary; revolving facility for advances up to € 400,000,000, available until revoked; resolution of 29/12/2016;
- Release spa, associated company; renewal of lines of credit totalling € 157,000,000 repayable on demand; resolution of 29/12/2016.

In addition, as part of the programme for the issue of covered bonds authorised by the Board of Directors of the Parent Company in 2014, on 29 January 2016 and 31 October 2016, BPS assigned to Popso Covered Bond srl two portfolios of performing mortgages amounting to 576 million and 226 million respectively.

During 2016, no transactions of greater or lesser significance were carried out with related parties, which could have had a significant impact on the Group's balance sheet or results. Additionally, there have not been any developments and/or modifications of the transactions carried out with related parties during 2015 - in any case none of an atypical, unusual or non-market nature - with a significant effect on the Group's balance sheet or results for 2016.

In relation to 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 amounts, gross of the consolidation adjustments.

During 2016 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

Intangible assets include goodwill of 7.847 million recognised on the acquisition of Factorit spa in 2010. In compliance with IAS 36, this goodwill has been subjected to impairment testing in order to check for any impairment in value. Information about this is provided in Part B, section 13 Intangible assets, of the notes to the financial statements. Together, the evaluation processes did not highlight any need to write down the balance of goodwill on the books.

HUMAN RESOURCES

The Group has 3,156 employees at the end of 2016, an increase of 41 persons from 3,115 at the end of the previous year.

The personnel departments have been heavily involved in selecting, training and managing staff, in order to ensure that the necessary professional resources are available for the Group's operational development and growth, having regard for the changes taking place in the reference markets.

A breakdown of personnel by individual category is contained in the notes.

CAPITAL AND RESERVES

Consolidated shareholders' equity at 31 December 2016, inclusive of valuation reserves and the profit for the year, amounts to 2,587.756 million, being an increase of 24.927 million, +0.97%.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	2016	2015	2016	2015
ASSETS				
Loans and receivables with banks	-	-	-	-
Loans and receivables with customers	769,870	564,683	724	784
Other financial assets	-	-	-	-
LIABILITIES AND EQUITY				
Due to banks	2,213	2,333	-	-
Due to customers	209,025	165,322	564	281
Other financial liabilities	-	-	-	-
GUARANTEES AND COMMITMENTS				
Guarantees given	49,051	105,413	98	98
Commitments	2,852	126,481	-	-

The line item reserves rose to 1,033.417 million, +11.09%, due to the allocation of a significant portion of the 2015 profit for the year. In this regard, note that the Parent Company's Shareholders' Meeting of 23 April 2016 approved the result for 2015 and the proposed distribution of a dividend of 0.07 euro for each of the 453,385,777 shares outstanding at 31 December 2015.

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 41.927 million, down 53.11% from the positive balance of 89.416 million reported at the end of 2015. This marked reduction was mainly due to the adverse effect of charges made to the income statement following the disposal of AFS securities.

The value of the shares held in the Parent Company has increased from 25.322 million to 25.349 million, following purchases made in the context of the Group's remuneration policies.

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 changed the lower limits for the capital ratios, which are currently 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. Following the SREP decision of 20 November 2015, the European Central Bank raised the level of capital required to guarantee appropriate coverage of the Group's risks. In particular, the minimum Common Equity Tier 1 ratio for 2016 was raised to 9.25%, but no increases were made to the general regulatory requirements for the Tier 1 Capital Ratio and the Total Capital Ratio.

In particular, based on the SREP (Supervisory Review and Evaluation Process), the ECB is empowered to set specific capital and/or liquidity coefficients for each bank subject to EU supervision, as well as to express further qualitative and quantitative considerations and recommendations: the Bank of Italy carries out similar activities for the less significant banks under its direct supervision.

Last December the European Central Bank sent the Parent Company the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 January, for the year 2017.

The new minimum capital levels required of our Banking Group are:

- a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.50%);

- a minimum requirement of total capital ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.25%) and an additional Second Pillar requirement (1.50%).

While the first two items of each index are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios this year. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,150.636 million at 31 December 2016.

Set out below are the Group's adequacy requirements at 31 December 2016 and the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	11.09%	9.25%
Tier 1 Capital Ratio	11.12%	8.50%*
Total Capital Ratio	13.58%	10.50%

* minimum requirements.

The Texas ratio, being the ratio of net impaired loans to tangible shareholders' equity, is 92.92%.

The leverage ratio is 6.21%, applying the Phased In transitional criteria in force for 2016, and 6.20% based on the Fully Phased criteria. These figures rank among the best when compared with those of the main Italian and European banking groups.

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 Parent Company carried out an impairment test on the entire structure. The results of this test showed that the Group was worth 3,020 million, 432 million more than its consolidated equity, which amounted to 2,588 million. Further details are provided in Part F «Information on equity» of the notes.

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 2015:

- *capital/direct funding from customers*
8.37% compared with 8.68%
- *capital/customer loans*
10.22% compared with 10.68%
- *capital/financial assets*
32.85% compared with 30.51%
- *capital/total assets*
6.96% compared with 7.21%
- *net non-performing loans/capital*
29.67% compared with 28.67%

RECONCILIATION BETWEEN THE PARENT COMPANY'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles «profit for the period» and «equity» as shown in the Parent Company'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 COMPANY WITH THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of euro)

		of which:
	Equity	Profit for the year
Equity of the Parent Company as of 31.12.2016	2,334,786	80,048
Consolidation adjustments	(12,040)	(12,040)
Difference with respect to carrying values of equity investments in:		
- companies consolidated on a line-by-line basis	237,410	17,643
- companies valued using the equity method	27,600	12,948
Balance as of 31.12.2016, as reported in the consolidated financial statements	2,587,756	98,599

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group has been assessed by the rating agencies Fitch Ratings and Dagong Europe Credit Rating. For further information, see the directors' report accompanying the 2016 financial statements of the Parent Company.

INCOME STATEMENT

Against a general background marked by considerable uncertainties and concerns, with some signals that might inspire confidence, the Group has reported a net profit for the year of 98.599 million compared with 129.300 million in the prior year. In this regard, it will be recalled that the results from trading in securities were particularly good in 2015, due to extremely favourable conditions in the financial markets. The final result would have been far more satisfactory had it not been for the additional contributions made to the Support and Guarantee Funds, which rose from 39.442 million to 43.911 million.

Net interest income continued along the established downward trend, falling by 12.725 to 474.250 million from 543.371 million in the prior year, partly due to the contraction in the spread. Interest income fell 16.72% to 663.566 million. This performance was affected by the level of interest rates that, when not actually negative, are at historical minimums. The expansionary monetary policy adopted by the ECB, which is likely to continue for an extended period, is reflected in the yields on debt securities and, to a greater extent, in the rates charged to prime customers in particular.

Interest expense fell by 25.30% to 189.316 million. This decrease, however, was not sufficient to contain the reduction in net interest income. In this regard, it is necessary to observe that the rates paid on customer accounts really cannot be reduced any further. Additionally, the funding obtained from customers - which greatly exceeds lending - has resulted in the need to place excess funds in financial investments that, in turn, have ever lower or even negative yields, as already mentioned.

Dividends collected amounted to 7.209 million, compared with 2.860 million.

Net fee and commission income amounted to 293.097 million, -3.42%.

There was a reduction in the income from trading in financial instruments and foreign exchange, from loans granted and from factoring transactions, but an increase in that from asset management and insurance products, credit cards and collection and payment services.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 110.127 million compared with 211.984 million in the comparative period, -48.05%. Although the decline compared with 2015 is substantial, in both absolute and percentage terms, this is still quite a respectable result. This is because, as mentioned, the comparative period was marked by particularly favourable conditions in the financial markets.

The net trading income of the HFT portfolio amounted to 31.545 million, compared with 65.714 million, -52%. The drop was principally due to the marked contraction of this portfolio in recent years, given its repositioning by the Group in favour of AFS securities, which resulted in a reduction in the profit from trading in securities from 19.807 million to 3.885 million. The result was also adversely affected by the impact of net unrealised losses on securities and currency of 3.624 million, compared with net unrealised gains of 15.940 million in the prior year. The derivatives element rose from 4.106 million to 8.320 million. The realised and unrealised exchange gains declined from 25.861 million to 22.964 million, as they were unable to benefit from the exceptional volatility experienced in the prior year.

The net result from the sale or repurchase of AFS financial assets, loans and financial liabilities was 76.011 million, compared with 140.034, million, due mainly to the disposal of Italian government securities. The result from assets carried at fair value was 2.309 million, compared with 6.731 million in the previous year.

The net hedging gains totalled 0.262 million, compared with net losses of 0.495 million.

Income from banking activities amounted to 884.683 million, -16.67%.

Within this aggregate, the weighting of net interest income increased from 51.18% to 53.61%.

In a context marked by a perceived global economic recovery accompanied by a prolonged phase of interest rates at historical minimums,

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	2016	2015	(+/-)	% change
Net interest income	474,250	543,371	-69,121	-12.72
Dividends	7,209	2,860	4,349	152.06
Net fee and commission income	293,097	303,468	-10,371	-3.42
Results of financial activities	110,127	211,984	-101,857	-48.05
Total income	884,683	1,061,683	-177,000	-16.67
Net adjustments to loans and financial assets	-278,545	-409,135	130,590	-31.92
Net financial income	606,138	652,548	-46,410	-7.11
Personnel costs	-232,172	-231,439	-733	0.32
Other administrative expenses	-289,127	-282,005	-7,122	2.53
Other operating income/expense	67,978	76,172	-8,194	-10.76
Net accruals to provisions for risks and charges	-2,439	982	-3,421	-348.37
Adjustments to property, equipment and investment property and intangible assets	-33,575	-32,043	-1,532	4.78
Operating costs	-489,335	-468,333	-21,002	4.48
Operating profit (loss)	116,803	184,215	-67,412	-36.59
Net gains (losses) on equity investments and other investments	13,166	12,230	936	7.65
Profit (loss) before tax	129,969	196,445	-66,476	-33.84
Income taxes	-30,094	-58,945	28,851	-48.95
Profit (loss)	99,875	137,500	-37,625	-27.36
Profit pertaining to minority interests	-1,276	-8,200	6,924	-84.44
Profit pertaining to the Parent Bank	98,599	129,300	-30,701	-23.74

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement. The provision recorded to defer revenues from investments in Pension and similar obligations has been reclassified from «Personnel costs» to «Other operating income/expense».

the improved quality of lending has translated into a reduced need for write-downs and adjustments.

Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 278.545 million compared with 409.135 million (-31.92%).

Of this, 250.121 million relates to amounts due from customers, representing a decrease of 35.86% from 389.983 million in the comparative period.

This reduction reflects the improved economic conditions, as well as the constant refinement of the work performed in relation to the granting and management of loans. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of

credit, has fallen from 1.63% to 0.99%. Adjustments for the impairment of securities rose from 8.203 million to 25.189 million. This amount includes 13.950 million to write-down the units in Fondo Atlante, which are held in the AFS portfolio. Fondo Atlante, established to help stabilise the banking system, has taken action to assist Banca Popolare di Vicenza spa and Veneto Banca spa. Their continued poor results made a reduction in the carrying amount of the units held inevitable, even though Quaestio Capital Management SGR Spa did not write-down their NAV as of 31 December 2016. In addition, a provision of 6.315 million was recorded to adjust the carrying amount of the investment held in Release spa, as well as other shares and mutual funds held in the AFS portfolio whose original carrying amounts were objectively impaired in comparison with their current market prices.

Adjustments to other financial transactions amounted to 3.235 million, compared with 0.984 million in 2015.

The net financial income therefore comes to 606.138 million, -7.11%.

Rationalisation and cost containment are a constant part of operations, especially in this phase of very low margins.

Operating costs, which are subject to continuous monitoring and control, amounted to 489.335 million, +4.48%.

The ratio of operating costs/total income, i.e. the «cost income ratio», has risen to 55.31% from 44.11% in the previous year.

The ratio of operating costs to total assets, 1.32%, is unchanged.

Looking at costs in more detail, administrative expenses - stated after reclassifying the provision deferring income related to post-employment benefits - amounted to 521.299 million, +1.53%; of these, personnel costs rose from 231.439 to 232.172 million, +0.32; other administrative expenses are up from 282.005 to 289.127 million. Among these, there was a further increase in the contributions made to the Support and Guarantee Funds, from 39.442 million to 43.911 million. With regard to the costs linked to routine activities, the most significant increases related to consultancy, searches and information, and use of the interbank networks.

Net new provisions for risks and charges totalled 2.439 million, while 0.982 million was released in 2015 with regard to earlier provisions that were used or no longer required.

The depreciation of property, equipment and investment property and amortisation of software amounted to 33.575 million, +4.78.

Other income, net of other operating expense, totalled 67.978 million.

Net profits on equity and other investments amounted to 13.166 million, compared with 12.230 million, +7.65%.

Profit before income taxes totalled 129.969 million.

After deducting income taxes of 30.094 million and the non-controlling interest of 1.276 million, the profit for the year amounted to 98.599 million, compared with 129.300 million in the prior year, -23.74%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 23.15% compared with 30.01% in 2015.



SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the Parent Company's financial statements for information on events that took place after 31 December 2016.

There is nothing worth noting with regard to Banca Popolare di Sondrio (SUISSE) SA, Factorit spa and Sinergia Seconda srl.

Given general conditions at present, in which economic growth is exposed to various uncertainties, the Group is expected to be able to continue along its path of independent development, with positive economic results. With interest rates remaining at low levels during 2017, there will be continued pressure on net interest income, although to a lesser extent. The renewed serenity of the general macroeconomic situation, with a beneficial effect on the quality of loans and, therefore, on the size of the related adjustments, will have a positive effect on profitability. The contribution from commission income is expected to improve, while work on the containment of costs will continue. The results from security transactions will depend on the performance of the markets.

Sondrio, 17 March 2017

THE BOARD OF DIRECTORS

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2016**



CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSET ITEMS		31-12-2016	31-12-2015
10.	CASH AND CASH EQUIVALENTS	789,612	766,097
20.	FINANCIAL ASSETS HELD FOR TRADING	1,019,712	1,859,435
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	96,303	94,495
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS	6,644,437	6,321,023
50.	HELD-TO-MATURITY INVESTMENTS	117,023	125,777
60.	LOANS AND RECEIVABLES WITH BANKS	1,786,732	980,339
70.	LOANS AND RECEIVABLES WITH CUSTOMERS	25,313,464	23,996,543
100.	EQUITY INVESTMENTS	208,575	198,176
120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	320,922	324,180
130.	INTANGIBLE ASSETS	23,869	22,246
	of which:		
	- goodwill	7,847	7,847
140.	TAX ASSETS	484,698	491,938
	a) current	73,251	64,592
	b) deferred	411,447	427,346
	b1) of which as per Law 214/2011	360,592	379,570
160.	OTHER ASSETS	390,978	357,399
TOTAL ASSETS		37,196,325	35,537,648

THE CHAIRMAN
Francesco Venosta

BOARD OF STATUTORY AUDITORS
Piergiuseppe Forni, Chairman
Donatella Depperu - Mario Vitali



EQUITY AND LIABILITY ITEMS		31-12-2016	31-12-2015
10.	DUE TO BANKS	2,504,510	2,302,136
20.	DUE TO CUSTOMERS	27,702,353	26,347,209
30.	SECURITIES ISSUED	3,231,782	3,181,186
40.	FINANCIAL LIABILITIES HELD FOR TRADING	73,016	48,709
60.	HEDGING DERIVATIVES	38,734	53,483
80.	TAX LIABILITIES	45,636	68,208
	a) current	2,963	4,059
	b) deferred	42,673	64,149
100.	OTHER LIABILITIES	701,529	678,166
110.	POST-EMPLOYMENT BENEFITS	44,805	43,374
120.	PROVISIONS FOR RISKS AND CHARGES:	181,552	165,725
	a) pension and similar obligations	130,874	117,912
	b) other provisions	50,678	47,813
140.	VALUATION RESERVES	41,927	89,416
170.	RESERVES	1,033,417	930,273
180.	SHARE PREMIUM RESERVE	79,005	79,005
190.	SHARE CAPITAL	1,360,157	1,360,157
200.	TREASURY SHARES (-)	(25,349)	(25,322)
210.	MINORITY INTERESTS	84,652	86,623
220.	PROFIT (LOSS) FOR THE YEAR (+/-)	98,599	129,300
TOTAL LIABILITIES AND EQUITY		37,196,325	35,537,648

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedrazzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti



CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS	2016	2015
10. INTEREST AND SIMILAR INCOME	663,566	796,812
20. INTEREST AND SIMILAR EXPENSE	(189,316)	(253,441)
30. NET INTEREST INCOME	474,250	543,371
40. FEE AND COMMISSION INCOME	311,875	324,504
50. FEE AND COMMISSION EXPENSE	(18,778)	(21,036)
60. NET FEE AND COMMISSION INCOME	293,097	303,468
70. DIVIDENDS AND SIMILAR INCOME	7,209	2,860
80. NET TRADING INCOME	31,545	65,714
90. NET HEDGING GAINS (LOSSES)	262	(495)
100. GAINS/LOSSES FROM SALES OR REPURCHASE OF:	76,011	140,034
b) available-for-sale financial assets	76,331	139,926
d) financial liabilities	(320)	108
110. NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	2,309	6,731
120. TOTAL INCOME	884,683	1,061,683
130. NET IMPAIRMENT LOSSES ON:	(278,545)	(409,135)
a) loans and receivables	(250,121)	(389,983)
b) available-for-sale financial assets	(25,189)	(8,203)
c) held-to-maturity investments	-	(9,965)
d) other financial transactions	(3,235)	(984)
140. NET FINANCIAL INCOME	606,138	652,548
170. BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT	606,138	652,548
180. ADMINISTRATIVE EXPENSES:	(525,961)	(517,805)
a) personnel expenses	(236,834)	(235,800)
b) other administrative expenses	(289,127)	(282,005)
190. NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(2,439)	982
200. DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(18,606)	(18,117)
210. AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(14,969)	(13,926)
220. OTHER OPERATING CHARGES/INCOME	72,640	80,533
230. OPERATING COSTS	(489,335)	(468,333)
240. NET GAINS (LOSSES) ON EQUITY INVESTMENTS	12,973	13,719
250. NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS	130	(1,496)
270. NET GAINS ON SALES OF INVESTMENTS	63	7
280. PRE-TAX PROFIT FROM CONTINUING OPERATIONS	129,969	196,445
290. INCOME TAXES	(30,094)	(58,945)
300. POST-TAX PROFIT FROM CONTINUING OPERATIONS	99,875	137,500
320. PROFIT (LOSS) FOR THE YEAR	99,875	137,500
330. PROFIT (LOSS) OF THE PERIOD OF MINORITY INTERESTS	(1,276)	(8,200)
340. PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY	98,599	129,300

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items/Amounts	2016	2015
10. Profit for the year	99,875	137,500
Other income items net of income taxes that will not be reclassified to profit or loss		
40. Defined-benefit plans	(8,358)	2,012
60. Share of valuation reserves of equity investments valued at net equity	88	(102)
Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100. Available-for-sale financial assets	(39,456)	38,835
120. Share of valuation reserves of equity investments valued at net equity	213	731
130. Total other income items net of income taxes	(47,513)	41,476
140. Comprehensive income (Item 10+130)	52,362	178,976
150. Consolidated comprehensive income pertaining to minority interests	(1,252)	(8,201)
160. Consolidated comprehensive income pertaining to the Parent Bank	51,110	170,775



STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2015	Change in opening balances	Opening balance at 1.1.2016	Allocation of prior year results		Changes in reserves	Issue of new shares
				Reserves	Dividends and other allocations		
Share capital							
a) ordinary shares	1,393,736	-	1,393,736	-	-	-	-
c) other shares	-	-	-	-	-	-	-
Share premium reserve	83,363	-	83,363	-	-	-	-
Reserves							
a) from earnings	965,679	-	965,679	102,696	-	5,425	-
c) other	5,186	-	5,186	-	-	-	-
Valuation reserves	89,310	-	89,310	-	-	-	-
Equity instruments	-	-	-	-	-	-	-
Treasury shares	(25,322)	-	(25,322)	-	-	-	-
Profit for the year	137,500	-	137,500	(102,696)	(34,804)	-	-
Equity attributable to the group	2,562,829	-	2,562,829	-	(31,581)	5,425	-
Equity attributable to minority interests	86,623	-	86,623	-	(3,223)	-	-

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2014	Change in opening balances	Opening balance at 1.1.2015	Allocation of prior year results		Changes in reserves	Issue of new shares
				Reserves	Dividends and other allocations		
Share capital							
a) ordinary shares	1,393,746	-	1,393,746	-	-	-	-
c) other shares	-	-	-	-	-	-	-
Share premium reserve	83,365	-	83,365	-	-	-	-
Reserves							
a) from earnings	859,315	-	859,315	94,169	-	12,195	-
c) other	5,186	-	5,186	-	-	-	-
Valuation reserves	47,834	-	47,834	-	-	-	-
Equity instruments	-	-	-	-	-	-	-
Treasury shares	(25,031)	-	(25,031)	-	-	-	-
Profit for the year	125,282	-	125,282	(94,169)	(31,113)	-	-
Equity attributable to the group	2,407,234	-	2,407,234	-	(27,084)	12,195	-
Equity attributable to minority interests	82,463	-	82,463	-	(4,029)	-	-

Changes during the year									
Equity transactions							Comprehensive income	Equity attributable to the group 31.12.2016	Equity pertaining to minority interests 31.12.2016
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held				
-	-	-	-	-	-	-	-	1,360,157	33,579
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	79,005	4,358
-	-	-	-	-	-	-	-	1,030,188	43,612
-	-	-	-	-	-	-	-	3,229	1,957
-	-	-	-	-	-	-	(47,513)	41,927	(130)
-	-	-	-	-	-	-	-	-	-
(27)	-	-	-	-	-	-	-	(25,349)	-
-	-	-	-	-	-	-	99,875	98,599	1,276
(27)	-	-	-	-	-	-	51,110	2,587,756	-
-	-	-	-	-	-	-	1,252	-	84,652

Changes during the year									
Equity transactions							Comprehensive income	Equity attributable to the group 31.12.2015	Equity pertaining to minority interest 31.12.2015
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held				
(10)	-	-	-	-	-	-	-	1,360,157	33,579
-	-	-	-	-	-	-	-	-	-
(2)	-	-	-	-	-	-	-	79,005	4,358
-	-	-	-	-	-	-	-	927,044	38,635
-	-	-	-	-	-	-	-	3,229	1,957
-	-	-	-	-	-	-	41,476	89,416	(106)
-	-	-	-	-	-	-	-	-	-
(291)	-	-	-	-	-	-	-	(25,322)	-
-	-	-	-	-	-	-	137,500	129,300	8,200
(291)	-	-	-	-	-	-	170,775	2,562,829	-
(12)	-	-	-	-	-	-	8,201	-	86,623



CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	31/12/2016	31/12/2015
A. OPERATING ACTIVITIES		
1. Cash generated from operations	485,281	640,201
- profit for the period (+/-)	98,599	129,300
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (+/-)	1,418	(19,895)
- net hedging gains (losses) (-/+)	(262)	495
- net impairment losses (+/-)	295,146	408,009
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	33,575	32,044
- provisions for risks and charges and other costs/revenues (+/-)	55,846	28,388
- unpaid taxes and duties (+)	30,093	58,945
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	-	-
- other adjustments (+/-)	(29,134)	2,915
2. Cash generated/absorbed by financial assets	(1,960,806)	797,278
- financial assets held for trading	851,546	507,398
- financial assets at fair value through profit or loss	92	(2,819)
- available-for-sale financial assets	(409,579)	196,706
- loans and receivables with banks: sight	125,123	(40,620)
- loans and receivables with banks: other receivables	(919,641)	203,605
- loans and receivables with customers	(1,571,633)	(66,929)
- other assets	(36,714)	(63)
3. Cash generated/absorbed by financial liabilities	1,544,562	(801,838)
- due to banks: sight	212,498	(119,315)
- due to banks: other payables	(19,420)	33,282
- due to customers	1,332,983	(233,130)
- securities issued	50,485	(236,612)
- financial liabilities held for trading	7,667	(14,481)
- financial liabilities carried at fair value	-	-
- other liabilities	(39,651)	(231,582)
Net cash generated/absorbed by operating activities	69,037	635,641

	31/12/2016	31/12/2015
B. INVESTING ACTIVITIES		
1. Cash generated by	33,401	24,511
- sales of equity investments	-	-
- dividends collected from equity investments	5,770	7,255
- sales and reimbursements of held-to-maturity investments	27,453	16,000
- sale of property, equipment and investment property	178	1,256
- sale of intangible assets	-	-
- sale of business divisions	-	-
2. Cash absorbed by	(50,078)	(145,160)
- purchases of equity investments	(7)	(39,608)
- purchases of held-to-maturity investments	(18,290)	(2,596)
- purchases of property, equipment and investment property	(15,222)	(88,545)
- purchases of intangible assets	(16,559)	(14,411)
- purchases of business divisions	-	-
Net cash generated/absorbed by investing activities	(16,677)	(120,649)
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	(27)	(290)
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	(34,705)	(31,013)
Net cash generated/absorbed by financing activities	(34,732)	(31,303)
NET CASH GENERATED/ABSORBED IN THE PERIOD	17,628	483,689

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31/12/2016	31/12/2015
Cash and cash equivalents at beginning of the year	766,097	264,482
Total net cash generated/absorbed in the year	17,628	483,689
Cash and cash equivalents: effect of change in exchange rates	5,887	17,926
Cash and cash equivalents at end of year	789,612	766,097

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 2016 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

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

The format of the consolidated financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by D.Lgs 38/2005 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 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 reasons for it. 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 its 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 that they are compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

All of the figures reported in the consolidated financial statements and explanatory notes are shown in thousands of euro.

Section 3 *Scope of consolidation and methodology*

The consolidated financial statements present the economic and financial position at 31.12.2016 of the Banca Popolare di Sondrio banking group, which comprises the Parent Company, 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:

Name	Location	Type of relationship ⁽¹⁾	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	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

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company, has been consolidated. As defined by IFRS 10, 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.

The joint venture shown below is valued at equity:

Name	Location	Type of relationship ⁽¹⁾	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare srl	Sondrio	7	20	50	50

⁽¹⁾ 7 = joint control.

The scope of consolidation also includes the equity investments where the Parent Company 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	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Banca della Nuova Terra S.p.a.	Milan	31,315	19.609
Arca Holding S.p.a.	Milan	50,000	21.137
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
Bormio Golf S.p.a.	Bormio	631	25.237
Lago di Como Gal S.c.r.l.	Canzo	22	28.953
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 17/03/2017 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 5 Other aspects

The accounting policies applied during the year under review are consistent with those applied in 2015. The changes resulting from certain EU Regulations that came into force during the year did not have any significant impact on the financial statements.

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 Company 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 2016, 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 2016. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced 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 2016.

Standards already in force whose application became mandatory from 2016 or subsequent years:

- Regulation (EU) no. 28/2015 dated 17 December 2014 that adopted amendments to the following international accounting standards: IFRS 2 «Share-based payment», IFRS 3 «Business combinations», IFRS 8 «Operating segments», IAS 16 «Property, plant and equipment», IAS 24 «Related party disclosures», IAS 37 «Provisions, contingent liabilities and contingent assets», IAS 38 «Intangible assets» and IAS 39 «Financial instruments: Recognition and measurement».
- Regulation (EU) no. 29/2015 that amends IAS 19 «Employee benefits».
- Regulation (EU) no. 2113/2015 dated 23 November 2015 that, by modifying earlier regulations, amends IAS 16 «Property, plant and equipment» and IAS 41 «Agriculture».
- Regulation (EU) no. 2173/2015 dated 24 November 2015 which specifies that the references to IFRS 9 in IFRS 11 «Joint arrangements», regarding the classification and measurement of financial assets, cannot be applied for the moment, as IFRS 9 has not yet been endorsed by the EU, and must be read as references to the «corresponding» IAS 39 «Financial instruments: Recognition and measurement».
- Regulation (EU) no. 2231/2015 dated 2 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 16 and IAS 38. Clarifications are provided about the acceptable methods of depreciation and amortisation.
- Regulation (EU) no. 2343/2015 dated 15 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IFRS 5, IFRS 7, IAS 19 and IAS 34.
- Regulation (EU) no. 2406/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 1. The objective is to promote the use of professional judgement in the required disclosures, in order to make them more effective.
- Regulation (EU) no. 2441/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 27. The equity method can now be used in separate financial statements, in addition to the cost and fair value methods, to measure the investments held on subsidiaries, joint ventures and associates.
- Regulation (EU) 2067/2016 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. It applies from 1 January 2018.
- Regulation (EU) no. 1703/2016 of the Commission dated 22 December 2016 that amends Regulations (EC) no. 1126/2008 relating to IFRS 10 and 12 and IAS 28.
- Regulation (EU) no. 1905/2016 dated 22 December 2016 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 15. It applies from 1 January 2018.

IFRS 9: the new accounting standard on financial instruments

On 24 July 2014 the IASB published the final version of IFRS 9 «Financial Instruments» to replace IAS 39, which currently governs the classification and measurement of financial instruments, from 1 January 2018.

IFRS 9 introduces important changes with regard to «classification and measurement of financial instruments», «impairment» and «hedge accounting».

The new standard, approved by the European Commission on 22 November 2016 through registration in the Official Gazette (EU Regulation 2016/2067 of the Commission) will apply from 1 January 2018, also permitting early application as an alternative.

Among the effects of the global financial crisis, operators believed that the accounting rules had contributed to the acceleration and intensification of the crisis, particularly with regard to the delayed recognition of losses on loans and other financial assets. As a result, the IASB commenced a project in 2008 to replace IAS 39 in a number of stages. With regard to the above, the bank already found it necessary to take action in this matter in 2015, when it carried out a «gap analysis» to identify the possible effects of applying the new standard, both with regard to the classification and measurement of financial instruments, and in relation to the new impairment model for calculating adjustments to loans based on an «expected losses» approach (rather than the «incurred losses» approach required by IAS 39).

During 2016, the bank began projects to continue analysing the impact of introducing this accounting standard and to initiate the design phase of the target operating model, which will be implemented during 2017.

Responsibility for coordinating the various project activities has been given jointly to Administration & General Accounting, Risk Control and Information Systems. Project governance includes the involvement of top management by means of Steering Committees that meet regularly to define the implementation guidelines. The control functions, such as the Validation and Internal Audit Departments, will also be involved on an ongoing basis.

Because of the numerous areas of impact on corporate processes, the risk measurement models and organisational structure, this initiative envisages two main «implementation projects» which, respectively, are responsible for the «classification and measurement» of financial instruments and for «impairment» (i.e. the measurement of expected losses). As regards the various activities involved in updating the system of hedge accounting, the bank has decided, in line with current practice and as foreseen by the new standard, to continue applying IAS 39.

As regards the classification and measurement of financial instruments, the bank has carried out the activities involving interpretation of the accounting standard, identification of the business processes affected and the possible areas of impact. This has made it possible to identify a new structure for the accounting processes and to start designing the target model.

In light of the simulation work carried out in connection with the new accounting classification, led by the business model and by the contractual characteristics of the instruments' cash flows, no significant changes are expected in the composition of the portfolio on the basis of the accounting category. In detail, the bulk of the portfolio recorded at amortised cost will continue to be accounted for in this way, whereas, for a marginal portion of financial instruments (held to maturity and loans and receivables), a change in accounting treatment may be possible from amortised cost to fair value through profit and loss.

As for the activities relating to the impairment model, the scope of the bank's financial instruments that are subject to the new standard has been defined and we have started deciding on the methodologies to be used for estimating the risk parameters and carrying out the staging allocation. With a view to consistency in the risk measurement methods currently in use, the bank aims to develop models and methodologies for IFRS 9 purposes, enhancing - to the extent that this is appropriate - the practices and processes that are already being applied.

The initial choices of method have been made (e.g. lifetime probability of default, point-in-time based risk parameters, application of multiple macroeconomic scenarios) in order to determine the expected loss and the main criteria for allocating financial instruments to the various risk classes proposed by the legislation have been defined.

The choices made in relation to the classification, measurement and impairment of the bank's financial instruments have been the subject of quantitative simulations to determine the potential impacts adopting the standard.

The project to adapt to the new accounting standard requires an ongoing dialogue with the European Central Bank to keep them up to date on the progress that we are making

on the project, as well as the approach that we have decided to take. These discussions will continue and become even more intense during 2017.

In 2017, the project activities to adapt to the accounting standard will focus on implementing the target operating model and on upgrading the IT architecture in support.

In order to test the target operating model in line with the timing of the regulatory changes, parallel processing (to the current IAS 39 accounting framework) will start in the second half of 2017 on the accounting classification of financial instruments and measurement of impairment, based on IFRS 9.

IFRS 15 «Revenues from contracts with customers»

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer. This standard will apply from 1 January 2018. In 2015 the Group launched a project that continued during the year, with a view to analysing the main contracts according to the new rules. A series of studies was carried out in 2016 in order to define the approach to the new standard and how to upgrade processes and systems. It is reasonable to expect that the economic impacts will not be significant. It will however be necessary to amend processes, policies and IT systems in order implement the new accounting rules.

The financial statements are audited by KPMG 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 assets. 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 assets reflects the fair value of the asset concerned at the time of transfer.

Accounting policies

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

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

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

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

- a cumulative reduction in the fair value exceeding 20% of the original cost gives rise to the need to evaluate the presence of other characteristics which might make it necessary to carry out an impairment test.

In any case, a cumulative reduction in fair value exceeding 50% of the original cost automatically leads to an impairment test.

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

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, 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. In accordance with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts». 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.

Exposures classified as unlikely-to-pay loans are credit exposures, other than non-performing, for which the Group deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.

Impaired past due and/or overdrawn exposures are exposures, other than non-performing or likely default, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 continuous days and which exceed a set materiality threshold. Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

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.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, 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 classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans for which no specific estimate has been made of the loss attributable to each individual relationship. These loans are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due/overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. They are subject to a detailed assessment attributed to each risk position. In the absence of specific forecasts of the losses attributable to each individual relationship, the assessment takes into account the losses recorded historically in the category of exposures, as well as their technical form, existing guarantees and the ageing of the past due position. The responsible offices prepare appropriate statistical analyses to determine adjusting factors suitable for the loan category concerned.

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 homogeneous 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 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 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 to match the change in the carrying value of the hedged item;

- 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 or 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 as the conditions for payment of such taxation in the future do not currently 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 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 Company 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 carried 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

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives.

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.

Covered bond

On 6 November 2013, the Board of Directors of the Parent Company 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 Company.

On 30 May 2014, 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.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015.

On 1 February 2016, a portfolio of performing loans totalling € 576 million was assigned

without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the second series of covered bonds amounting to € 500 million issued on 4 April 2016.

Lastly, on 31 October 2016, a portfolio of € 226 million performing loans was assigned without recourse.

Given that the Parent Company 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.

Resolution mechanism and deposit guarantee system

By Directives 2014/49/EU dated 16 April 2014 and 2014/59/EU dated 15 May 2014, respectively known as the «Deposit Guarantee Schemes Directive (DGS)» and the «Bank Recovery and Resolution Directive (BRDD)», and by establishing the Single Resolution Mechanism (Regulation (EU) no. 806/2014 dated 15 July 2014), the European legislator made significant amendments to the governance of banking crises in order to strengthen the single market and systemic stability. Directive 2014/49/EU (DGS) harmonises the levels of protection offered by the national deposit protection funds and makes amendments to the system of contributions; for Italian banks, this means moving from an «ex post» system of contributions to a mixed system that envisages making an advance contribution in order to reach, over ten years, a minimum fund size of 0.8% of the deposits guaranteed. Contributions may include payment pledges up to a maximum of 30% of the total. The advance contribution requested by the Interbank Deposit Protection Fund for 2016 was 6.371 million.

Directive 2014/59/EU (BRRD) defines new resolution rules to be applied to all EU banks in serious difficulties. Under these rules and on certain conditions, the National Resolution Fund to be established by each member State will participate in funding the resolution. The Directive was transposed into Italian legislation by Decree no. 180 dated 16 November 2015 and, subsequently, the Bank of Italy, as the national resolution authority, established the National Resolution Fund. The new Fund participated immediately in the failures of Cassa di Risparmio di Ferrara S.p.a., Banca delle Marche S.p.a., Banca dell'Etruria e del Lazio Soc. Coop. p.a. and Cassa di Risparmio della Provincia di Chieti S.p.a. With regard to 2016, the bank was asked to make an ordinary contribution of 11.170 million and a special contribution of 26.355 million.

In December 2015, the bank joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. Last June, the Voluntary Scheme approved an intervention in favour of Cassa di Risparmio di Cesena to be implemented through an increase in capital of 280 million which for BP Sondrio involved an outlay of 4.096 million.

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	Portfolio of origin	Portfolio of destination	Net book value as of 31.12.2016	Fair value at 31.12.2016	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation	Others	Valuation	Others
(¹)	(²)	(³)	(⁴)	(⁵)	(⁶)	(⁷)	(⁸)	(⁹)
A. Debt securities	HFT	HTM	29,263	29,141	241	88	325	88

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 Parent Company 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 a 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 determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. 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, or through prices of previous transactions, or information from third parties without further adjustments (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 € 18 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 to 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.

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	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	930,387	56,581	32,744	1,752,896	64,058	42,481
2. Financial assets at fair value through profit or loss	96,303	-	-	94,495	-	-
3. Available-for-sale financial assets	6,470,827	-	173,610	6,197,700	2,613	120,710
4. Hedging derivatives	-	-	-	-	-	-
5. Property, equipment and investment property	-	-	62,930	-	-	62,765
6. Intangible assets	-	-	-	-	-	-
Total	7,497,517	56,581	269,284	8,045,091	66,671	225,956
1. Financial assets held for trading	-	73,016	-	-	48,709	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	38,734	-	-	53,483	-
Total	-	111,750	-	-	102,192	-

During the year there were fair value transfers from Level 1 to Level 3 which total € 5,019,000 Financial assets held for trading and from level 2 to level 3, which amounted to € 2,613,000 Financial assets available for sale.

The increase in financial assets available for sale compared with the comparative period is attributable to the purchase of a number of bonds, as well as the shares subscribed in the Atlante Fund, the receivable from the IDPF's Voluntary Scheme for its intervention in favour of Cassa di Risparmio di Cesena and the subscription of the increase in capital of Release spa.

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
1. Opening balance	42,481	-	120,710	-	62,765	-
2. Increases	18,927	-	97,961	-	350	-
2.1. Purchases	13,124	-	84,568	-	-	-
2.2. Income booked to:						
2.2.1. Income statement	530	-	1,363	-	315	-
of which realized gains	269	-	-	-	315	-
2.2.2. Equity	-	-	7,131	-	-	-
2.3. Transfers from other levels	5,019	-	2,613	-	-	-
2.4. Other increases	254	-	2,286	-	35	-
3. Decreases	28,664	-	45,061	-	185	-
3.1. Sales	13,129	-	3,714	-	-	-
3.2. Reimbursements	14,123	-	760	-	-	-
3.3. Losses booked to:						
3.3.1. Income statement	1,097	-	25,196	-	185	-
of which realized losses	1,097	-	25,089	-	185	-
3.3.2. Equity	-	-	147	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	315	-	15,244	-	-	-
4. Closing balance	32,744	-	173,610	-	62,930	-



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	31/12/2016				31/12/2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	117,023	120,742	-	12,286	125,777	126,712	-	14,689
2. Loans and receivables with banks	1,786,732	-	-	1,786,732	980,339	-	-	980,339
3. Loans to customers	25,313,464	-	-	25,941,639	23,996,543	-	-	24,800,997
4. Investment property a scopo di investimento	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	27,217,219	120,742	-	27,740,657	25,102,659	126,712	-	25,796,025
1. Due to banks	2,504,510	-	-	2,504,510	2,302,136	-	-	2,302,136
2. Customer deposits	27,702,353	-	-	27,702,353	26,347,209	-	-	26,347,209
3. Securities issued	3,231,782	1,505,350	1,754,057	-	3,181,186	984,991	2,237,886	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	33,438,645	1,505,350	1,754,057	30,206,863	31,830,531	984,991	2,237,886	28,649,345

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 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

	31/12/2016	31/12/2015
a) Cash	109,014	109,239
b) Unrestricted deposits with central banks	680,598	656,858
Total	789,612	766,097

Section 2 *Financial assets held for trading - line item 20*

2.1 Financial assets held for trading: breakdown by sector

Items/Amounts	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Fixed-yield securities	704,983	-	32,740	1,570,794	-	41,394
1.1 Structured securities	29,448	-	27,507	15,317	-	41,175
1.2 Other fixed-yield securities	675,535	-	5,233	1,555,477	-	219
2. Variable-yield securities	146,007	-	4	124,999	-	1,087
3 Mutual funds	79,397	-	-	57,103	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	930,387	-	32,744	1,752,896	-	42,481
B. Derivatives						
1. Financial derivatives:	-	56,581	-	-	64,058	-
1.1 for trading	-	56,581	-	-	64,058	-
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	-	56,581	-	-	64,058	-
Total (A+B)	930,387	56,581	32,744	1,752,896	64,058	42,481



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

Items/Amounts	31/12/2016	31/12/2015
A. Cash assets		
1. Fixed-yield securities	737,723	1,612,188
a) Governments and central banks	467,176	1,325,271
b) Other public entities	7,225	10,438
c) Banks	212,691	222,632
d) Other issuers	50,631	53,847
2. Variable-yield securities	146,011	126,086
a) Banks	39,795	28,099
b) Other issuers	106,216	97,987
- insurance companies	12,920	7,819
- financial companies	2,815	1,651
- non-financial companies	90,481	88,517
- other	-	-
3. Mutual funds	79,397	57,103
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	963,131	1,795,377
B. Derivatives		
a) Banks	38,639	43,455
b) Customers	17,942	20,603
Total B	56,581	64,058
Total (A + B)	1,019,712	1,859,435

Mutual funds are made up of: equity funds and sicavs for € 78.442 million, bond funds for € 0.465 million and real estate funds for € 0.490 million.

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

Items/Amounts	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	-	-	-	-	-	-
2. Variable-yield securities	-	-	-	-	-	-
3. Mutual funds	96,303	-	-	94,495	-	-
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	96,303	-	-	94,495	-	-
Cost	93,993	-	-	87,876	-	-

This portfolio includes all securities, other than those booked to the trading portfolio, which the Parent Company 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	31/12/2016	31/12/2015
1. Fixed-yield securities	-	-
a) Governments and central banks	-	-
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	96,303	94,495
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	96,303	94,495

Mutual funds are made up of: bond funds and sicavs for € 36.396 million, equity funds and sicavs for € 55.158 million, real estate funds for € 1.226 million and flexible funds for € 3.523 million.



Section 4 Available-for-sale financial assets - line item 40

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

Items/Amounts	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	6,294,939	-	15,302	6,015,408	-	5,362
1.1 Structured securities	834,350	-	12,775	622,751	-	3,293
1.2 Other fixed-yield securities	5,460,589	-	2,527	5,392,657	-	2,069
2. Variable-yield securities	-	-	102,268	12,660	2,613	88,182
2.1 Carried at fair value	-	-	91,702	12,660	2,613	74,510
2.2 Carried at cost	-	-	10,566	-	-	13,672
3. Mutual funds	175,888	-	56,040	169,632	-	27,166
4. Loans	-	-	-	-	-	-
Total	6,470,827	-	173,610	6,197,700	2,613	120,710

Given the difficulties in determining a precise fair value, unlisted variable-yield securities are usually retained at cost, as adjusted for possible losses where applicable. An exception was made to this approach with regard to the interests held in Istituto Centrale delle Banks Popolari Italiane spa and Cartasì spa. In particular, following the sale of the ICBPI Group to a consortium of investment funds by the controlling shareholders in the previous year, these interests were revalued on the basis of the selling price.

If a comparison between the cost and net equity of other unlisted equities based on the latest available financial statements identifies impairment losses, we make a write-down in accordance with company policies.

Variable-yield securities include € 2.370 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 € 15.139 million, bond funds for € 157.919 million, real estate funds for € 6.690 million, balanced funds for € 41.997 million and a flexible fund for € 10.183 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. An exception was made to this criterion for the Atlante Fund, as it was felt that the NAV did not reflect the fair value of the shares, so a write-down was made.

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

Items/Amounts	31/12/2016	31/12/2015
1. Fixed-yield securities	6,310,241	6,020,770
a) Governments and central banks	6,254,919	6,015,408
b) Other public entities	-	-
c) Banks	23,283	-
d) Other issuers	32,039	5,362
2. Variable-yield securities	102,268	103,455
a) Banks	51,173	49,013
b) Other issuers:	51,095	54,442
- insurance companies	-	1,918
- financial companies	42,252	33,362
- non-financial companies	8,841	19,160
- other	2	2
3. Mutual funds	231,928	196,798
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	6,644,437	6,321,023

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.

Section 5 Held-to-maturity investments - line item 50

5.1 Held-to-maturity investments: breakdown by sector

Type of transaction/Amounts	31/12/2016				31/12/2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Fixed-yield securities	117,023	120,742	-	12,286	125,777	126,712	-	14,689
- structured	12,140	4,194	-	7,948	11,989	-	-	11,963
- other	104,883	116,548	-	4,338	113,788	126,712	-	2,726
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 € 29.263 million at par, had been carried at fair value at the date of the financial statements, they would have been worth € 29.141 million with a loss of € 0.122 million.



5.2 Held-to-maturity investments: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2016	31/12/2015
1. Fixed-yield securities	117,023	125,777
a) Governments and central banks	25,071	25,043
b) Other public entities	-	-
c) Banks	20,296	30,899
d) Other issuers	71,656	69,835
2. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total	117,023	125,777
Total fair value	133,028	141,401

Section 6 Loans and receivables with banks - line item 60

6.1 Loans and receivables with banks: breakdown by sector

Type of transaction/Amounts	31/12/2016				31/12/2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Deposits with central banks	955,355	-	-	955,355	260,704	-	-	260,704
1. Time deposits	-	-	-	-	-	-	-	-
2. Compulsory reserve	952,038	-	-	-	258,395	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-
4. Other	3,317	-	-	-	2,309	-	-	-
B. Loans and receivables with banks	831,377	-	-	831,377	719,635	-	-	719,635
1. Loans	831,377	-	-	831,377	719,635	-	-	719,635
1.1 Current accounts and sight deposits	237,081	-	-	-	360,372	-	-	-
1.2 Time deposits	510,350	-	-	-	254,036	-	-	-
1.3 Other loans	83,946	-	-	-	105,227	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-
- Financial leases	-	-	-	-	-	-	-	-
- Other	83,946	-	-	-	105,227	-	-	-
2. Fixed-yield securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other fixed-yield securities	-	-	-	-	-	-	-	-
Total	1,786,732	-	-	1,786,732	980,339	-	-	980,339

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	31/12/2016						31/12/2015					
	Book value			Fair Value			Book value			Fair Value		
	Not impaired	Impaired Purchased	Other	L1	L2	L3	Not impaired	Impaired Purchased	Other	L1	L2	L3
Loans	22,570,929	-	2,382,390	-	-	25,580,570	21,388,533	-	2,362,208	-	-	24,554,600
1. Current accounts	4,247,591	-	991,283	-	-	-	4,646,985	-	1,046,578	-	-	-
2. Repurchase agreements	698,937	-	-	-	-	-	706,060	-	-	-	-	-
3. Mortgage loans	11,599,370	-	1,193,752	-	-	-	10,959,808	-	1,083,562	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	212,506	-	12,444	-	-	-	193,963	-	11,582	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	1,814,657	-	18,709	-	-	-	1,479,180	-	28,277	-	-	-
7. Other loans	3,997,868	-	166,202	-	-	-	3,402,537	-	192,209	-	-	-
Fixed-yield securities	360,145	-	-	-	-	361,069	245,802	-	-	-	-	246,397
8.1 Structured securities	360,145	-	-	-	-	-	245,802	-	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	22,931,074	-	2,382,390	-	-	25,941,639	21,634,335	-	2,362,208	-	-	24,800,997

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 € 1,387.179 million of residential mortgages, which were the subject of a covered bond transaction.

The covered bond transactions 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 receivables with customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2016			31/12/2015		
	Not impaired	Impaired		Not impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Fixed-yield securities:	360,145	-	-	245,802	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	360,145	-	-	245,802	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	360,145	-	-	245,802	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	22,570,929	-	2,382,390	21,388,533	-	2,362,208
a) Governments	1,716	-	8,039	-	-	8,051
b) Other public entities	80,651	-	125	123,677	-	125
c) Other parties	22,488,562	-	2,374,226	21,264,856	-	2,354,032
- non-financial companies	13,419,809	-	1,844,479	12,781,505	-	1,857,232
- financial companies	2,614,561	-	36,419	2,193,427	-	30,740
- insurance companies	4,618	-	-	28	-	-
- other	6,449,574	-	493,328	6,289,896	-	466,060
Total	22,931,074	-	2,382,390	21,634,335	-	2,362,208

7.3 Loans and receivables with customers: covered by micro hedges

	31/12/2016	31/12/2015
1. Loans covered by micro fair-value hedges	958,016	1,194,991
a) interest rate risk	958,016	1,194,991
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	958,016	1,194,991

Section 10 Equity investments - line item 100

10.1 Equity investments: disclosure

Name	Registered offices of the 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	19.264	19.264
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
ARCA HOLDING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	21.137	21.137
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
BORMIO GOLF SPA	Bormio	Bormio	8	Banca Popolare di Sondrio SCPA	25.237	25.237
LAGO DI COMO GAL SCRL	Canzo	Canzo	8	Banca Popolare di Sondrio SCPA	28.953	28.953
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	Bormio	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. 26.1 of Decree 87/92.
- 6 = single management as per art. 26.2 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.	393	-	100
B. Associated companies			
1. ALBA LEASING S.p.A.	78,130	-	-
2. ARCA VITA S.p.A.	63,374	-	3,142
3. BANCA DELLA NUOVA TERRA S.p.A.	5,831	-	-
4. ARCA HOLDING S.p.A.	49,681	-	2,114
5. UNIONE FIDUCIARIA S.p.A.	8,665	-	415
6. POLIS FONDI SGR PA	1,790	-	-
7. SOFIPO SA	51	-	-

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.	69	7	720	-	11	111
B. Associated companies						
1. ALBA LEASING S.p.A.	5	4,773,392	199,597	4,519,616	47,801	97,602
2. ARCA VITA S.p.A.	85,636	7,864,962	116,297	7,643,958	13,601	1,870,152
3. BANCA DELLA NUOVA TERRA S.p.A.	1	20,555	10,191	46	889	65
4. ARCA HOLDING S.p.A.	2	144,521	199,514	65,633	43,362	289,184
5. UNIONE FIDUCIARIA S.p.A.	5	26,698	50,524	15,000	26,544	35,882
6. POLIS FONDI SGR PA	4	7,651	2,959	2	1,478	5,945
7. SOFIPO SA	-	1,360	16	29	153	130

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.	785	393	393
B. Associated companies			
1. ALBA LEASING S.p.A.	405,578	78,130	78,130
2. ARCA VITA S.p.A.	427,135	63,374	63,374
3. BANCA DELLA NUOVA TERRA S.p.A.	29,737	5,831	5,831
4. ARCA HOLDING S.p.A.	235,042	49,681	49,681
5. UNIONE FIDUCIARIA S.p.A.	36,102	8,665	8,665
6. POLIS FONDI SGR PA	9,134	1,790	1,790
7. SOFIPO SA	170	51	51

10.4 Insignificant equity investments: accounting information

Name	Book value of equity investments	Total assets	Total liabilities
Associated companies	659	4,054	1,438

The above figures are taken from the most recent financial investments available. No figures are provided for Lago di Como Gal Scrl as this company was set up on 29/9/2016.

Net interest income	Net adjustments to property, equipment and investment property and intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year (1)	Other income items net of income taxes (2)	Comprehensive income (3) = (1)+(2)
-	37	22	12	-	12	-	12
64,493	1,096	3,704	2,371	-	2,371	(54)	2,317
165,532	-	59,910	37,188	-	37,188	5,408	42,596
52	(5)	(1,611)	(1,611)	-	5,408	32	(1,579)
(1,550)	(3,657)	47,458	28,054	-	28,054	1,617	29,671
142	(2,452)	5,219	3,477	-	3,477	-	3,477
1	(106)	1,173	1,022	-	1,022	617	1,639
(45)	-	(446)	(451)	-	(451)	-	(451)

Total revenues	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year	Other income items net of income taxes	Comprehensive income
2,619	113	-	(2)	-	(2)



10.5 Equity investments: changes during the year

	31/12/2016	31/12/2015
A. Opening balance	198,176	155,986
B. Additions	10,981	45,435
B.1 Purchases	7	-
B.2 Write-backs	-	-
B.3 Revaluations	25	-
B.4 Other changes	10,949	45,435
C. Decreases	582	3,245
C.1 Disposals	-	-
C.2 Adjustments	-	-
C.3 Other changes	582	3,245
D. Closing balance	208,575	198,176
E. Total revaluations	-	-
F. Total write-downs	(279)	(277)

This item passes from € 198.176 million to € 208.575 million.

In addition to the valuation of investments at equity, the increase is due to the subscription of quotas in Lago di Como Gal srl.

Decreases are due to the valuation of investments at equity.

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 as 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 Company 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	31/12/2016	31/12/2015
1. Owned assets	231,172	233,576
a) land	61,232	61,208
b) buildings	146,851	147,391
c) furniture	6,097	7,014
d) IT equipment	3,547	4,512
e) other	13,445	13,451
2. Assets purchased under finance leases	26,820	27,839
a) land	6,803	6,803
b) buildings	20,017	21,036
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
Total	257,992	261,415

12.4 Investment property: analysis of assets carried at fair value

Assets/Values	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Owned assets	-	-	62,930	-	-	62,765
a) land	-	-	-	-	-	-
b) buildings	-	-	62,930	-	-	62,765
2. Assets purchased under finance leases	-	-	-	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	-	-	62,930	-	-	62,765

These are owned buildings of the Fondo Immobiliare Centro delle Alpi Real Estate, which was fully consolidated.



12.5 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	Total 31/12/2016
A. Opening gross amount	68,093	272,503	35,911	34,416	78,470	489,393
A.1 Total net reductions in value	(82)	(104,076)	(28,897)	(29,904)	(65,019)	(227,978)
A.2 Opening net amount	68,011	168,427	7,014	4,512	13,451	261,415
B. Additions	24	6,191	943	747	7,481	15,386
B.1 Purchases	-	4,563	938	730	7,474	13,705
B.2 Capitalised improvement expenditure	-	1,509	-	-	-	1,509
B.3 Write-backs	-	-	-	-	-	-
B.4 Fair value increases booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate adjustments	24	119	5	17	7	172
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	-	7,750	1,860	1,712	7,487	18,809
C.1 Disposals	-	166	-	-	20	186
C.2 Depreciation	-	7,570	1,859	1,712	7,465	18,606
C.3 Impairment charges booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value booked to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	-	-	-	-	-
C.6 Transfer to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets related to discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	14	1	-	2	17
D. Closing net balance	68,035	166,868	6,097	3,547	13,445	257,992
D.1 Total net reductions in value	(82)	(111,761)	(29,907)	(31,704)	(71,426)	(244,880)
D.2 Closing gross balance	68,117	278,629	36,004	35,251	84,871	502,872
E. Valuation at cost	68,035	166,868	6,097	3,547	13,445	257,992

12.6 Investment property: changes during the year

	Total 31/12/2016	
	Land	Buildings
A. Opening balance	-	62,765
B. Additions	-	350
B.1 Purchases	-	-
B.2 Capitalised improvement expenditure	-	-
B.3 Positive changes in fair value	-	315
B.4 Write-backs	-	-
B.5 Exchange gains	-	-
B.6 Transfer of buildings for business purposes	-	-
B.7 Other changes	-	35
C. Decreases	-	185
C.1 Disposals	-	-
C.2 Depreciation	-	-
C.3 Negative changes in fair value	-	185
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	-	62,930
E. Valuation at fair value	-	62,930

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 € 4.258 million.

Section 13 *Intangible assets - line item 130*

13.1 Intangible assets: breakdown by type

Assets/Values	31/12/2016		31/12/2015	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	-	7,847	-	7,847
A.1.1 Attributable to the banking group	-	7,847	-	7,847
A.1.2 Pertaining to minority interests	-	-	-	-
A.2 Other intangible assets:	16,022	-	14,399	-
A.2.1 Carried at cost	16,022	-	14,399	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	16,022	-	14,399	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	16,022	7,847	14,399	7,847

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years and goodwill for € 7.847 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.

The above goodwill 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 Company 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 8.26%. The value in use was approximately € 157 million with an excess of the carrying amount of € 54 million.



13.2 Intangible assets: change during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total 31/12/2016
		Specified	Unspecified	Specified	Unspecified	
A. Opening gross amount	8,959	-	-	142,381	-	151,340
A.1 Total net reductions in value	(1,112)	-	-	(127,982)	-	(129,094)
A.2 Opening net amount	7,847	-	-	14,399	-	22,246
B. Additions	-	-	-	16,592	-	16,592
B.1 Purchases	-	-	-	16,559	-	16,559
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	-	-	-	17	-	17
B.6 Other changes	-	-	-	16	-	16
C. Decreases	-	-	-	14,969	-	14,969
C.1 Disposals	-	-	-	-	-	-
C.2 Adjustments	-	-	-	14,969	-	14,969
- Amortisation	-	-	-	14,969	-	14,969
- Write-downs	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net amount	7,847	-	-	16,022	-	23,869
D.1 Total net reductions in value	-	-	-	(142,951)	-	(142,951)
E. Closing gross amount	7,847	-	-	158,973	-	166,820
F. Valuation at cost	7,847	-	-	16,022	-	23,869

Key

Specified: specified duration

Unspecified: unspecified duration



Section 14 *Tax assets and liabilities - asset line item 140 and liability line item 80*

14.1 Deferred tax assets: breakdown

	31/12/2016	31/12/2015
- Loan writedowns	360,597	379,576
- Provisions for risks and charges	20,362	18,206
- Securities and equity investments	2,924	1,089
- Administrative expenses, amortisation and depreciation	27,564	28,475
Total	411,447	427,346

The prior-year figures have been reclassified for comparison purposes.

14.2 Deferred tax liabilities: breakdown

	31/12/2016	31/12/2015
- Owned and leased buildings	9,678	9,629
- Revaluation of securities and gains	20,005	38,907
- Administrative expenses	1,078	276
- Loans	11,912	15,337
Total	42,673	64,149

The prior-year figures have been reclassified for comparison purposes.

14.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2016	31/12/2015
1. Opening balance	416,014	381,545
2. Increases	8,381	43,148
2.1 Deferred tax assets arising during the year	8,312	41,748
a) relating to prior years	244	1,284
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	8,068	40,464
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	69	1,400
3. Decreases	28,844	8,679
3.1 Deferred tax assets eliminated during the year	28,835	8,598
a) reversals	28,835	8,598
b) written down as no longer recoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other Decreases	9	81
a) Transformation into tax credits as per Law 214/2011	-	-
b) Other	9	81
4. Closing balance	395,551	416,014

14.3.1 Change in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2016	31/12/2015
1. Opening balance	379,570	346,451
2. Increases	-	33,200
3. Decreases	18,978	81
3.1 Reversals	18,978	-
3.2 Transformation into tax credits	-	-
a) resulting from operating losses	-	-
b) arising from tax losses	-	-
3.3 Other Decreases	-	81
4. Closing balance	360,592	379,570

14.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2016	31/12/2015
1. Opening balance	23,482	21,781
2. Increases	1,452	2,023
2.1 Deferred tax liabilities arising during the year	1,385	739
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	1,385	739
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	67	1,284
3. Decreases	4,281	322
3.1 Deferred tax liabilities eliminated during the year	4,234	320
a) reversals	498	316
b) due to changes in accounting policies	-	-
c) other	3,736	4
3.2 Reduction in tax rates	-	-
3.3 Other Decreases	47	2
4. Closing balance	20,653	23,482



14.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2016	31/12/2015
1. Opening balance	11,332	11,615
2. Increases	5,415	1,005
2.1 Deferred tax assets arising during the year	5,415	1,005
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	5,415	1,005
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	851	1,288
3.1 Deferred tax assets eliminated during the year	851	1,191
a) reversals	851	1,191
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	-	97
4. Closing balance	15,896	11,332

This amount relates for € 2.924 million to losses on securities available for sale booked to equity, and for € 12.093 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 € 0.879 million to expenses related to the increase in capital of the Parent Company.

14.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2016	31/12/2015
1. Opening balance	40,667	37,893
2. Increases	5,297	7,025
2.1 Deferred tax liabilities arising during the year	5,297	7,025
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	5,297	7,025
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	23,944	4,251
3.1 Deferred tax liabilities eliminated during the year	23,944	4,251
a) reversals	23,944	4,251
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	22,020	40,667

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

	31/12/2016	31/12/2015
Advances paid to tax authorities	47,838	56,409
Withholdings on interest due to customers	256	843
Tax credits and related interest	26,243	28,031
Current account cheques drawn on third parties	26,548	26,205
Current account cheques drawn on Group banks	9,443	11,173
Transactions in customers' securities	50,822	1,590
Inventories	14,163	13,518
Costs pertaining to the subsequent year	2,845	805
Advances to suppliers	713	851
Advances to customers awaiting collections	21,088	18,817
Miscellaneous debits in transit	46,989	53,515
Liquidity of pension fund	18,976	13,527
Accrued expenses not allocated	38,559	35,927
Prepayments not allocated	17,745	9,102
Differences on elimination	1,770	1,473
Residual items	66,980	85,613
Total	390,978	357,399



Liabilities and equity

Section 1 Due to banks - line item 10

1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2016	31/12/2015
1. Due to central banks	1,226,758	1,099,856
2. Due to banks	1,277,752	1,202,280
2.1 Current accounts and sight deposits	406,188	251,887
2.2 Time deposits	481,059	343,978
2.3 Loans	387,128	598,765
2.3.1 Repurchase agreements	-	-
2.3.2 Other	387,128	598,765
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	3,377	7,650
Total	2,504,510	2,302,136
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	2,504,510	2,302,136
Total Fair value	2,504,510	2,302,136

These payables are not specifically hedged.

Amounts due to central banks comprise a loan from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO) for € 1.100 million, obtained in June 2016 and repayable in June 2020, subject to early repayment in June 2018. This loan is secured by bonds, mainly Government bonds, and receivables.

«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

	31/12/2016	31/12/2015
- Payables for finance leases	391	456
Total	391	456

Section 2 Due to customers - line item 20

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2016	31/12/2015
1. Current accounts and sight deposits	26,147,739	23,918,440
2. Time deposits	889,312	1,585,576
3. Loans	627,631	795,509
3.1 Repurchase agreements	610,237	727,070
3.2 Other	17,394	68,439
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	37,671	47,684
Total	27,702,353	26,347,209
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	27,702,353	26,347,209
Fair value	27,702,353	26,347,209

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

	31/12/2016	31/12/2015
- Payables for finance leases	2,079	2,631
Total	2,079	2,631

Section 3 Securities issued - line item 30

3.1 Securities issued: breakdown by sector

Type of security/Amounts	31/12/2016				31/12/2015			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	3,150,368	1,505,350	1,672,643	-	3,111,549	984,991	2,168,249	-
1.1 structured	188,699	-	188,699	-	223,382	-	223,382	-
1.2 other	2,961,669	1,505,350	1,483,944	-	2,888,167	984,991	1,944,867	-
2. Other Securities	81,414	-	81,414	-	69,637	-	69,637	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	81,414	-	81,414	-	69,637	-	69,637	-
Total	3,231,782	1,505,350	1,754,057	-	3,181,186	984,991	2,237,886	-

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.

The level 1 securities relate to covered bonds and almost exclusively subordinated bonds listed on the Hi-ml market (Trading Multilateral system).



3.2 Details of line item 30 «Securities issued»: subordinated securities

Subordinated securities amount to € 764.030 million and are made up of the loans indicated below:

- bond loan of € 72.625 million from 26/2/2010 and maturity on 26/2/2017 with a forecast 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 5.00%.
- bond loan of € 140.089 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 5.50%.
- bond loan of € 16.373 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 2.50%.
- bond loan of € 26.943 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 2.50%.
- bond loan of € 29.466 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 2.50%.
- bond loan € 203.392 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%
- a bond of € 275.142 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.

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	31/12/2016					31/12/2015				
	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	-	-	73,016	-	-	-	-	48,709	-	-
1.1 for trading	-	-	73,016	-	-	-	-	48,709	-	-
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	-	-	73,016	-	-	-	-	48,709	-	-
Total A+B	-	-	73,016	-	-	-	-	48,709	-	-

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

underlying	Fair Value 31/12/2016			Nominal Value 31/12/2016	Fair Value 31/12/2015			Nominal Value 31/12/2015
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	-	38,734	-	922,618	-	53,483	-	1,146,377
1) Fair value	-	38,734	-	922,618	-	53,483	-	1,146,377
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
Total	-	38,734	-	922,618	-	53,483	-	1,146,377



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

Transaction/ Type of hedge	Fair Value					Financial flows			
	Micro					Macro	Micro	Macro	Foreign investments
	interest rate risk	exchange risk	credit risk	price risk	multiple risk				
1. Available-for-sale financial assets	-	-	-	-	-	-	-	-	-
2. Loans	38,734	-	-	-	-	-	-	-	-
3. Held-to-maturity investments	-	-	-	-	-	-	-	-	-
4. Portfolio	-	-	-	-	-	-	-	-	-
5. Other transactions	-	-	-	-	-	-	-	-	-
Total assets	38,734	-	-	-	-	-	-	-	-
1. Financial liabilities	-	-	-	-	-	-	-	-	-
2. Portfolio	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-
1. Expected transactions	-	-	-	-	-	-	-	-	-
2. Portfolio of financial assets and liabilities	-	-	-	-	-	-	-	-	-

Section 8 *Tax Liabilities - line item 80*

The line item amounts to € 45.636 million and relates for € 42.673 million to deferred taxes and for € 2.963 million to current taxes.

As regards the composition and amount of deferred taxes, please read Assets Section 14 of these notes.

The Parent Company's tax years up to 2011 have been closed. For 2011, 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 € 0.325 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. Since the assessment for 2011 took account of the above Resolution and did not require the payment of penalties, the Bank decided to terminate the dispute by paying the amount requested.

Under Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, it was possible to transform D.T.A. (Deferred Tax Assets) into tax credits by paying a fee and subject to certain conditions. The bank has applied to retain this right if necessary in the future, even without having paid any fee as the conditions for payment did not apply.

Section 10 Other liabilities - line item 100

10.1 Other liabilities: breakdown

	31/12/2016	31/12/2015
Amounts at the disposal of third parties	323,222	235,311
Taxes to be paid on behalf of third parties	46,934	57,502
Taxes to be paid	2,034	1,648
Employee salaries and contributions	23,448	12,937
Suppliers	15,844	15,173
Transit accounts for sundry entities	2,412	10,162
Invoices to be received	12,118	12,555
Credits in transit for financial transactions	2,490	3,968
Value date differentials on portfolio transactions	27,820	151,261
Directors' and statutory auditors' emoluments	1,070	1,179
Loans disbursed to customers to be finalised	9,543	18,039
Miscellaneous credit items being settled	97,688	71,868
Accrued expenses not allocated	13,022	9,619
Deferred income not allocated	13,272	13,798
Allowance for risks on guarantees and commitments	23,402	20,160
Differences on elimination	6,260	6,246
Residual items	80,950	36,740
Total	701,529	678,166

Residual items include the extraordinary contribution for 2016 of € 26.355 million to be paid to the National Resolution Fund.

Section 11 Post-employment benefits - line item 110

11.1 Termination indemnities: change in the year

	2016	2015
A. Opening balance	43,374	44,915
B. Additions	9,573	7,609
B.1 Provisions	7,809	7,609
B.2 Other changes	1,764	-
C. Decreases	8,142	9,150
B.1 Payments made	1,139	1,214
C.2 Other changes	7,003	7,936
D. Closing balance	44,805	43,374

Section 12 Provisions for risks and charges - line item 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2016	31/12/2015
1. Pension and similar obligations	130,874	117,912
2. Other provisions for risks and charges	50,678	47,813
2.1 Legal disputes	30,856	29,054
2.2 Personnel expenses	17,206	16,676
2.3 Other	2,616	2,083
Total	181,552	165,725

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	117,912	47,813
B. Additions	17,224	20,928
B.1 Provisions	2,385	20,687
B.2 Changes due to the passage of time	-	-
B.3 Changes due to variations in the discount rate	10,096	-
B.4 Other changes	4,743	241
C. Decreases	4,262	18,063
C.1 Utilisations during the year	3,405	16,043
C.2 Changes due to variations in the discount rate	-	-
C.3 Other changes	857	2,020
D. Closing balance	130,874	50,678

12.3 Defined-benefit pension plans

12.3.1. Description of plans

The Parent Company'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 403 employees and 246 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. 2,137 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

	2016	2015
at 1 January	117,912	117,043
service cost	2,230	2,321
interest cost	2,384	2,190
actuarial gains/losses	10,095	(1,164)
payments	(3,405)	(3,555)
other provisions	1,658	1,077
At 31 December	130,874	117,912

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the pension plan are summarised in the following table:

	31/12/2016	31/12/2015
Fixed-yield securities	81,256	73,825
Variable-yield securities	2,138	4,000
Mutual funds invested in shares	12,291	10,944
Mutual funds invested in property	16,189	15,616
Other assets	19,000	13,527
Total	130,874	117,912

The amount of the fund increases by € 12.962 million, +10.99%.

Payments of benefits amount to € 3.405 million compared with € 3.520 million. The contributions paid by the employees totalled € 0.239 million (€ 0.241 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:

	31/12/2016	31/12/2015
Discount rate	1.54%	2.05%
Expected increase in salaries	0.50%	0.50%
Underlying rate of pension increases	0.97%	1.00%
Annual rate of inflation	1.50%	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	31/12/2016	31/12/2015
Legal disputes	30,856	29,054
Personnel expenses	17,206	16,676
Other provisions	2,616	2,083
Total	50,678	47,813

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 31/12/2016 as the discount rate.

This increase of € 1.802 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 by € 0.530 million, + 3.18%.

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 2015 profit, while the reduction of € 0.110 million was a consequence of payments made during the year.

Section 15 Group equity - Items 140, 160, 170, 180, 190, 200 and 220

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, par value € 3 each, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2016.

At the period-end, the Bank held treasury shares with a carrying value of € 25.349 million.

15.2 Share capital - Number of shares of the Parent Bank: change during the year

	Ordinary	Other
A. Shares in existence at the start of the year	453,385,777	-
- fully paid	453,385,777	-
- not fully paid	-	-
A.1 Treasury shares (-)	(3,650,000)	-
A.2 Shares in circulation: opening balance	449,735,777	-
B. Additions	-	-
B.1 New issues	-	-
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- others	-	-
- free of charge	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchases of treasury shares	8,792	-
C.3 Business disposals	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	449,726,985	-
D.1 Treasury shares (+)	3,658,792	-
D.2 Shares in existence at the end of the year	453,385,777	-
- fully paid	453,385,777	-
- not fully paid	-	-

Share premium reserve

It amounts to € 79.005 million, unchanged on last year.

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 € 1,030.188 million and increase by € 103.144 million, + 11.13%. 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 € 35.000 million (it has been used for € 25.322 million).

There are also € 3.229 million of reserves from capital contributions.

Therefore line item 170 «Reserves» amounts to € 1,033.417 million, + 11.09%.

Section 16 Equity pertaining to minority interests - Line item 210

16.1 Detail of line item 210 «Minority interests»

This line item amounts to € 84.652 million and refers to the subsidiaries Factorit spa and Popso Covered Bond srl. It consists of share capital for € 33.579 million, share premium reserve for € 4.358 million, reserves for € 45.569 million, valuation reserves for € - 0.130 million and profits for € 1.276 million.

16.2 Equity instruments: breakdown and change in the year

There were no issues of financial instruments that contribute to the formation of capital issued by group companies not subject to total control.

Other information

1. Guarantees given and commitments

Operations	31/12/2016	31/12/2015
1) Financial guarantees:	425,222	364,786
a) Banks	14,963	13,561
b) Customers	410,259	351,225
2) Commercial guarantees	3,197,716	3,273,270
a) Banks	86,265	84,946
b) Customers	3,111,451	3,188,324
3) Irrevocable commitments to make loans	1,565,790	1,310,888
a) Banks	72,099	31,031
i) certain to be called on	58,552	18,298
ii) not certain to be called on	13,547	12,733
b) Customers	1,493,691	1,279,857
i) certain to be called on	345,483	357,833
ii) not certain to be called on	1,148,208	922,024
4) Commitments underlying credit derivatives: protection sold	-	-
5) Assets lodged to guarantee the commitments of third parties	36,706	28,092
6) Other commitments	22,491	23,651
Total	5,247,925	5,000,687



2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2016	31/12/2015
1. Financial assets held for trading	163,123	516,624
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	2,350,417	2,307,917
4. Held-to-maturity investments	-	-
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	1,003,158	1,070,686
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.

Loans and receivables with customers comprise the residential mortgages used to guarantee the loans obtained from the ECB and secured bank bonds (Covered bonds).

5. Management and intermediation for third parties

Type of service	Importo
1. Execution of orders on behalf of customers	
a) Purchases	712,036
1. settled	709,635
2. not settled	2,401
b) Sales	625,825
1. settled	625,530
2. not settled	295
2. Portfolio management	
a) Individual	1,744,182
b) Collective	-
3. Custody and administration of securities	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,697,857
1. securities issued by consolidated companies	-
2. other securities	1,697,857
b) Third-party securities on deposit (excluding portfolio management): other	16,803,809
1. securities issued by consolidated companies	2,840,000
2. other securities	13,963,809
c) Third-party securities on deposit with third parties	18,814,957
d) Own securities on deposit with third parties	7,968,503
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		Net amount at 31/12/2016 (f = c-d-e)	Net amount at 31/12/2015
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	23,617	-	23,617	19,750	1,742	2,125	4,941
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2016	23,617	-	23,617	19,750	1,742	2,125	-
Total 31/12/2015	32,659	-	32,659	21,377	6,341	-	4,941

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 31/12/2016 that is not correlated with deposits received in guarantee amounts to € 2.125 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 mandatory (should be in June 2017), 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.



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 liabilities (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		Net amount a 31/12/2016 (f = c-d-e)	Net amount at 31/12/2015
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	93,066	-	93,066	19,750	73,225	91	51
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2016	93,066	-	93,066	19,750	73,225	91	-
Total 31/12/2015	83,327	-	83,327	21,377	61,899	-	51

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 31/12/2016	Total 31/12/2015
1. Financial assets held for trading	9,753	-	-	9,753	15,047
2. Financial assets at fair value through profit or loss	-	-	-	-	2
3. Available-for-sale financial assets	30,535	-	-	30,535	56,238
4. Held-to-maturity investments	417	-	-	417	750
5. Loans and receivables with banks	-	4,160	-	4,160	11,080
6. Loans and receivables with customers	1,849	614,109	-	615,958	713,695
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	2,743	2,743	-
Total	42,554	618,269	2,743	663,566	796,812

1.3 Interest and similar income on foreign currency assets

1.3.1 Interest and similar income on foreign currency assets

Items	31/12/2016	31/12/2015
Interest and similar income on foreign currency assets	86,922	90,883

1.4 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other liabilities	Total 31/12/2016	Total 31/12/2015
1. Due to central banks	(894)	-	-	(894)	(1,705)
2. Due to banks	(5,209)	-	-	(5,209)	(4,702)
3. Due to customers	(85,601)	-	-	(85,601)	(144,058)
4. Securities issued	-	(72,983)	-	(72,983)	(84,217)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	(6,535)	(6,535)	(4)
8. Hedging derivatives	-	-	(18,094)	(18,094)	(18,755)
Total	(91,704)	(72,983)	(24,629)	(189,316)	(253,441)



1.5 Interest and similar expense: differential on hedging transactions

Items	31/12/2016	31/12/2015
A. Positive differentials on hedging transactions	-	-
B. Negative differentials on hedging transactions	(18,094)	(18,755)
C. Balance (A-B)	(18,094)	(18,755)

1.6 Interest and similar expense: other information

1.6.1 Interest and similar expense on foreign currency liabilities

	31/12/2016	31/12/2015
Interest and similar expense on foreign currency liabilities	(26,368)	(26,335)

1.6.2 Interest expense on finance lease transactions

	31/12/2016	31/12/2015
Interest expense on finance lease transaction liabilities	(11)	(25)

Section 2 Commissions - line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2016	31/12/2015
a) guarantees given	28,472	28,205
b) credit derivatives	-	-
c) management, intermediation and consultancy services:	89,627	96,260
1. trading in financial instruments	8,741	14,816
2. trading in foreign currencies	10,588	11,403
3. portfolio management	9,404	8,891
3.1. individual	9,404	8,891
3.2. collective	-	-
4. custody and administration of securities	8,060	9,726
5. custodian bank	2,349	1,854
6. placement of securities	25,222	23,675
7. order receipt and transmission	9,489	11,665
8. consultancy	175	-
8.1 investments	-	-
8.2 corporate finance	175	-
9. distribution of third-party services	15,599	14,230
9.1 portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2 insurance products	12,692	10,879
9.3 other products	2,907	3,351
d) collection and payment services	70,746	68,614
e) services for securitisation transactions	-	-
f) services for factoring transactions	21,618	25,116
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) management of current accounts	29,863	29,410
j) other services	71,549	76,899
Total	311,875	324,504

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	31/12/2016	31/12/2015
a) guarantees received	(388)	(390)
b) credit derivatives	-	-
c) management and intermediation services:	(3,474)	(4,045)
1. trading in financial instruments	(1,595)	(2,196)
2. trading in foreign currencies	-	-
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated by third parties	-	-
4. custody and administration of securities	(1,879)	(1,849)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
d) collection and payment services	(9,599)	(9,933)
e) other services	(5,317)	(6,668)
Total	(18,778)	(21,036)

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

Items/Income	31/12/2016		31/12/2015	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	3,648	490	915	208
B. Available-for-sale financial assets	3,049	-	1,409	315
C. Financial assets at fair value through profit or loss	-	-	-	-
D. Equity investments	22	-	13	-
Total	6,719	490	2,337	523



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 loss [(A+B)-(C+D)]
1. Financial assets held for trading	25,462	34,209	(29,086)	(8,127)	22,458
1.1 Fixed-yield securities	4,233	5,507	(905)	(6,246)	2,589
1.2 Variable-yield securities	321	3,905	(21,407)	(1,878)	(19,059)
1.3 Mutual funds	688	2,600	(5,415)	(3)	(2,130)
1.4 Loans	-	-	-	-	-
1.5 Other	20,220	22,197	(1,359)	-	41,058
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	-	-	-	-	767
4. Derivatives	978	35,812	(1,795)	(26,621)	8,320
4.1 Financial derivatives:	978	35,812	(1,795)	(26,621)	8,320
- On debt securities and interest rates	-	12,858	(816)	(12,748)	(706)
- On equities and equity indices	-	20,975	-	(11,950)	9,025
- On currency and gold	-	-	-	-	(54)
- Other	978	1,979	(979)	(1,923)	55
4.2 Credit derivatives	-	-	-	-	-
Total	26,440	70,021	(30,881)	(34,748)	31,545

The net trading income passes from € 65.714 million to € 31.545 million.

The decrease is linked to lower trading income, particularly in securities and in the presence of a negative imbalance between gains and losses, 2015 showed a positive balance.

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	31/12/2016	31/12/2015
A. Income from:		
A.1 Fair value hedging derivatives	13,709	-
A.2 Hedged financial assets (fair value)	-	856
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)	13,709	856
B. Charges from:		
B.1 Derivatives hedging fair value	-	(1,351)
B.2 Hedged financial assets (fair value)	(13,447)	-
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)	(13,447)	(1,351)
C. Net hedging gains (losses) (A - B)	262	(495)

Costs include € 13.709 million for the valuation at fair value of hedging derivatives, versus a negative valuation of the loans being hedged of € 13.447 million at fair value. The net result of measuring the hedging structure at fair value is a positive balance of € 0.262 million.

Section 6 Gains (losses) from sales or repurchases - line item 100

6.1 Gains (losses) from sales or repurchases - breakdown

Items/income items	31/12/2016			31/12/2015		
	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
Financial assets						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	82,093	(5,762)	76,331	145,500	(5,574)	139,926
3.1 Fixed-yield securities	77,642	(4,056)	73,586	116,438	(789)	115,649
3.2 Variable-yield securities	3,390	(1,706)	1,684	349	-	349
3.3 Mutual funds	1,061	-	1,061	28,713	(4,785)	23,928
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	82,093	(5,762)	76,331	145,500	(5,574)	139,926
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	891	(1,211)	(320)	2,038	(1,930)	108
Total liabilities	891	(1,211)	(320)	2,038	(1,930)	108



Section 7 Net gains on financial assets and liabilities at fair value through profit or loss

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 (loss) [(A+B)-(C+D)] 31/12/2016
1. Financial assets	1,763	-	(334)	-	1,429
1.1 Fixed-yield securities	-	-	-	-	-
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	1,763	-	(334)	-	1,429
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Customer deposits	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	-	-	-	-	880
4. Credit and financial derivatives	-	-	-	-	-
Total	1,763	-	(334)	-	2,309

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)				Total 31/12/2016	Total 31/12/2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Loans and receivables with banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	(12,335)	(435,183)	(33,537)	4,243	112,923	-	113,768	(250,121)	(389,983)
Purchased impaired loans	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
Other receivables	(12,335)	(435,183)	(33,537)	4,243	112,923	-	113,768	(250,121)	(389,983)
- Loans	(12,335)	(430,795)	(33,207)	4,243	112,923	-	113,768	(245,403)	(385,974)
- Fixed-yield securities	-	(4,388)	(330)	-	-	-	-	(4,718)	(4,009)
C. Total	(12,335)	(435,183)	(33,537)	4,243	112,923	-	113,768	(250,121)	(389,983)

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 31/12/2016	Total 31/12/2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Variable-yield securities	-	(9,897)	-	-	(9,897)	(7,216)
C. Mutual funds	-	(15,292)	-	-	(15,292)	(987)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(25,189)	-	-	(25,189)	(8,203)

Key:

A = Interest

B = Other write-backs

Adjustments concern listed and unlisted variable-yield securities and certain mutual funds, which have been subjected to impairment testing given that their equity value is lower than the original cost.

The most significant adjustments concern the shares of the Atlante Fund for € 13.950 million, the investment in Release spa for € 6.315 million, in Banca Valsabbina for € 1.501 million and the amount due from the IDPF-voluntary scheme for the intervention in favour of Cassa di Risparmio di Cesena for € 1.007 million.

8.3 Net impairment losses on held-to-maturity investments: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)			Total 31/12/2016	Total 31/12/2015
	Specific			Specific		Portfolio		
	Write-offs	Other	Portfolio	A	B	A		
A. Debt securities	-	-	-	-	-	-	-	(9,965)
B. Loans to banks	-	-	-	-	-	-	-	-
C. Loans to customers	-	-	-	-	-	-	-	-
D. Total	-	-	-	-	-	-	-	(9,965)

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 31/12/2016	Total 31/12/2015	
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A			B
A. Guarantees given	-	(3,397)	(114)	-	276	-	-	(3,235)	(984)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to make loans	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	-	(3,397)	(114)	-	276	-	-	(3,235)	(984)

Key:

A = Interest

B = Other write-backs



Section 11 Administrative expenses - line item 180

11.1 Personnel expenses: breakdown

Type of expenses/Sectors	31/12/2016	31/12/2015
1) Employees	(233,938)	(230,524)
a) Wages and salaries	(152,494)	(149,941)
b) Social security contributions	(36,814)	(36,687)
c) Termination indemnities	(17)	(16)
d) Pension expenses	(4,388)	(4,348)
e) Provision for employee termination indemnities	(7,809)	(7,609)
f) Provision for pension and similar obligations:	(6,834)	(6,643)
- defined contribution	-	-
- defined benefits	(6,834)	(6,643)
g) Payments to external supplementary pension funds:	(3,523)	(3,388)
- defined contribution	(3,523)	(3,388)
- defined benefits	-	-
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(22,059)	(21,892)
2) Other working personnel	(592)	(3,004)
3) Directors and Statutory auditors	(2,284)	(2,272)
4) Retired personnel	(20)	-
Total	(236,834)	(235,800)

11.2 Average number of employees by category

	31/12/2016	31/12/2015
1) Employees	3,119	3,098
a) Managers	36	31
b) Officials	750	739
c) Other employees	2,333	2,328
2) Other personnel	10	80
	31/12/2016	31/12/2015
- Number of employees at year-end	3,156	3,115
- Other personnel	8	80

11.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2016	31/12/2015
Service cost	2,230	2,321
Interest cost	2,384	2,190
Contributions from employees	(239)	(241)
Reductions and payments	2,459	2,373
Total charge to income statement (A)	6,834	6,643
Portion of yield from assets servicing the fund (B)	4,662	4,361
Total charge (A-B)	2,172	2,282

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 € 1.911 million. An additional provision of € 4.662 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». An amount of € 10.095 million corresponding to the actuarial gains has not been charged to the income statement, but instead it has been added to 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

Type of service/Amounts	31/12/2016	31/12/2015
Telephone, post and data transmission	(14,885)	(14,294)
Maintenance of property, equipment and investment property	(10,188)	(10,096)
Rent of buildings	(27,524)	(27,817)
Security	(6,448)	(6,385)
Transportation	(3,713)	(4,143)
Professional fees	(30,304)	(24,454)
Office materials	(2,585)	(2,657)
Electricity, heating and water	(5,434)	(5,852)
Advertising and entertainment	(4,065)	(4,278)
Legal	(16,680)	(16,381)
Insurance	(1,973)	(1,981)
Company searches and information	(6,653)	(5,883)
Indirect taxes and dues	(52,579)	(54,049)
Software and hardware rental and maintenance	(15,858)	(15,113)
Data entry by third parties	(1,756)	(1,800)
Cleaning	(5,897)	(5,719)
Membership fees	(2,107)	(2,146)
Services received from third parties	(3,942)	(2,953)
Outsourced activities	(17,807)	(21,468)
Deferred charges	(2,625)	(2,862)
Goods and services for employees	(1,043)	(1,054)
Other	(55,061)	(50,620)
Total	(289,127)	(282,005)

Other expenses include € 43.911 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

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 line item is negative for € 2.439 million.

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) 31/12/2016
A. Property, equipment and investment property				
A.1 Owned	(17,587)	-	-	(17,587)
- for business purposes	(17,587)	-	-	(17,587)
- for investment purposes	-	-	-	-
A.2 Acquired under finance leases	(1,019)	-	-	(1,019)
- for business purposes	(1,019)	-	-	(1,019)
- for investment purposes	-	-	-	-
Total	(18,606)	-	-	(18,606)

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) 31/12/2016
A. Intangible assets				
A.1 Owned	(14,969)	-	-	(14,969)
- Internally generated	-	-	-	-
- Other	(14,969)	-	-	(14,969)
A.2 Acquired under finance leases	-	-	-	-
Total	(14,969)	-	-	(14,969)

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

	31/12/2016	31/12/2015
Out-of-period expense	(3,417)	(3,313)
Other	(1,502)	(602)
Consolidation differences	(766)	(930)
Total	(5,685)	(4,845)

15.2 Other operating income: breakdown

	31/12/2016	31/12/2015
Recovery of charges on deposits and overdrafts	268	109
Recovery of expenses	837	898
Rental income from buildings	5,867	3,962
Recovery of taxes	42,808	43,958
Financial income of pension and similar obligations plan	4,662	4,459
Out-of-period income - other	3,302	4,304
Other	20,103	22,024
Consolidation differences	478	5,664
Total	78,325	85,378



Section 16 Net gains (losses) on equity investments - line item 240

16.1 Net gains (losses) on equity investments: breakdown

Income item/Segments	31/12/2016	31/12/2015
1) Joint-ventures		
A. Income	6	18
1. Revaluations	6	18
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 (loss)	6	18
2) Associated companies		
A. Income	13,418	15,137
1. Revaluations	13,418	12,135
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	3,002
B. Charges	(451)	(1,436)
1. Write-downs	(451)	(1,436)
2. Impairment writedowns	-	-
3. Loss from disposals	-	-
4. Other charges	-	-
Profit (loss)	12,967	13,701
Total	12,973	13,719

Section 17 Net result of fair value measurement of property, equipment and investment property and intangible assets

17.1 Net result of fair value measurement (or at revalued amount) of property, equipment and investment property and intangible assets: breakdown

Asset/Income item	Revaluations (a)	Writedowns (b)	Exchange differences		Net result (a+b+c) 31/12/2016
			Positive (c)	Negative (d)	
A. Property, equipment and investment property	130	-	-	-	130
A.1 Owned:	130	-	-	-	130
- for business purposes	-	-	-	-	-
- for investment purposes	130	-	-	-	130
A.2 Purchased under finance leases	-	-	-	-	-
- for business purposes	-	-	-	-	-
- for investment purposes	-	-	-	-	-
B. Intangible assets	-	-	-	-	-
B.1 Owned	-	-	-	-	-
- B.1.1 Internally generated	-	-	-	-	-
- B.1.2 other	-	-	-	-	-
B.2 Purchased under finance leases	-	-	-	-	-
Total	130	-	-	-	130

Section 19 Net gains on sales of investments - line item 270

19.1 Net gains on sales of investments: breakdown

Income items/Segments	31/12/2016	31/12/2015
A. Buildings	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	63	7
- Gains on disposal	66	7
- Losses on disposal	(3)	-
Profit (loss)	63	7

Section 20 Income taxes - line item 290

20.1 Income taxes: breakdown

Income items/Segments	31/12/2016	31/12/2015
1. Current taxes (+/-)	(12,460)	(91,587)
2. Change in prior period income taxes (+/-)	-	-
3. Reduction in current taxes (+)	-	-
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(20,463)	33,059
5. Change in deferred tax liabilities (+/-)	2,829	(417)
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(30,094)	(58,945)

This line item comes in at 30.094 million, down by 48.95%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 23.15% compared with 30.01%. The decline reflects the reduction in taxation linked to the changes in IRAP taxation during the year and to the deductibility of loan writedowns and losses.

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	Tax base	Tax
Theoretical tax burden	129,969	(32,790)
Tax credit	-	-
Increases	43,260	(14,396)
Decreases	(142,474)	38,939
Effective tax burden	30,755	(8,247)

IRAP (REGIONAL BUSINESS TAX)	Tax base	Tax
Theoretical tax burden	114,416	(5,822)
Tax credit	-	-
Increases	112,248	(6,784)
Decreases	(150,675)	8,393
Effective tax burden	75,989	(4,213)
Total effective tax burden	-	(12,460)



Section 22 Profit (loss) of the period of minority interests - line item 330

22.1 Detail of line item 330 «Profit (loss) of the period of minority interests»

Name of the businesses	31/12/2016	31/12/2015
Equity investments in consolidated companies with significant minority interests		
FACTORIT SPA	1,276	8,200
Total	1,276	8,200

Section 24 Earnings per share

24.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2016	31/12/2015
number of shares	453,385,777	453,385,777

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 EPS «earnings per share» 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.

	31/12/2016	31/12/2015
Basic EPS - €	0,217	0,285
Diluted EPS - €	0,217	0,285

PART D Consolidated comprehensive income

Analytical statement of consolidated comprehensive income

Items/Amounts	31/12/2016		Net amount
	Gross amount	Income taxes	
10. Profit for the year	-	-	99,875
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	(11,529)	3,171	(8,358)
50. Non-current assets held for sale and discontinued operations	-	-	-
60. Share of valuation reserves of equity investments valued at net equity	122	(34)	88
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:	(59,940)	20,484	(39,456)
a) changes in fair value	19,155	(4,554)	14,601
b) transfer to income statement	(79,095)	25,038	(54,057)
- adjustments for impairment	374	(124)	250
- gains/losses on disposals	(79,469)	25,162	(54,307)
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:	293	(80)	213
a) changes in fair value	293	(80)	213
b) transfer to income statement	-	-	-
- adjustments for impairment	-	-	-
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
130. Total other income items	(71,054)	23,541	(47,513)
140. Comprehensive income (Item 10+130)	-	-	52,362
150. Consolidated comprehensive income pertaining to minority interests	-	-	(1,252)
160. Consolidated comprehensive income pertaining to the Parent Bank	-	-	51,110

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 Company's website.

Introduction

The Parent Company 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 Company, 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 Company 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 Company on individual cases of significant risk.

Section 1 *Risks of the Banking Group*

1.1 Credit risk

QUALITATIVE INFORMATION

1. General matters

The Parent Company 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 Company'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 Company 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 Company, 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 Company 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. Factorit, on the other hand, does not have its own rating system. The company does however make reference to the ratings assigned by the Parent Company to common customers and, for these, can check their risk status and trends at any time.

2.3 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Company 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 Company, 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, more than 80% of loans to customers are guaranteed by mortgages, almost exclusively on 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. The shorter average maturity and, therefore, faster turnover of factoring loans with respect to normal banking transactions ensures a certain flexibility in the recovery of the resources invested.

2.4 Impaired financial assets

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the Parent Company, 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)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired	Past due exposures, not impaired	Other non-impaired exposures	Total 31/12/2016
1. Available-for-sale financial assets	-	317	-	-	6,309,924	6,310,241
2. Held-to-maturity investments	-	-	-	-	117,023	117,023
3. Loans and receivables with banks	-	639	-	18	1,786,075	1,786,732
4. Loans and receivables with customers	767,900	1,322,594	291,897	519,571	22,411,502	25,313,464
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-
Total 31/12/2016	767,900	1,323,550	291,897	519,589	30,624,524	33,527,460
Total 31/12/2015	734,682	1,210,337	417,931	811,401	27,949,078	31,123,429

The word exposures is understood as excluding equities and mutual funds.

The table below shows the analysis of the ageing of past due amounts by portfolio with reference to non-impaired financial assets, in line with IFRS 7 (paragraph 37, letter a).

Portfolio/quality	Past due exposures, not impaired				Other exposures not past due
	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	
3. Loans and receivables with banks	18	-	-	-	1,786,075
4. Loans and receivables with customers	375,959	48,629	74,036	20,947	22,411,502
Total	375,977	48,629	74,036	20,947	24,197,577

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Impaired assets			Not impaired assets			Total net exposure
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Available-for-sale financial assets	317	-	317	6,309,924	-	6,309,924	6,310,241
2. Held-to-maturity investments	-	-	-	117,023	-	117,023	117,023
3. Loans and receivables with banks	639	-	639	1,786,093	-	1,786,093	1,786,732
4. Loans and receivables with customers	4,425,892	2,043,501	2,382,391	23,070,964	139,891	22,931,073	25,313,464
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-	-
Total 31/12/2016	4,426,848	2,043,501	2,383,347	31,284,004	139,891	31,144,113	33,527,460
Total 31/12/2015	4,264,621	1,901,671	2,362,950	28,920,133	159,654	28,760,479	31,123,429

With reference to financial assets at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial write-offs recorded over the years in relation to the above portfolios total € 130.8 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

Portfolio/quality	Assets obviously of poor quality		Other assets
	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	14	322	793,982
2. Hedging derivatives	-	-	-
Total 31/12/2016	14	322	793,982
Total 31/12/2015	47	614	1,675,632



A.1.3 Banking Group - Cash and off-balance sheet exposures to banks: gross and net values and past due bands

Type of exposure/Amounts	Gross exposure							Net exposure
	Impaired assets				Not impaired assets	Specific adjustments	General portfolio adjustments	
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
A. Cash exposures								
a) Non-performing loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
b) Unlikely-to-pay loans	639	-	-	-	-	-	-	639
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
c) Impaired past due exposures	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
d) Not Impaired past due exposures	-	-	-	-	18	-	-	18
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
e) Other not impaired exposure	-	-	-	-	2,036,540	-	-	2,036,540
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
Total A	639	-	-	-	2,036,558	-	-	2,037,197
B. Off-balance sheet exposures								
a) Impaired	-	-	-	-	-	-	-	-
b) Not impaired	-	-	-	-	162,510	-	-	162,510
Total B	-	-	-	-	162,510	-	-	162,510
Total (A+B)	639	-	-	-	2,199,068	-	-	2,199,707

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.1.4 Banking Group - Cash exposures to banks: dynamics of gross impaired loans

Categories	Bad loans	Unlikely-to-pay loans	Past due exposures, impaired
A. Opening gross exposure	-	10,391	-
- of which: sold but not eliminated from the balance sheet	-	-	-
B. Increases	-	489	-
B.1 transfers from performing loans	-	-	-
B.2 transfers from other categories of impaired exposure	-	-	-
B.3 other increases	-	489	-
C. Decreases	-	10,241	-
C.1 transfers to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	276	-
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposure	-	-	-
C.7 other decreases	-	9,965	-
D. Closing gross exposure	-	639	-
- of which: sold but not eliminated from the balance sheet	-	-	-

A.1.5 Banking group - Impaired cash exposures to banks: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. Total opening adjustments	-	-	9,965	-	-	-
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-	-
B. Increases	-	-	-	-	-	-
B.1 adjustments	-	-	-	-	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposure	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
C. Decreases	-	-	9,965	-	-	-
C.1 write-backs on valuation	-	-	-	-	-	-
C.2 write-backs due to collections	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of impaired exposure	-	-	-	-	-	-
C.6 other decreases	-	-	9,965	-	-	-
D. Total closing adjustments	-	-	-	-	-	-
- of which: sold but not eliminated from the balance sheet	-	-	-	-	-	-



A.1.6 Banking group - Cash and off-balance sheet exposures to customers: gross and net values and past due bands

Type of exposure/Amounts	Gross exposure				Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
	Impaired assets							
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
A. Cash exposures								
a) Non-performing loans	14,890	7,357	57,973	2,019,497	-	1,331,817	-	767,900
- of which: exposures subject to forbearance	9,053	178	6,354	51,121	-	40,887	-	25,819
b) Unlikely-to-pay loans	795,308	51,958	224,939	915,630	-	664,924	-	1,322,911
- of which: exposures subject to forbearance	328,278	10,047	35,982	88,630	-	141,267	-	321,670
c) Impaired past due exposures	59,986	114,863	56,564	107,245	-	46,761	-	291,897
- of which: exposures subject to forbearance	4,697	7,401	3,081	12,089	-	3,644	-	23,624
d) Not Impaired past due exposures	-	-	-	-	523,800	-	4,229	519,571
- of which: exposures subject to forbearance	-	-	-	-	37,364	-	431	36,933
e) Other not impaired exposure	-	-	-	-	29,459,324	-	135,662	29,323,662
- of which: exposures subject to forbearance	-	-	-	-	416,507	-	4,606	411,901
Total A	870,184	174,178	339,476	3,042,372	29,983,124	2,043,502	139,891	32,225,941
B. Off-balance sheet exposures								
a) Impaired	93,466	-	-	-	-	18,033	-	75,433
b) Not impaired	-	-	-	-	5,071,944	-	5,370	5,066,574
Total B	93,466	-	-	-	5,071,944	18,033	5,370	5,142,007
Total (A+B)	963,650	174,178	339,476	3,042,372	35,055,068	2,061,535	145,261	37,367,948

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	Unlikely-to-pay loans	Past due exposures, impaired
A. Opening gross exposure	1,927,607	1,840,510	486,113
- of which: sold but not eliminated from the balance sheet	725	952	1,768
B. Increases	465,122	888,893	262,195
B.1 transfers from performing loans	80,915	309,690	212,354
B.2 transfers from other categories of impaired exposure	306,751	238,320	20,415
B.3 other increases	77,456	340,883	29,426
C. Decreases	293,012	741,568	409,650
C.1 transfers to performing loans	345	58,814	96,804
C.2 write-offs	146,405	7,556	-
C.3 collections	123,399	329,881	28,920
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposure	4,797	292,338	268,351
C.7 other decreases	18,066	52,979	15,575
D. Closing gross exposure	2,099,717	1,987,835	338,658
- of which: sold but not eliminated from the balance sheet	34	3,240	2,833

A.1.7bis Banking Group - Cash exposures to customers: dynamics of exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: not impaired
A. Opening gross exposure	385,891	253,934
- of which: sold but not eliminated from the balance sheet	-	-
B. Increases	441,280	318,900
B.1 transfers from performing loans not subject to forbearance	48,170	225,472
B.2 transfers from performing loans subject to forbearance	31,180	-
B.3 transfers from loans subject to forbearance and impaired	-	32,638
B.4 other increases	361,930	60,790
C. Decreases	270,260	118,963
C.1 transfers to performing loans not subject to forbearance	-	51,599
C.2 transfers to performing loans subject to forbearance	32,638	-
C.3 transfers to loans subject to forbearance and impaired	-	31,180
C.4 write-offs	10	-
C.5 collections	204,852	14,573
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	32,760	21,611
D. Closing gross exposure	556,911	453,871
- of which: sold but not eliminated from the balance sheet	-	-



A.1.8 Banking group - Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. Total opening adjustments	1,192,925	18,929	630,599	109,878	68,182	2,728
- of which: sold but not eliminated from the balance sheet	177	-	157	-	223	-
B. Increases	337,687	24,893	250,281	72,317	33,117	2,768
B.1 adjustments	73,391	115	52,611	14,849	8,526	814
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposure			121,687	12,528	37,700	
1,000 4,464	-					
B.4 other increases	142,609	12,250	159,970	56,468	20,127	1,954
C. Decreases	198,795	2,935	215,956	40,928	54,538	1,852
C.1 write-backs on valuation	29,958	968	48,963	10,403	44	-
C.2 write-backs due to collections	13,996	324	9,484	1,521	690	9
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	146,406	5	2,588	5	-	-
C.5 transfers to other categories of impaired exposure		4,173	-	121,139	12,240	
38,539 1,288						
C.6 other decreases	4,262	1,638	33,782	16,759	15,265	555
D. Total closing adjustments	1,331,817	40,887	664,924	141,267	46,761	3,644
- of which: sold but not eliminated from the balance sheet	7	-	500	-	357	-

A.2 Classification of exposures based on external and internal

A.2.1 Banking Group - Distribution of cash loans and off-balance sheet items by external rating class

Exposure	External rating classes						Unrated	Total 31/12/2016
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposure	249,143	6,143,775	1,360,406	414,965	45,891	-	26,519,541	34,733,721
B. Derivatives	-	23,376	2,905	394	-	-	29,906	56,581
B.1 Financial derivatives	-	23,376	2,905	394	-	-	29,906	56,581
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	11,666	67,195	206,293	90,137	60,077	-	3,205,207	3,640,575
D. Commitments to make loans	49,455	13,417	8,006	23,214	5,764	-	1,507,498	1,607,354
E. Other	-	-	-	-	-	-	-	-
Total	310,264	6,247,763	1,577,610	528,710	111,732	-	31,262,152	40,038,231

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
StanFromrd & 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
FitchRatings	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

Tables analysing the distribution of the cash and «off-balance sheet» exposures of Banca Popolare di Sondrio by internal rating class are presented in the corresponding section of the notes to the financial statements of the Parent Company.

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 11 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.

BANCA POPOLARE DI SONDRIO (SUISSE) - CUSTOMERS - Exposure	R1	R2	R3	R3G	R4
A. Cash exposures	-	-	535,888	556,358	1,960,204
B. Derivatives	-	-	-	-	-
B.1 Financial derivatives	-	-	-	-	-
B.2 Credit derivatives	-	-	-	-	-
C. Guarantees given	-	-	103	998	44,016
D. Commitments to make loans	-	-	403	1,915	18,189
E. Other	-	-	-	-	-
Total	-	-	536,394	559,271	2,022,409

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.

Internal rating classes							Total
R4G	R5	R6	R6G	R7	R8	31/12/2016	
282,563	91,304	38,183	31,539	5,581	-	3,501,620	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
15,311	60	-	-	-	-	60,488	
6,064	47	-	-	-	-	26,618	
-	-	-	-	-	-	-	
303,938	91,411	38,183	31,539	5,581	-	3,588,726	



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. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. 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 means that the real value of the guarantees may exceed that shown in the table.

A.3.1 Banking group - Guaranteed cash exposure to banks

	Net exposure	Secured guarantees (1)			Other secured guarantees
		Buildings mortgaged	Buildings under finance lease	Securities	
1. Guaranteed cash exposures:	81,591	-	-	1,267	-
1.1 fully guaranteed	71,783	-	-	1,267	-
- of which: impaired	-	-	-	-	-
1.2 partially guaranteed	9,808	-	-	-	-
- of which: impaired	-	-	-	-	-
2. Guaranteed off-balance sheet exposures:	15,854	-	-	73	1,600
2.1 fully guaranteed	14,663	-	-	60	1,289
- of which: impaired	-	-	-	-	-
2.2 partially guaranteed	1,191	-	-	13	311
- of which: impaired	-	-	-	-	-

A.3.2 Banking group - Guaranteed cash exposure to customers

	Net exposure	Secured guarantees (1)			Other secured guarantees
		Buildings mortgaged	Buildings under finance lease	Securities	
1. Guaranteed cash exposures:	16,263,075	12,044,334	-	1,245,174	200,908
1.1. fully guaranteed	15,599,606	12,040,004	-	1,141,587	154,094
- of which: impaired	2,009,139	1,780,696	-	14,129	4,700
1.2. partially guaranteed	663,469	4,330	-	103,587	46,814
- of which: impaired	103,310	3,813	-	11,452	1,974
2. Guaranteed off-balance sheet exposures:	1,498,726	110,988	-	65,773	57,746
2.1. fully guaranteed	1,323,443	110,988	-	56,107	41,034
- of which: impaired	32,237	4,856	-	1,565	2,103
2.2. partially guaranteed	175,283	-	-	9,666	16,712
- of which: impaired	3,884	-	-	362	389

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2016
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	4,306	-	73,826	-	79,399	
-	-	-	-	-	4,306	-	66,210	-	71,783	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	7,616	-	7,616	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	13,790	-	27	-	15,490	
-	-	-	-	-	13,314	-	-	-	14,663	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	476	-	27	-	827	
-	-	-	-	-	-	-	-	-	-	

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2016
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	64,969	9,588	82,752	2,355,494	16,003,219	
-	-	-	-	-	34,771	8,139	79,350	2,082,164	15,540,109	
-	-	-	-	-	2,506	1,567	606	188,927	1,993,131	
-	-	-	-	-	30,198	1,449	3,402	273,330	463,110	
-	-	-	-	-	2,071	423	418	70,216	90,367	
-	-	-	-	-	55,790	-	117,329	1,006,131	1,413,757	
-	-	-	-	-	2,001	-	112,885	970,944	1,293,959	
-	-	-	-	-	-	-	-	16,795	25,319	
-	-	-	-	-	53,789	-	4,444	35,187	119,798	
-	-	-	-	-	143	-	-	2,071	2,965	



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 counterparty 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)

Exposures/Counterparties	Government			Other public entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures						
A.1 Non-performing loans	-	-	-	-	-	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.2 Unlikely-to-pay loans	8,039	4,661	-	-	-	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.3 Past due exposures, impaired	-	-	-	125	12	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.4 Not impaired exposures	6,748,882	-	-	87,876	-	86
- of which exposures subject to forbearance	-	-	-	-	-	-
Total A	6,756,921	4,661	-	88,001	12	86
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Unlikely-to-pay loans	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Not impaired exposures	62,987	-	-	26,810	-	36
Total B	62,987	-	-	26,810	-	36
Total (A+B) 31/12/2016	6,819,908	4,661	-	114,811	12	122
Total (A+B) 31/12/2015	7,420,194	4,649	-	162,704	34	66

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
8,186	40,859	-	-	-	-	623,803	1,111,833	-	135,911	179,125	-
-	-	-	-	-	-	24,523	39,908	-	1,296	979	-
26,202	22,444	-	-	-	-	1,081,672	571,508	-	206,998	66,311	-
7,356	7,866	-	-	-	-	279,162	121,894	-	35,152	11,507	-
2,032	333	-	-	-	-	139,320	22,974	-	150,420	23,442	-
57	10	-	-	-	-	15,067	2,508	-	8,500	1,126	-
3,053,255	-	16,665	12,870	-	14	13,489,775	-	111,823	6,450,575	-	11,303
-	-	-	-	-	-	384,202	-	4,833	64,632	-	204
3,089,675	63,636	16,665	12,870	-	14	15,334,570	1,706,315	111,823	6,943,904	268,878	11,303
-	-	-	-	17	-	6,154	8,011	-	211	295	-
723	67	-	-	-	-	61,300	9,377	-	2,580	263	-
-	-	-	-	-	-	3,944	3	-	521	-	-
601,548	-	125	3,441	-	5	4,045,104	-	4,819	326,684	-	385
602,271	67	125	3,441	17	5	4,116,502	17,391	4,819	329,996	558	385
3,691,946	63,703	16,790	16,311	17	19	19,451,072	1,723,706	116,642	7,273,900	269,436	11,688
3,073,862	54,559	13,771	11,798	17	5	18,700,222	1,609,060	132,816	7,028,176	238,299	18,244



B.2 Banking group - Territorial distribution of cash and off-balance sheet exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures				
A.1 Non-performing loans	760,749	1,283,964	7,143	44,000
A.2 Unlikely-to-pay loans	1,314,203	660,971	7,936	3,624
A.3 Past due exposures, impaired	221,373	35,375	70,300	11,360
A.4 Not impaired exposures	25,089,230	133,105	4,635,028	6,514
Total A	27,385,555	2,113,415	4,720,407	65,498
B. Off-balance sheet exposures				
B.1 Non-performing loans	6,365	8,322	-	-
B.2 Unlikely-to-pay loans	64,574	9,706	29	1
B.3 Other impaired assets	4,465	3	-	-
B.4 Not impaired exposures	4,636,434	4,378	418,367	983
Total B	4,711,838	22,409	418,396	984
Total A+B 31/12/2016	32,097,393	2,135,824	5,138,803	66,482
Total A+B 31/12/2015	32,112,168	2,001,666	4,215,262	65,805

B.3 Banking group - Territorial distribution of cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures				
A.1 Non-performing loans	-	-	-	-
A.2 Unlikely-to-pay loans	639	-	-	-
A.3 Past due exposures, impaired	-	-	-	-
A.4 Not impaired exposures	1,687,809	-	271,321	-
Total A	1,688,448	-	271,321	-
B. Off-balance sheet exposures				
B.1 Non-performing loans	-	-	-	-
B.2 Unlikely-to-pay loans	-	-	-	-
B.3 Other impaired assets	-	-	-	-
B.4 Not impaired exposures	66,621	-	87,339	-
Total B	66,621	-	87,339	-
Total A+B 31/12/2016	1,755,069	-	358,660	-
Total A+B 31/12/2015	983,600	9,965	345,874	-

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
8	23	-	3,806	-	24
732	322	39	7	1	-
220	26	2	-	2	-
41,230	34	25,163	208	52,582	30
42,190	405	25,204	4,021	52,585	54
-	-	-	-	-	1
-	-	-	-	-	-
-	-	-	-	-	-
7,189	9	3,087	-	1,497	-
7,189	9	3,087	-	1,497	1
49,379	414	28,291	4,021	54,082	55
54,778	256	12,273	3,761	2,475	32

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
43,427	-	31,150	-	2,851	-
43,427	-	31,150	-	2,851	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
729	-	7,371	-	450	-
729	-	7,371	-	450	-
44,156	-	38,521	-	3,301	-
32,042	-	36,001	-	6,947	-



B.4 Significant risks

	31/12/2016	31/12/2015
Number of positions	11	8
Exposure	12,973,341	12,021,007
Risk position	3,608,205	2,885,046

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.

The above positions include the Republic of Italy (nominal exposure, 6,125 million; risk position, 51 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,676 million; risk position, 263 million), principally in relation to lending and funding repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisation transactions

C.1 Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

Type of underlying asset/Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks	Book value	Writedowns/writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	-	-	-	-	-	-
Mortgage loans	62,026	13,155	-	-	-	-
Alba 6 Spv 27.06.2014/25.10.2045	-	-	-	-	-	-
Lease contracts	298,119	924	-	-	-	-

C.3 Banking group – Non-consolidated special purpose vehicle for

Names	Registered offices of the company	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	NO	402,081
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	277,679

C.4 Banking group – Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv Srl and BNT Portfolio Spv Srl have not been consolidated as there are not the requirements of IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks	Net Writedowns/ exposure	writebacks
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-

Assets			Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior	
-	14,820	299,047	-	75,168	
-	14,821	291,653	-	-	



D. Information about structured entities (other than securitisation vehicles)

Starting from 2014, following the entry into force of IFRS 10 on the subject of control, Fondo Centro delle Alpi Real Estate is fully consolidated since the relevant conditions were met.

No situations arose during the year that would have required the disclosures envisaged in IFRS 12, paras. 14-17 and 26-27.

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

Technical forms/Portfolio	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets		
	A	B	C	A	B	C	A	B	C
A. Cash assets	-	-	-	-	-	-	610,161	-	-
1. Fixed-yield securities	-	-	-	-	-	-	610,161	-	-
2. Variable-yield securities	-	-	-	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-	-	-	-
Total 31/12/2016	-	-	-	-	-	-	610,161	-	-
of which: impaired	-	-	-	-	-	-	-	-	-
Total 31/12/2015	136,022	-	-	-	-	-	587,925	-	-
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 at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total 31/12/2016
1. Due to customers	-	-	610,237	-	-	-	610,237
a) for assets recognised in full	-	-	610,237	-	-	-	610,237
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 31/12/2016	-	-	610,237	-	-	-	610,237
Total 31/12/2015	139,300	-	587,769	-	-	-	727,069



Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2016	31/12/2015
-	-	-	-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	610,161	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	723,947
-	-	-	-	-	-	-	-	-	-	-



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 at fair value through profit or loss		Available-for-sale financial assets	
	A	B	A	B	A	B
A. Cash assets	-	-	-	-	610,161	-
1. Fixed-yield securities	-	-	-	-	610,161	-
2. Variable-yield securities	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-
Total assets	-	-	-	-	610,161	-
C. Associated liabilities	-	-	-	-	(610,237)	-
1. Due to customers	-	-	-	-	(610,237)	-
2. Due to banks	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	(610,237)	-
Net value 31/12/2016	-	-	-	-	(76)	-
Net value 31/12/2015	(3,278)	-	-	-	156	-

Key:

A = financial assets sold and recognised in full

B = financial assets sold and recognised in part

E.4. Covered bond operations

On 6 November 2013, the Board of Directors of the Parent Company 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 Company.

On 30 May 2014, 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.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract.

Two additional assignments were carried out in 2016. The first, on 1 February 2016, relating to a total portfolio of € 576 million of performing loans in connection with the issue of a second series of covered bonds totalling € 500 million on 4 April 2016. The second, on 1 November 2016, relating to a portfolio of performing loans totalling € 226 million.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Parent Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IAS 39. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Company 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;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

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	31/12/2016	31/12/2015
-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	610,161	723,947
-	-	-	-	-	-	(610,237)	(727,069)
-	-	-	-	-	-	(610,237)	(727,069)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(610,237)	(727,069)
-	-	-	-	-	-	(76)	-
-	-	-	-	-	-	-	(3,122)

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, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are 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



Series and Class	Series 2
ISIN Code:	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
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 Company is provided in the corresponding section of the notes to the separate financial statements.

Factorit s.p.a. and Sinergia Seconda S.r.l. are not exposed to rate and price risk inherent to the trading portfolio, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The interest rate risk deriving from Banca Popolare di Sondrio (Suisse) SA's trading portfolio relates to investments in fixed-yield securities and forward contracts on exchange rates.

The first ones 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 Swiss 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.

B. Management and measurement of interest rate risk and price risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

At a consolidated level, the VaR measurement is done by the Parent Company's Financial and Operational Risk Office on the basis of data provided by Banca Popolare di Sondrio (Suisse) SA, offsetting any intercompany balances.

The approach adopted for analysing the sensitivity to interest rate risk and to price risk essentially reflect the internal model used by the Parent Company to calculate Value at Risk (VaR), as described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers, in addition to the financial instruments exposed to price risk included in the Parent Company's trading portfolio for supervisory purposes: as for interest rate risk, fixed-yield securities and forward contracts on exchange rates of the subsidiary; as for price risk, the variable-yield securities and mutual funds of the subsidiary, excluding the equity investment and the variable-yield security 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.

With regard to the measurement of interest-rate risk, the VaR methodology described above also takes account of the results obtained at a consolidated level by the internal Asset & Liability Management (ALM) model described in the corresponding section of the notes to the financial statements of the Parent Company and of the individual companies comprised in the Banking Group.

In this regard, the following year-end data relates solely to the fixed-yield securities held in the trading portfolio for supervisory purposes, lending and funding repo transactions (with underlying fixed-yield securities held in the trading portfolio for supervisory purposes), forward exchange-rate contracts, interest-rate options and interest-rate swaps held in the Parent Bank's trading portfolio, as well as the forward exchange-rate contracts of Banca Popolare di Sondrio (SUISSE) SA.

The effect of a change in interest rates of +200 basis points over twelve months on the future interest margin - the difference between the future interest income and the future interest expense - would be 26.060 million, whereas a change in interest rates of -200 basis points would decrease in the interest margin by 1.257 million euro.

The effect of an instantaneous change in interest rates by +200 basis points on equity - the difference between the present value of assets and liabilities - would be a loss of 28.379 million, whereas a change in interest rates by -200 basis would result in a profit of 4.775 million euro.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.



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	-	875,047	317,626	8,292	73,799	126,973	60	-
1.1 Fixed-yield securities	-	176,110	317,626	8,292	73,799	126,973	60	-
- with early repayment option	-	27,406	-	-	-	3,979	-	-
- Other	-	148,704	317,626	8,292	73,799	122,994	60	-
1.2 Other assets	-	698,937	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	5,880,775	1,347,179	202,474	1,065,778	629,258	5,828	-
3.1 With underlying security	-	49,455	-	-	49,400	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	49,455	-	-	49,400	-	-	-
+ Long positions	-	-	-	-	49,400	-	-	-
+ Short positions	-	49,455	-	-	-	-	-	-
3.2 Without underlying security	-	5,831,320	1,347,179	202,474	1,016,378	629,258	5,828	-
- Options	-	9,738	9,531	28,512	257,107	11,770	768	-
+ Long positions	-	4,879	4,771	14,267	128,554	5,885	384	-
+ Short positions	-	4,859	4,760	14,245	128,553	5,885	384	-
- Other derivatives	-	5,821,582	1,337,648	173,962	759,271	617,488	5,060	-
+ Long positions	-	3,479,481	1,000,774	87,616	379,354	308,744	2,530	-
+ Short positions	-	2,342,101	336,874	86,346	379,917	308,744	2,530	-



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	-	-	14	8,560	24,126	511	-	-
1.1 Fixed-yield securities	-	-	14	8,560	24,126	511	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- Other	-	-	14	8,560	24,126	511	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	3,580,773	1,085,527	278,631	7,845	-	-	-
3.1 With underlying security	-	1,306	70	-	-	-	-	-
- Options	-	1,306	70	-	-	-	-	-
+ Long positions	-	653	35	-	-	-	-	-
+ Short positions	-	653	35	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	3,579,467	1,085,457	278,631	7,845	-	-	-
- Options	-	8,580	7,285	15,293	996	-	-	-
+ Long positions	-	4,291	3,646	7,653	499	-	-	-
+ Short positions	-	4,289	3,639	7,640	497	-	-	-
- Other derivatives	-	3,570,887	1,078,172	263,338	6,849	-	-	-
+ Long positions	-	1,210,301	205,655	131,130	3,659	-	-	-
+ Short positions	-	2,360,586	872,517	132,208	3,190	-	-	-

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. Variable-yield securities							
- long positions	127,178	-	-	-	2,956	15,873	4
- 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	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
D. Derivatives on stock indices							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-



3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. Cash assets	2,475
1.1 Fixed-yield securities	2,475
1.2 Other assets	-
2. Cash liabilities	-
2.1 Repurchase agreements	-
2.2 Other liabilities	-
3. Financial derivatives	119
3.1 With underlying security	-
- Options (on variable-yield securities)	-
+ Long positions	-
+ Short positions	-
- Other derivatives	-
+ Long positions	-
+ Short positions	-
3.2 Without underlying security	119
- Options	-
+ Long positions	-
+ Short positions	-
- Other derivatives	119
+ Long positions	1,539
+ Short positions	1,581
Total interest rate risk	2,458
A. Variable-yield securities	3,533
- Long positions	3,533
- 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	-
- Short positions	-
D. Derivatives on stock indices	-
- Long positions	-
- Short positions	-
Total Price risk transactions table 2	3,533
MUTUAL FUNDS	728
Forward contracts on other instruments (goods)	-
- Long positions	443
- Short positions	443
Options on other instruments (goods)	-
- Long positions	-
- Short positions	-
Total Price risk	3,609
Total Interest rate risk and price risk	5,026

The following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date.

in thousands of euro	Change in interest margin				
	31/12/2016				31/12/2015
	at period end	average	minimum	maximum	at period end
Exposure to risk					
positive parallel shift	26,060	30,502	39,975	24,384	35,515
negative parallel shift	-1,257	-1,006	-569	-1,547	-1,665
flat rotary shift	43,588	52,851	71,451	41,029	n.d.
steep rotary shift	-1,295	2,447	42,179	-3,253	n.d.
short-term positive shift	45,068	54,794	74,031	42,372	n.d.
short-term negative shift	-1,295	2,398	41,579	-3,252	n.d.
long-term positive shift	196	205	376	149	n.d.
long-term negative shift	-190	-181	-72	-255	n.d.
medium-term positive shift	2,426	3,030	4,285	2,151	n.d.
medium-term negative shift	-368	-364	-294	-521	n.d.
worst-case scenario	-1,295	-1,006	-569	-3,253	n.d.

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April.

Equity is understood as being the difference between the present value assets and liabilities items.

in thousands of euro	Change in equity value				
	31/12/2016				31/12/2015
	at period end	average	minimum	maximum	at period end
Exposure to risk					
positive parallel shift	-28,379	-36,846	-27,730	-43,278	-39,567
negative parallel shift	4,775	4,023	8,406	-1,597	10,609
flat rotary shift	-34,071	-46,918	-31,854	-58,597	n.d.
steep rotary shift	4,761	4,025	8,436	-1,612	n.d.
short-term positive shift	-43,386	-57,369	-41,383	-69,628	n.d.
short-term negative shift	4,776	4,024	8,407	-1,594	n.d.
long-term positive shift	-10,656	-12,312	-10,654	-14,352	n.d.
long-term negative shift	4,107	2,487	5,889	-2,427	n.d.
medium-term positive shift	-20,485	-23,558	-20,485	-25,015	n.d.
medium-term negative shift	4,155	2,835	6,474	-2,265	n.d.
worst-case scenario	-43,386	-57,369	-41,383	-69,628	n.d.



1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

Information on the Parent Company 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.

Sinergia Seconda S.r.l. is not exposed to rate and price risk related to the trading portfolio.

The principal source of interest rate risk for Banca Popolare di Sondrio (SUISSE) SA derives from fixed-rate lending (mortgage loans).

At Group level, interest-rate risk is measured and controlled using a strategic internal Asset & Liability Management (ALM) model that is applied by the Parent Bank with reference to an integrated database containing consolidated information.

As discussed in the corresponding section of the notes to the financial statements of the Parent Company, the internal processes for the management and control of interest-rate risk at a consolidated level are based on a system of thresholds, with reference to which, as defined in the context of the Risk Appetite Framework, the propensity to accept risk is expressed in quantitative terms by the assignment of a value limit to the percentage quotient between the capital required to cover the risk measured using the «Sensitivity Analysis in Full Evaluation» method, under stable conditions, with the simulation of a parallel shift in the reference curves by +/- 200 basis points, and total own funds.

Monitoring of this indicator is done monthly.

The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

As for price risk, the Parent Company 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 measurement and control of price risk essentially involves application of the Parent Company'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 price risk included in the Parent Company'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 book value in the VaR calculation. The price risk on foreign currency mutual funds also includes exchange risk.

B. Fair value hedges

Information on the Parent Company 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: 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
3. Financial derivatives	-	643,819	505,448	92,375	465,220	135,487	2,887	-
3.1 With underlying security	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	643,819	505,448	92,375	465,220	135,487	2,887	-
Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
Other	-	643,819	505,448	92,375	465,220	135,487	2,887	-
+ Long positions	-	526,398	396,220	-	-	-	-	-
+ Short positions	-	117,421	109,228	92,375	465,220	135,487	2,887	-
4. Other off-balance sheet transactions	7,025	6,672	353					
+ Long positions	2,467	4,205	353	-	-	-	-	-
+ Short positions	4,558	2,467	-	-	-	-	-	-



2. Bank book: internal models and other methodologies for the analysis of sensitivity

Interest rate risk

The following information is taken from the ALM procedures of the Parent Company.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date.

in thousands of euro	Change in interest margin				
	31/12/2016				31/12/2015
	at period end	average	minimum	maximum	at period end
Exposure to risk					
positive parallel shift	- 40,927	- 61,219	- 40,927	- 73,765	- 99,173
negative parallel shift	- 7,032	841	2,430	- 7,032	623
flat rotary shift	- 85,993	- 125,420	- 85,993	- 155,990	n.d.
steep rotary shift	- 14,837	- 3,386	3,761	- 41,745	n.d.
short-term positive shift	- 89,016	- 129,906	- 89,016	- 161,792	n.d.
short-term negative shift	- 15,679	- 4,457	3,759	- 41,145	n.d.
long-term positive shift	951	1,295	3,477	410	n.d.
long-term negative shift	- 753	- 2,794	- 26	- 11,138	n.d.
medium-term positive shift	1,607	3,454	11,599	- 1,621	n.d.
medium-term negative shift	- 1,288	- 396	276	- 1,288	n.d.
worst-case scenario	- 89,016	- 129,906	- 89,016	- 161,792	n.d.

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April.

Equity is understood as being the difference between the present value assets and liabilities items.

in thousands of euro	Change in equity value				
	31/12/2016				31/12/2015
	at period end	average	minimum	maximum	at period end
Exposure to risk					
positive parallel shift	- 155,126	- 222,199	- 155,126	- 281,051	- 235,806
negative parallel shift	208,150	- 75,407	208,150	- 164,177	28,080
flat rotary shift	- 3,322	295,916	421,981	- 3,322	n.d.
steep rotary shift	172,956	- 189,216	172,956	- 283,386	n.d.
short-term positive shift	- 164,801	343,268	542,143	- 164,801	n.d.
short-term negative shift	307,142	- 112,600	307,142	- 194,519	n.d.
long-term positive shift	- 112,394	- 224,463	- 112,394	- 295,094	n.d.
long-term negative shift	39,279	- 80,172	39,279	- 136,215	n.d.
medium-term positive shift	- 54,998	834,982	1,070,444	- 54,998	n.d.
medium-term negative shift	138,350	- 74,126	138,350	- 151,723	n.d.
worst-case scenario	- 164,801	- 224,463	- 155,126	- 295,094	n.d.

Price risk

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Company (excluding the equity investments Suisse, Factorit, Covered and Sinergia)	7,971
BPS Suisse	18
Sinergia Seconda	244
Total	8,215

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

Information on the Parent Company 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 Company'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 Company's investment book and all assets and liabilities in foreign currency (excluding gold), on and off the balance sheet, pertaining to the subsidiaries, which are shown on table 1 below, excluding mutual funds in foreign currency, whose exchange risk is included in price risk. Any intercompany transactions are eliminated.

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.

B. Hedging of exchange risk

Information on the Parent Company 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 Company. The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.



QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. Financial assets	809,519	61,862	13,600	4,601,419	5,728	21,934
A.1 Fixed-yield securities	20,854	-	-	12,357	-	-
A.2 Variable-yield securities	26,930	-	-	6,523	-	-
A.3 Loans to banks	337,468	56,517	4,684	10,876	5,728	21,843
A.4 Loans to customers	423,907	5,216	8,915	3,883,746	-	66
A.5 Other financial assets	360	129	1	687,917	-	25
B. Other assets	4,355	1,232	190	2,692	94	941
C. Financial liabilities	924,072	71,715	22,376	2,282,032	6,769	30,737
C.1 Due to banks	164,967	7,516	271	463,437	1,628	1,426
C.2 Due to customers	759,101	64,187	22,105	1,675,968	5,141	29,311
C.3 Fixed-yield securities	4	12	-	142,627	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	5,279	836	2	218,730	28	34
E. Financial derivatives	2,236,367	221,241	81,253	2,101,038	37,316	287,766
- Options	32,338	320	-	870	-	-
+ long positions	16,180	160	-	435	-	-
+ short positions	16,158	160	-	435	-	-
- Other	2,204,029	220,921	81,253	2,100,168	37,316	287,766
+ long positions	1,165,431	115,578	45,143	63,000	19,144	148,553
+ short positions	1,038,598	105,343	36,110	2,037,168	18,172	139,213
Total assets	1,995,485	178,832	58,933	4,667,546	24,966	171,428
Total liabilities	1,984,107	178,054	58,488	4,538,365	24,969	169,984
Net balance (+/-)	(11,378)	(778)	(445)	(129,181)	3	(1,444)

2. Internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	315
Variable-yield securities	6
Net balance between other assets and liabilities	11,438
Financial derivatives	9,703
- Options	-
+ Long positions	213
+ Short positions	212
- Other derivatives	9,703
+ Long positions	16,989
+ Short positions	22,266
Total transactions table 1	1,991
- Interest Rate Swaps	163
+ Long positions	4,904
+ Short positions	5,068
Total	1,831
Details of the principal currencies	
US Dollars	360
Sterling	71
Japanese Yen	7
Swiss Francs	1,622
Canadian Dollars	-
Other currencies	6
Total	1,831



1.2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

Underlying assets /Type of derivative	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Fixed-yield securities and interest rates	2,338,532	-	1,495,825	-
a) Options	24,947	-	23,821	-
b) Swaps	2,313,585	-	1,472,004	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Variable-yield securities and stock indices	11	-	11	-
a) Options	11	-	11	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	4,384,629	-	4,063,344	-
a) Options	62,882	-	113,143	-
b) Swaps	-	-	-	-
c) Forwards	4,321,747	-	3,950,201	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	26,882	-	15,378	-
5. Other underlying assets	-	-	-	-
Total	6,750,054	-	5,574,558	-

A.2 Bank book: notional amounts at period end and averages

A.2.1 For hedging

Underlying assets /Type of derivative	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Fixed-yield securities and interest rates	922,618	-	1,146,377	-
a) Options	-	-	-	-
b) Swaps	922,618	-	1,146,377	-
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	922,618	-	1,146,377	-



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

Portfolio/Type of derivatives	POSITIVE FAIR VALUE			
	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Trading portfolio for supervisory purposes	56,581	-	64,058	-
a) Options	1,236	-	2,067	-
b) Interest rate swap	20,136	-	19,509	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	33,707	-	41,955	-
f) Futures	-	-	-	-
g) Other	1,502	-	527	-
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	56,581	-	64,058	-

A.4 Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivatives	NEGATIVE FAIR VALUE			
	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. Trading portfolio for supervisory purposes	73,016	-	48,709	-
a) Options	1,157	-	1,944	-
b) Interest rate swap	20,489	-	19,231	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	49,894	-	27,033	-
f) Futures	-	-	-	-
g) Other	1,476	-	501	-
B. Bank book - for hedging purposes	38,734	-	53,483	-
a) Options	-	-	-	-
b) Interest rate swap	38,734	-	53,483	-
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	111,750	-	102,192	-



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	-	-	2,194,266	259	-	139,219	4,788
- positive fair value	-	-	11,208	13	-	8,808	145
- negative fair value	-	-	20,512	-	-	16	-
- future exposure	-	-	12,830	-	-	249	9
2. Variable-yield securities and stock indices							
- notional value	-	-	-	11	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currency and gold							
- notional value	368,580	-	3,258,808	189,443	1,360	400,624	165,816
- positive fair value	3,293	-	23,149	3,458	83	3,040	1,882
- negative fair value	-	-	36,772	4,185	-	6,687	3,368
- future exposure	3,686	-	32,661	1,894	14	3,929	1,659
4. Other assets							
- notional value	-	-	13,441	-	-	13,441	-
- positive fair value	-	-	989	-	-	513	-
- negative fair value	-	-	506	-	-	970	-
- future exposure	-	-	1,344	-	-	1,344	-



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	-	-	922,618	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	38,734	-	-	-	-
- future exposure	-	-	4,402	-	-	-	-
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	4,537,305	1,269,494	943,256	6,750,055
A.1 Financial derivatives on fixed-yield securities and interest rates	134,177	1,261,099	943,256	2,338,532
A.2 Financial derivatives on variable-yield securities and stock indices	-	11	-	11
A.3 Financial derivatives on exchange rates and gold	4,376,246	8,384	-	4,384,630
A.4 Financial derivatives on other instruments	26,882	-	-	26,882
B. Bank book	319,024	465,220	138,374	922,618
B.1 Financial derivatives on fixed-yield securities and interest rates	319,024	465,220	138,374	922,618
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 31/12/2016	4,856,329	1,734,714	1,081,630	7,672,673
Total 31/12/2015	4,329,821	2,063,983	327,131	6,720,935

1.3 Banking group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, consists of giving priority to matching assets and liabilities, taking a prudent approach, while at the same time pursuing reasonable levels of profitability.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds.

In this context, the Parent Company acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The Parent Company daily monitors said risk at consolidated level.

The subsidiaries control this type of risk by using adequate monitoring tools according to the type of operations that they carry on; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5 of the Parent Company's financial statements, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

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	6,581,379	929,660	437,385	1,105,099	1,230,826	961,045	1,413,883	9,364,388	7,258,894	952,355
A.1 Government securities	-	-	1,081	625	6,345	6,941	287,690	3,617,594	2,800,075	-
A.2 Other fixed-yield securities	20	-	646	22,013	6,249	25,957	23,218	131,606	579,349	317
A.3 Mutual funds	418,728	-	-	-	-	-	-	-	-	-
A.4 Loans	6,162,631	929,660	435,658	1,082,461	1,218,232	928,147	1,102,975	5,615,188	3,879,470	952,038
- Banks	231,966	50,005	5,288	70,011	13,321	18,000	3,655	-	-	952,038
- Customers	5,930,665	879,655	430,370	1,012,450	1,204,911	910,147	1,099,320	5,615,188	3,879,470	-
Cash liabilities	24,556,077	630,434	30,274	181,504	346,227	207,112	431,383	2,624,425	1,129,530	-
B.1 Deposits and current accounts	24,437,505	29,558	28,452	157,399	196,529	93,726	177,881	9,867	-	-
- Banks	409,353	27,547	18,869	142,139	48,823	-	-	-	-	-
- Customers	24,028,152	2,011	9,583	15,260	147,706	93,726	177,881	9,867	-	-
B.2 Fixed-yield securities	81,699	19	121	24,103	128,078	110,964	239,904	1,443,194	1,095,834	-
B.3 Other liabilities	36,873	600,857	1,701	2	21,620	2,422	13,598	1,171,364	33,696	-
Off-balance sheet transactions	892,838	320,026	858,459	738,838	1,573,719	904,068	261,157	551,360	107,545	-
C.1 Financial derivatives with exchange of capital	-	293,469	847,454	526,803	1,455,832	853,064	184,501	57,537	627	-
- Long positions	-	145,887	389,265	148,270	380,933	98,150	91,620	53,487	416	-
- Short positions	-	147,582	458,189	378,533	1,074,899	754,914	92,881	4,050	211	-
C.2 Financial derivatives without exchange of capital	43,015	-	-	-	-	-	-	-	-	-
- Long positions	21,340	-	-	-	-	-	-	-	-	-
- Short positions	21,675	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	848,580	26,525	11,005	211,947	117,489	49,510	75,221	492,136	106,286	-
- Long positions	4	-	-	183,086	3,289	2,786	61,433	491,410	106,286	-
- Short positions	848,576	26,525	11,005	28,861	114,200	46,724	13,788	726	-	-
C.5 Financial guarantees issued	1,243	32	-	88	398	1,494	1,435	1,687	632	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives without 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: 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	337,301	265,335	130,800	318,931	412,623	271,385	368,606	1,622,217	1,134,256	-
A.1 Government securities	-	-	-	-	-	14	1,906	10,748	511	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	6,654	13,378	-	-
A.3 Mutual funds	55,714	-	-	-	-	-	-	-	-	-
A.4 Loans	281,587	265,335	130,800	318,931	412,623	271,371	360,046	1,598,091	1,133,745	-
- Banks	80,388	181,488	78,773	36,984	30,264	13,905	10,316	-	5,553	-
- Customers	201,199	83,847	52,027	281,947	382,359	257,466	349,730	1,598,091	1,128,192	-
Cash liabilities	2,301,719	65,458	225,991	167,338	213,215	84,306	22,487	93,355	210,445	-
B.1 Deposits and current accounts	2,301,681	56,100	225,567	166,747	156,640	69,004	9,380	46,693	209,685	-
- Banks	115,914	53,793	68,879	150,481	40,193	9	244	46,570	209,685	-
- Customers	2,185,767	2,307	156,688	16,266	116,447	68,995	9,136	123	-	-
B.2 Fixed-yield securities	38	9,358	424	591	56,268	15,302	13,107	46,662	760	-
B.3 Other liabilities	-	-	-	-	307	-	-	-	-	-
Off-balance sheet transactions	8,361	355,238	912,534	612,639	1,716,807	1,090,950	285,923	8,501	655	-
C.1 Financial derivatives with exchange of capital	-	354,370	909,277	609,670	1,707,456	1,085,525	278,631	7,846	-	-
- Long positions	-	153,339	489,357	422,683	1,204,672	872,474	140,086	4,159	-	-
- Short positions	-	201,031	419,920	186,987	502,784	213,051	138,545	3,687	-	-
C.2 Financial derivatives without exchange of capital	664	-	734	976	2,150	4,834	7,049	-	-	-
- Long positions	336	-	-	-	-	-	-	-	-	-
- Short positions	328	-	734	976	2,150	4,834	7,049	-	-	-
C.3 Deposits and loans to be received	2,467	-	1,044	-	1,423	-	-	-	-	-
- Long positions	2,467	-	-	-	-	-	-	-	-	-
- Short positions	-	-	1,044	-	1,423	-	-	-	-	-
C.4 Irrevocable commitments to make loans	5,230	868	1,479	1,993	5,778	591	-	-	-	-
- Long positions	-	-	1,091	477	2,637	353	-	-	-	-
- Short positions	5,230	868	388	1,516	3,141	238	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	243	655	655	-
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	-	-	-	-	-	-	-	-	-	-

1.4 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The 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. The scope of operational risk includes legal risk and IT risk, if this causes and economic or balance sheet loss, but excludes strategic and reputational risks.

«Section 4 – Operating risks» in the separate financial statements of Banca Popolare di Sondrio describes the system for managing operational risk, including the identification of losses, the monitoring of the risk phenomena arising and the estimation of potential risks. This system is also applied by the various subsidiaries.

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 cards, forging cheques, fraudulent payment orders, which are normally mitigated by taking out suitable insurance.

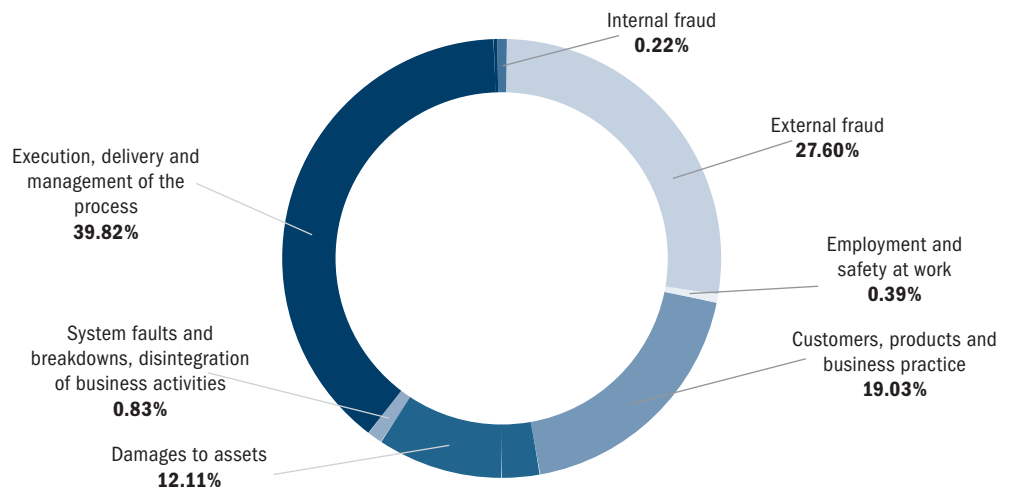
The following chart shows the operational losses identified by the Parent Company over the past five years (2012 – 2016) at Group level as part of the Loss Data Collection process, using the regulatory classification for operational risk events (First level event type):

- Internal fraud – Events perpetrated by persons within the Bank in order to obtain a personal advantage and resulting in a loss for the Bank.
- External fraud – Events perpetrated by persons outside of the Bank, such as fraud, theft and improper appropriation in order to obtain a personal advantage and resulting in a loss for the Bank.
- Employment and safety at work – Action contrary to the instructions governing employment, health and safety in the workplace, as well as such related events as discrimination or failure to apply equal conditions.
- Customers, products and business practices – Events connected with the violation of regulations and/or the adoption of improper commercial practices in relations with customers.
- Damage to material assets – External events deriving from natural or accidental causes that result in damage to physical assets or their defective functioning.
- System faults and breakdowns, disintegration of business activities – Events relating to the non-availability, inefficiency, malfunctioning or blockage of the Bank's IT systems and/or their components.
- Process execution, delivery and management – Unintentional errors / delays in the daily execution and management of operational and supporting processes, as well as disputes with commercial counterparties and suppliers.

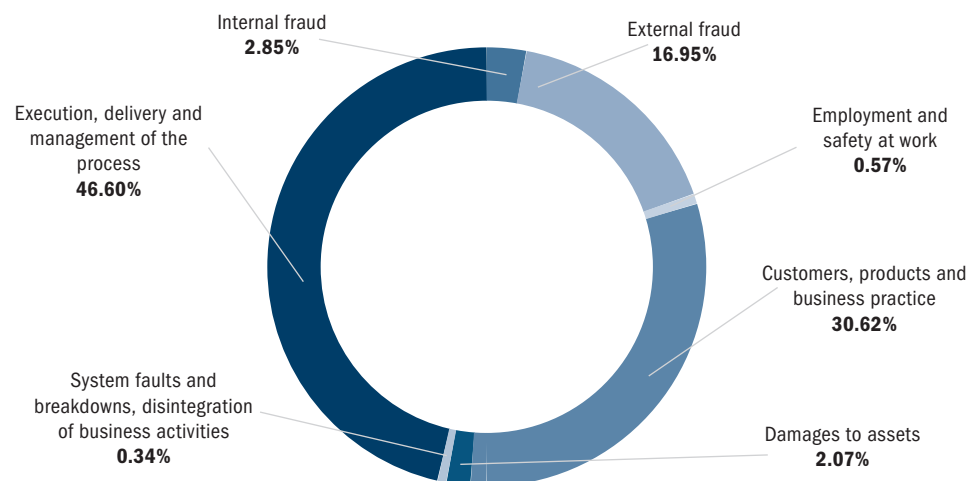


Banca Popolare di Sondrio Group - Sources of operational losses (from 01/01/2012 - 31/12/2016)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



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 31/12/2016 amounted to € 7,695 million and was structured as follows:

- a) Government securities: € 6,742 million;
- b) Other issuers securities: € 35 million;
- c) Loans to public administrations: € 210 million;
- d) Loans to local administrations: € 65 million;
- e) Loans to local or state-owned enterprises: € 628 million;
- f) Loans to other public administrations and other entities: € 15 million.

PART F *Information on consolidated 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 adequate capital was 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 last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

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 Company 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 31/12/2015. 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 (2017-2021), 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 8.095%.

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 € 3,020 million, with a surplus over its consolidated equity of € 432 million.

B. QUANTITATIVE INFORMATION

The component parts and size of the Parent Company's capital and equity are described in Part B, Sections 15 and 16 of these notes to the financial statements.

B.1 Consolidated equity: breakdown by type of business

Equity items	Banking group	Insurance companies	Other businesses	Consolidated eliminations and adjustments	Total
1. Share capital	1,393,736	-	-	-	1,393,736
2. Share premium reserve	83,363	-	-	-	83,363
3. Reserves	1,067,711	-	1,098	10,177	1,078,986
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(25,349)	-	-	-	(25,349)
6. Valuation reserve:	37,129	-	192	4,476	41,797
- Available-for-sale financial assets	73,484	-	-	-	73,484
- 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	(36,355)	-	-	-	(36,355)
- Share of valuation reserves of equity investments valued at net equity	-	-	-	4,476	4,476
- Special revaluation regulations	-	-	192	-	192
7. Profit (loss) of the year (+/-) of the Group and of minority interests	90,463	-	896	8,516	99,875
Total	2,647,053	-	2,186	23,169	2,672,408

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

Assets/Values	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		Total 31/12/2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	20,848	(5,869)	-	-	-	-	-	-	20,848	(5,869)
2. Variable-yield securities	45,896	-	-	-	-	-	-	-	45,896	-
3. Mutual funds	12,659	(50)	-	-	-	-	-	-	12,659	(50)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2016	79,403	(5,919)	-	-	-	-	-	-	79,403	(5,919)
Total 31/12/2015	115,143	(2,203)	-	-	-	-	-	-	115,143	(2,203)



B.3 Valuation reserves for available-for-sale financial assets: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. Opening balance	57,859	43,538	11,543	-
2. Positive changes	14,856	6,342	1,773	-
2.1 Increases in fair value	13,340	6,342	1,474	-
2.2 Release to the income statement of negative reserves	1,516	-	299	-
- from impairment	-	-	299	-
- from disposals	1,516	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	57,736	3,984	707	-
3.1 Reductions in fair value	6,418	-	137	-
3.2 Impairment writedowns	-	-	49	-
3.3 Transfer to income statement from positive reserves : from disposals	51,318	3,984	521	-
3.4 Other changes	-	-	-	-
4. Closing balance	14,979	45,896	12,609	-

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans has a negative balance of € 36.355 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).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by 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 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 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 supervisory regulations envisaged a transition period, still in progress, 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.

Following the entry into force of the ECB Regulation, since October 2016, larger banks have to include in or deduct from CET 1, respectively, gains and losses arising from exposures to EU central governments classified as AFS according to the following percentages: 60% for 2016 (4); 80% for 2017. The amounts that remain after application of these percentages (i.e. 40% for 2016 and 20% for 2017) should not be counted for the purposes of calculating Own Funds, continuing to be subjected to sterilisation: under the transitional arrangements laid down in CRR, in fact, the national arrangements already in force on 31 December 2013 still apply.



QUANTITATIVE INFORMATION

	31/12/2016	31/12/2015
A. Common Equity Tier 1-CET1 before the application of prudential filters	2,589,999	2,456,138
<i>Of which: CET1 instruments subject to transitional instructions</i>	-	-
B.1 Prudential filters of CET1 (+/-)	-	-
C. CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)	2,589,999	2,456,138
D. Elements to be deducted from CET1	23,862	50,135
E. Transitional instructions - Impact on CET1 (+/-), including minority interest subject to transitional instructions	7,878	34,669
F. Total Common Equity Tier 1-CET1 (C - D +/- E)	2,574,015	2,440,672
G. Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions	9,808	5,480
<i>of which: AT1 instruments subject to transitional instructions</i>	-	-
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	- 3,923	- 3,288
L. Total Additional Tier 1 - AT1 (G - H +/- I)	5,885	2,192
M. Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions	487,226	508,996
<i>Of which: T2 instruments subject to transitional instructions</i>	13,077	34,847
N. Elements to be deducted from T2	14,316	6,153
O. Transitional instructions - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions	97,826	180,312
P. Total Tier 2 - T2 (M - N +/- O)	570,736	683,155
Q. Total Own funds (F + L + P)	3,150,636	3,126,019

The composition of own funds takes account of the profit for the period, 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.

2.3 Capital adequacy

QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 ratio of 4.50%;
- Tier 1 ratio of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions are provided for:

- 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; currently this is not being implemented in Italy 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 2016:

- CET 1 ratio of 7%;
- Tier 1 ratio of 8.5%;
- 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.

With the SREP decision of 20 November 2015, the European Central Bank, within its powers, raised the level of capital required to guarantee appropriate coverage of the Group's risks. In particular, the minimum Common Equity Tier 1 ratio was raised to 9.25%, but no increases were made to the general regulatory requirements for the Tier 1 Capital Ratio and the Total Capital Ratio. Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

Last December the European Central Bank sent the bank the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 January, for the year 2017. The new minimum capital levels required of our Banking Group are:

- a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.50%);
- a minimum requirement of total capital ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.25%) and an additional Second Pillar requirement (1.50%).

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios this year. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 31 December 2016, the Group expressed the following coefficients:

- CET 1 Capital ratio 11.09%;
- Tier 1 Capital ratio 11.12%;
- Total Capital ratio 13.58%.

The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 6.21% applying the transitional criteria in force for 2016 and 6.20% under the definitive criteria.



QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts / requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. Assets at risk				
A.1 Credit and counterparty risk	-	-	-	-
1. Standardised approach	37,523,992	35,125,439	20,249,883	20,385,032
2. Approach based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	360,145	245,802	315,447	220,738
B. Capital adequacy requirements	-	-	-	-
B.1 Credit and counterparty risk	-	-	1,645,226	1,648,462
B.2 Loan adjustment risk	-	-	1,789	896
B.3 Regulation risks	-	-	-	-
B.4 Market risks	-	-	-	-
1. Standard methodology	-	-	63,827	57,910
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.5 Operational risk	-	-	-	-
1. Basic method	-	-	145,773	153,722
2. Standardised approach	-	-	-	-
3. Advanced method	-	-	-	-
B.6 Other calculation elements	-	-	-	-
B.7 Other precautionary requirements	-	-	1,856,615	1,860,990
C. Risk assets and capital ratios	-	-	-	-
C.1 Risk-weighted assets	-	-	23,207,691	23,262,375
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)	-	-	11.09	10.49
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	-	-	11.12	10.50
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)	-	-	13.58	13.44

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 Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	1/1/2016-31/12/2016	31/12/2018	249	-	-	174
STOPPANI LINO ENRICO	Deputy Chairman	1/1/2016-31/12/2016	31/12/2016	137	-	-	14
PEDRANZINI MARIO							
ALBERTO (*)	Director	1/1/2016-31/12/2016	31/12/2016	151	-	-	123
BIGLIOLI PAOLO	Director	1/1/2016-31/12/2016	31/12/2016	47	-	-	-
CORRADINI CECILIA	Director	23/4/2016-31/12/2016	31/12/2016	29	-	-	-
CREDARO LORETTA	Director	1/1/2016-31/12/2016	31/12/2017	48	-	-	-
FALCK FEDERICO	Director	1/1/2016-31/12/2016	31/12/2018	44	-	-	-
FERRARI ATTILIO PIERO	Director	1/1/2016-31/12/2016	31/12/2017	44	-	-	-
FONTANA GIUSEPPE	Director	1/1/2016-31/12/2016	31/12/2017	39	-	-	-
GALBUSERA CRISTINA	Director	1/1/2016-31/12/2016	31/12/2018	46	-	-	-
MELZI DI CUSANO NICOLÒ	Director	1/1/2016-31/12/2016	23/04/2016	13	-	-	10
PROPERSI ADRIANO	Director	1/1/2016-31/12/2016	31/12/2017	44	-	-	-
RAINOLDI ANNALISA	Director	1/1/2016-31/12/2016	31/12/2016	42	-	-	-
ROSSI SERENELLA	Director	23/4/2016-31/12/2016	31/12/2018	29	-	-	-
SOZZANI RENATO	Director	1/1/2016-31/12/2016	31/12/2017	76	-	-	3
TRIACCA DOMENICO	Director	1/1/2016-31/12/2016	31/12/2018	57	-	-	2
FORNI PIERGIUSEPPE							
	Chairman of the Board of Statutory Auditors	1/1/2016-31/12/2016	31/12/2017	97	-	-	8
DEPPERU DONATELLA	Auditor	1/1/2016-31/12/2016	31/12/2017	77	-	-	-
VITALI MARIO	Auditor	1/1/2016-31/12/2016	31/12/2017	79	-	-	13
MORELLI DANIELE	Alternate Auditor	1/1/2016-31/12/2016	31/12/2017	-	-	-	2
PEDRANZINI MARIO							
ALBERTO (*)	General Manager	1/1/2016-31/12/2016		-	86	72	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES							
		1/1/2016-31/12/2016		-	50	169	914

(*) also Managing Director

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the Parent Company 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 € 2.765 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.104 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 Company 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	957	6,422	34	40	-	480
Statutory auditors	293	256	7	4	-	-
Management	15	1,069	-	10	-	-
Family members	3,032	17,279	67	140	125	10,570
Subsidiaries	2,759,279	351,690	24,596	15,024	882,743	9,861
Associated companies	770,595	211,802	2,867	538	49,148	2,343
Other related parties	243,817	69,524	2,714	123	8,821	32,679

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 € 692 million to Alba Leasing spa and for € 75 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 130 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 businesses»; 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 show the pre-tax results of the above sub-segments for 2016 and 2015.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

This aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2016
Interest income	419,888	340,395	-	166,020	926,303	-262,737	663,566
Interest expense	-94,774	-207,754	-	-149,525	-452,053	262,737	-189,316
Net interest income	325,114	132,641	-	16,495	474,250	-	474,250
Fee and commission income	150,406	72,800	78,369	11,362	312,937	-1,062	311,875
Fee and commission expense	-6,867	-7,092	-4,685	392	-18,252	-526	-18,778
Dividends and similar income	-	-	-	7,209	7,209	-	7,209
Net trading income	-	-	-	30,225	30,225	1,320	31,545
Net hedging profit (loss)	-	1,616	-	-1,354	262	-	262
Gains/losses from sales or repurchases	-	-	-	76,011	76,011	-	76,011
Net change in financial assets and liabilities carried at fair value	-	-	-	2,309	2,309	-	2,309
Total income	468,653	199,965	73,684	142,649	884,951	-268	884,683
Adjustments to the net value of financial assets	-214,006	-39,350	-	-25,189	-278,545	-	-278,545
Net financial income	254,647	160,615	73,684	117,460	606,406	-268	606,138
Administrative expenses	-131,835	-157,993	-54,781	-133,025	-477,634	-48,327	-525,961
Provisions for risks and charges	-3,838	2,416	-	-1,017	-2,439	-	-2,439
Depreciation and net impairment losses on property, equipment and investment property	-4,660	-6,687	-2,243	-5,016	-18,606	-	-18,606
Amortisation and net impairment losses on intangible assets	-4,338	-5,993	-1,968	-2,670	-14,969	-	-14,969
Other operating income/expense	10,432	6,803	-164	6,974	24,045	48,595	72,640
Share of profit/loss of equity investments	-	-	-	12,973	12,973	-	12,973
Net result of fair value measurement of property, equipment and investment property and intangible assets	-	-	-	130	130	-	130
Gains/losses on disposal of investments	-	-	-	63	63	-	63
Gross profit	120,408	-839	14,528	-4,128	129,969	-	129,969



Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2015
Interest income	520,192	455,414	-	262,764	1,238,370	-441,558	796,812
Interest expense	-148,234	-273,864	-	-272,901	-694,999	441,558	-253,441
Net interest income	371,958	181,550	-	-10,137	543,371	-	543,371
Fee and commission income	154,216	75,090	84,041	11,832	325,179	-675	324,504
Fee and commission expense	-8,183	-7,354	-5,425	546	-20,416	-620	-21,036
Dividends and similar income	-	-	-	2,860	2,860	-	2,860
Net trading income	-	-	-	64,528	64,528	1,186	65,714
Net hedging profit (loss)	-	550	-	-1,045	-495	-	-495
Gains/losses from sales or repurchases	-	-	-	140,034	140,034	-	140,034
Net change in financial assets and liabilities carried at fair value	-	-	-	6,731	6,731	-	6,731
Total income	517,991	249,836	78,616	215,349	1,061,792	-109	1,061,683
Adjustments to the net value of financial assets	-356,969	-33,946	-	-18,220	-409,135	-	-409,135
Net financial income	161,022	215,890	78,616	197,129	652,657	-109	652,548
Administrative expenses	-127,899	-157,930	-54,740	-127,998	-468,567	-49,238	-517,805
Provisions for risks and charges	4,194	-4,979	-	1,767	982	-	982
Depreciation and net impairment losses on property, equipment and investment property	-4,457	-6,562	-2,241	-4,857	-18,117	-	-18,117
Amortisation and net impairment losses on intangible assets	-3,979	-5,629	-1,862	-2,456	-13,926	-	-13,926
Other operating income/expense	11,867	7,562	-233	11,990	31,186	49,347	80,533
Share of profit/loss of equity investments	-	-	-	13,719	13,719	-	13,719
Net result of fair value measurement of property, equipment and investment property and intangible assets	-	-	-	-1,496	-1,496	-	-1,496
Gains/losses on disposal of investments	-	-	-	7	7	-	7
Gross profit	40,748	48,352	19,540	87,805	196,445	-	196,445

A.2 Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2016
Financial assets	16,194,497	10,784,230	-	8,207,519	35,186,246
Other assets	-	-	-	1,665,288	1,665,288
Property, equipment and investment property	55,387	77,067	25,400	163,068	320,922
Intangible assets	4,625	6,402	2,103	10,739	23,869
Financial liabilities	7,327,419	23,465,675	-	2,757,301	33,550,395
Other liabilities	28,053	6,851	-	712,261	747,165
Provisions	71,428	94,807	23,641	36,481	226,357
Guarantees given	3,160,368	398,047	-	101,229	3,659,644
Commitments	1,017,207	460,034	38,941	72,099	1,588,281

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2015
Financial assets	15,377,842	9,532,593	-	8,665,353	33,575,788
Other assets	-	-	-	1,615,434	1,615,434
Property, equipment and investment property	55,311	78,516	26,050	164,303	324,180
Intangible assets	4,158	5,797	1,894	10,397	22,246
Financial liabilities	7,327,760	22,201,521	-	2,403,442	31,932,723
Other liabilities	32,853	6,837	-	706,684	746,374
Provisions	62,797	92,216	21,714	32,372	209,099
Guarantees given	3,134,114	433,526	-	98,508	3,666,148
Commitments	939,857	339,665	23,984	31,033	1,334,539

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: Factorit made an appreciable contribution, with a positive result in this area of € 9,017 thousand, a considerable decrease on the previous year (-72.6%) due to significantly higher adjustments of financial assets and the decline in spreads on lending. This segment contributes 92.6% of the overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 16,194 million and € 7,327 million respectively.

Net adjustments for the impairment of financial assets represent 45.7% of total income, while administrative expenses absorb 28.1%.

Comparison with the prior year shows a significant increase in the segment result, mainly because of the Parent Company's contribution with a rise of 103,158%, attributable above all to a combination of following factors:

- a decrease in net interest income (-12.1%) in a context of significant spread erosion both on lending and on funding;
- a slight decrease in fee and commission income (-1.2%) due in particular to the contraction in the contribution from loan commissions;
- a marked reduction in impairment adjustments to financial assets (-44.4%), due to significantly lower provisions and loan losses and a significant increase in write-backs;
- a slight increase in administrative expenses (+2.8%, of which other costs +4.9%, personnel expenses +0.6%);
- a significant decrease in provisions for risks and charges (-242.8%).

Individuals and other customers: the Swiss subsidiary has made a significant contribution, with a positive result in this area of € 32,374 thousand, well up on the previous year (+14.2%), mainly due to an appreciable decline in net impairment adjustments to financial assets. This segment contributes 0.6% of the overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 10,784 million and € 23,466 million respectively.

Net adjustments for the impairment of financial assets represent 19.7% of the total income, while administrative expenses absorb 79.0%.

Comparison with the prior year shows a significant contraction in the segment result,

influenced to a considerable extent by the Parent Company's result, which has seen a decline of € 49,912 thousand, mainly attributable to a combination of following factors:

- a significant reduction in net interest income (-34.5%), due to a marked contraction in funding spreads, where volumes are considerable and on the rise, as well as in lending spreads, where volumes are much lower;
- a slight decrease in fee and commission income (-1.1%), due in particular to collection and payment services;
- considerable increase in impairment adjustments to financial assets (+33.8%), mainly due to lower write-backs and higher provisions and losses, not offset by a better result on the part of the out-of-period income;
- a slight increase in administrative expenses (+0.9%, of which other costs +2.8%, personnel expenses -0.9%);
- important increase in provisions for risks and charges (+155.9%).

Securities: the contribution made by the Swiss subsidiary, € 844 thousand, is down on the previous year (-88.9%), mainly due to a significant decline in commission flows. This segment contributes 11.2% of the overall result. Administrative expenses absorb 74.3% of total income.

Comparison with the prior year reflects a significant decrease in the result (-25.6%), mainly due to the decline in the Swiss subsidiary's result, partly offset by the contribution of the Parent Company, which posted a rise of 14.3%, mainly attributable to the following factors:

- significant increase in commission flows (+3.9%), due to the marked increase in the results achieved by investment funds, insurance products and asset management schemes, which offset the decrease in fees from the acceptance of instructions;
- a slight increase in administrative expenses (+1.5%, of which other costs +2.1%, personnel expenses +1.0%).

Central functions: this segment's contribution to the overall result is -3.2%. The Swiss subsidiary and Factorit made a significant contribution of € -27,811 thousand in total.

The result is down considerably on the previous year. This outcome was significantly influenced by the contribution made by the Parent Company, where a decline of 83.4% was essentially due to the capital losses made on securities in portfolio and lower gains on sale of available-for-sale financial assets, not fully offset by a marked increase in net interest income, due to a reduction in the internal transfer rate that affected the notional interest charged on funding.

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 Company 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 31/12/2016
Interest income	773,018	91,619	63,774	928,411	-264,845	663,566
Interest expense	-354,652	-73,073	-27,729	-455,454	266,138	-189,316
Net interest income	418,366	18,546	36,045	472,957	1,293	474,250
Fee and commission income	236,754	52,240	25,343	314,337	-2,462	311,875
Fee and commission expense	-10,135	-7,307	-2,292	-19,734	956	-18,778
Dividends and similar income	18,214	-	10	18,224	-11,015	7,209
Net trading income	11,252	-	19,206	30,458	1,087	31,545
Net hedging profit (loss)	-	-	1,616	1,616	-1,354	262
Gains/losses from sales or repurchases	76,011	-	-	76,011	-	76,011
Net change in financial assets and liabilities carried at fair value	4,307	-	-	4,307	-1,998	2,309
Total income	754,769	63,479	79,928	898,176	-13,493	884,683
Adjustments to the net value of financial assets	-271,577	-7,592	624	-278,545	-	-278,545
Net financial income	483,192	55,887	80,552	619,631	-13,493	606,138
Administrative expenses	-379,184	-41,895	-60,628	-481,707	-44,254	-525,961
Provisions for risks and charges	1,767	-3,189	-1,017	-2,439	-	-2,439
Depreciation and net impairment losses on property, equipment and investment property	-14,821	-1,380	-2,405	-18,606	-	and -18,606
Amortisation and net impairment losses on intangible assets	-12,184	-1,307	-1,478	-14,969	-	-14,969
Other operating income/expense	24,372	3,579	529	28,480	44,160	72,640
Share of profit/loss of equity investments	-1,655	-	-	-1,655	14,628	12,973
Net result of fair value measurement of property, equipment and investment property and intangible assets	130	-	-	130	-	130
Gains/losses on disposal of investments	63	-	-	63	-	63
Gross profit	101,680	11,695	15,553	128,928	1,041	129,969



Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/12/2015
Interest income	1,019,418	154,800	64,531	1,238,749	-441,937	796,812
Interest expense	-562,486	-103,424	-31,460	-697,370	443,929	-253,441
Net interest income	456,932	51,376	33,071	541,379	1,992	543,371
Fee and commission income	242,424	50,488	33,784	326,696	-2,192	324,504
Fee and commission expense	-11,785	-7,359	-2,889	-22,033	997	-21,036
Dividends and similar income	16,286	-	-	16,286	-13,426	2,860
Net trading income	44,417	-	26,446	70,863	-5,149	65,714
Net hedging profit (loss)	-	-	550	550	-1,045	-495
Gains/losses from sales or repurchases	140,034	-	-	140,034	-	140,034
Net change in financial assets and liabilities carried at fair value	6,294	-	-	6,294	437	6,731
Total income	894,602	94,505	90,962	1,080,069	-18,386	1,061,683
Adjustments to the net value of financial assets	-360,380	-42,990	-5,765	-409,135	-	-409,135
Net financial income	534,222	51,515	85,197	670,934	-18,386	652,548
Administrative expenses	-370,937	-39,900	-61,777	-472,614	-45,191	-517,805
Provisions for risks and charges	307	-1,092	1,767	982	-	982
Depreciation and net impairment losses on property, equipment and investment property	-14,129	-1,385	-2,603	-18,117	-	-18,117
Amortisation and net impairment losses on intangible assets	-11,123	-1,259	-1,544	-13,926	-	-13,926
Other operating income/expense	26,173	3,406	111	29,690	50,843	80,533
Share of profit/loss of equity investments	589	-	-	589	13,130	13,719
Net result of fair value measurement of property, equipment and investment property and intangible assets	-1,496	-	-	-1,496	-	-1,496
Gains/losses on disposal of investments	7	-	-	7	-	7
Gross profit	163,613	11,285	21,151	196,049	396	196,445

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	Total 31/12/2016
Financial assets	28,251,215	2,976,628	3,958,403	35,186,246
Other assets	943,693	-	721,595	1,665,288
Property, equipment and investment property	283,615	16,629	20,678	320,922
Intangible assets	20,864	1,392	1,613	23,869
Financial liabilities	21,016,052	8,187,958	4,346,385	33,550,395
Other liabilities	710,572	8,210	28,383	747,165
Provisions	199,443	23,120	3,794	226,357
Guarantees given	2,895,580	602,602	161,462	3,659,644
Commitments	1,249,834	307,621	30,826	1,588,281

Items	Northern Italy	Central Italy	Switzerland	Total 31/12/2015
Financial assets	27,378,735	2,330,450	3,866,603	33,575,788
Other assets	921,919	-	693,515	1,615,434
Property, equipment and investment property	284,311	17,478	22,391	324,180
Intangible assets	19,602	1,325	1,319	22,246
Financial liabilities	19,813,542	7,881,055	4,238,126	31,932,723
Other liabilities	705,694	6,936	33,744	746,374
Provisions	186,535	19,744	2,820	209,099
Guarantees given	2,846,128	655,476	164,544	3,666,148
Commitments	988,204	318,551	27,784	1,334,539

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «Supervisory instructions for banks» 4th update of 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 for the period 1 January 2016 / 31 December 2016.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the consolidated 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 2016:

- have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
- agree with the balances on the books of account and the accounting entries;
- are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the scope of consolidation.

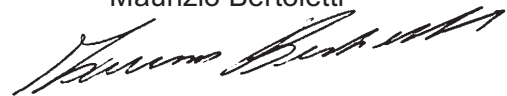
The directors' report on operations includes a reliable analysis of the progress and performance, the situation of the Bank and the consolidated companies together with a description of the main risks and uncertainties to which they are subjected.

Sondrio, 16 March 2017

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)

Independent auditors' report pursuant to 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.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Banca Popolare di Sondrio Group (the "group"), which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity and consolidated statement of cash flows for the year then ended and notes thereto.

Directors' responsibility for the consolidated financial statements

The parent's directors are responsible for the preparation of consolidated financial statements that give a true and fair view 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 and article 43 of Legislative decree no. 136/15.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of



material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the bank's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended 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 and article 43 of Legislative decree no. 136/15.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the parent's directors, with the consolidated financial statements of Banca Popolare di Sondrio Group as at and for the year ended 31 December 2016. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of Banca Popolare di Sondrio Group as at and for the year ended 31 December 2016.

Milan, 27 March 2017

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

RESOLUTIONS OF THE ORDINARY SHAREHOLDERS' MEETING

of 29 April 2017 (at second calling)

AGENDA

- 1) *Presentation of the financial statements as of 31 December 2016: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions;*
- 2) *Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;*
- 3) *Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act);*
- 4) *Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;*
- 5) *Appointment to perform the legal audit of the accounts – pursuant to arts. 13, para. 1, and 17, para. 1, of Legislative Decree 39 dated 27 January 2010, as respectively amended by arts. 16 and 18 of Legislative Decree 135 dated 17 July 2016, by art. 16 of Regulation (EU) 537/2014 of the European Parliament and of the Council of 16 April 2014 - for the period 2017-2025 and approval of the related fees;*
- 6) *Determination of directors' emoluments;*
- 7) *Appointment of five Directors for the three-year period 2017-2019.*

Point 1) on the agenda

Having heard the directors' report on operations for 2016 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 2016, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 80,047,620. The Shareholders' Meeting also approved the allocation of profit for the year of € 80,047,620 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 € 8,004,762.00
- 30% to the statutory reserve € 24,014,286.00

- b) to pay a dividend of € 0.06 to each of the 453,385,777 shares in circulation at 31/12/2016 with dividend rights as from 1/1/2016, 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 € 20,725,425.38

In accordance with the Stock Exchange calendar, the dividend was paid from 24 May 2017, going ex-coupon (no. 39) on 22 May 2017.

Point 2) 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 2016.

Point 3) on the agenda

The Shareholders' Meeting approved the first Section of the Remuneration Report, as per art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act).

Point 4) on the agenda

The Meeting set at Euro 35,000,000 – 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 2017 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 35,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 2% 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 35,000,000.

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 Managing Director, 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.

The Meeting authorised the Board of Directors to use, up to a maximum total amount of Euro 429,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2017 Compensation Plan based on financial instruments during the life of that plan.

The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The Board of Directors, and the Managing Director, 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 5) on the agenda

The Shareholders' Meeting, noting that upon approval of the financial statements as of 31 December 2016 the mandate to perform the legal audit of the accounts for the period 2008-2016 granted to KPMG S.p.A. had lapsed and having examined the proposal of the Board of Directors containing the Recommendation and preference expressed by the Board of Statutory Auditors in its role as the «Internal Control and Audit Committee», voted to appoint EY S.p.A. to carry out the legal audit of Banca Popolare di Sondrio S.c.p.A. for the years 2017-2025.

The Meeting also granted a mandate to the Managing Director to do everything, directly or via appointed representatives, that may be necessary or useful for the execution of the resolution, as well as to complete all relevant and necessary formalities with the competent bodies and/or offices, with the right to make any minor amendments that may be requested for this purpose, and in general to do everything needed for their complete execution, with any and every necessary and appropriate powers, in compliance with the current regulations in force.

Point 6) 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 7) on the agenda

The Meeting appointed the following as members of the Board of Directors for the three-year period 2017-2019: Paolo Biglioli, Cecilia Corradini, Mario Alberto Pedranzini, Annalisa Rainoldi, Lino Enrico Stoppani.

THE BANK'S GROWTH SINCE ITS FOUNDATION, KEY FINANCIAL DATA

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital & reserves) euro	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	17,919,668	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
2015	10,945,940,157	20,021,406,321	28,704,284,801	2,334,513,952	100,064,082	0.070
2016	11,185,303,807	21,331,910,550	30,252,182,840	2,334,785,742	80,047,620	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.

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