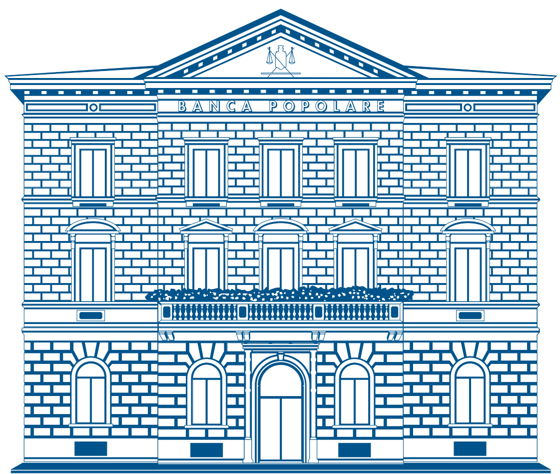
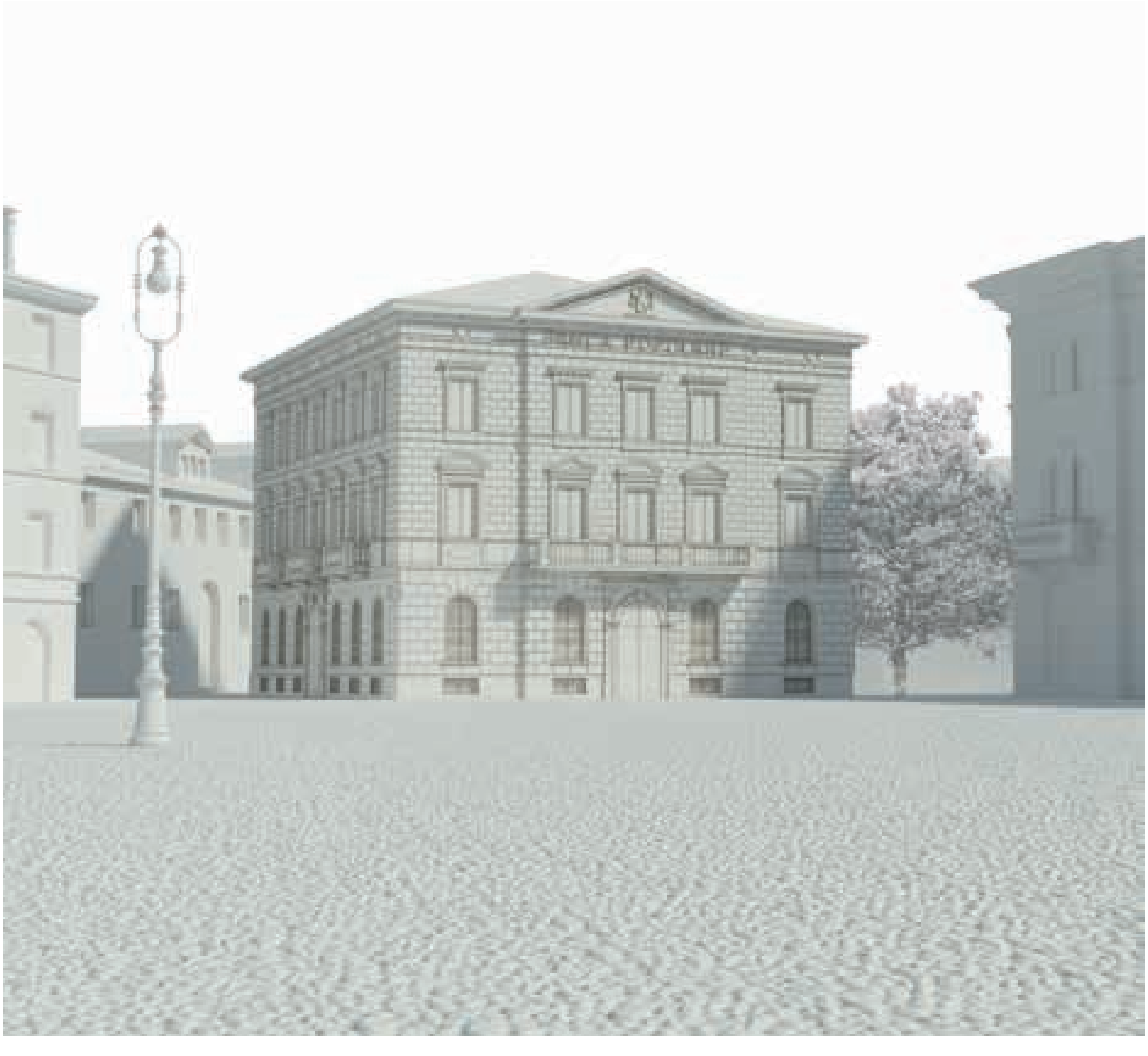
Banca Popolare di Sondrio



ANNUAL REPORT 2013

Banca Popolare
di Sondrio

2013 FINANCIAL
STATEMENTS
143RD YEAR



Banca Popolare di Sondrio

Founded in 1871

ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING 26 APRIL 2014

Società cooperativa per azioni
Head office: 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 Banking Group.
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 924,443,955 – Reserves: € 833,815,944 (figures approved by the shareholders' meeting of 26 April 2014)

Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 26 July 2013:
– long term issuer default rating: BBB
– short-term issuer default rating: F3
– viability rating: bbb

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

Chairman	PIERGIUSEPPE FORNI
Auditors	PIO BERSANI 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 GIUSEPPE FRANCO PAGANONI CESARE POLETTI

Financial Reporting Officer MAURIZIO BERTOLETTI

* Members of the Chairman's Committee

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

BRANCH NETWORK OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

Banca Popolare di Sondrio
Fondata nel 1871

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

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

* with other banking partners

Desk outside Italy
- ABU DHABI • ATHENS
- BEOGRAD • BRUXELLES
- BUCURESTI • BUDAPEST
- BUENOS AIRES • CASABLANCA
- CHICAGO • CHISINAU
- CIUDAD DE MEXICO • DOHA
- ISTANBUL • JOHANNESBURG
- LISBOA • LONDON • LYON
- MARSEILLE • MONTEVIDEO
- MOSCOW • MUMBAI
- PARIS • PERPIGNAN
- PERTH • SAO PAULO
- SOFIA • SYDNEY • TOKYO
- TORONTO • TUNIS
- ULAANBAATAR • WARSZAWA

(c/o different partners)

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

Branches in:
- LUGANO Via G. Luvini
- LUGANO Via Maggio
- LUGANO Cassarate
- PARADISO
- BASEL
- BELLINZONA
- BERN 8
- BIASCA
- CASTASEGNA
- CELERINA
- CHIASSO
- CHUR
- LOCARNO
- MENDRISIO
- NEUCHÂTEL
- PONTRESINA
- POSCHIAVO
- SAMEDAN
- ST. MORITZ
- ZÜRICH

Principality of Monaco:
- MONACO

Factorit
GRUPPO Banca Popolare di Sondrio

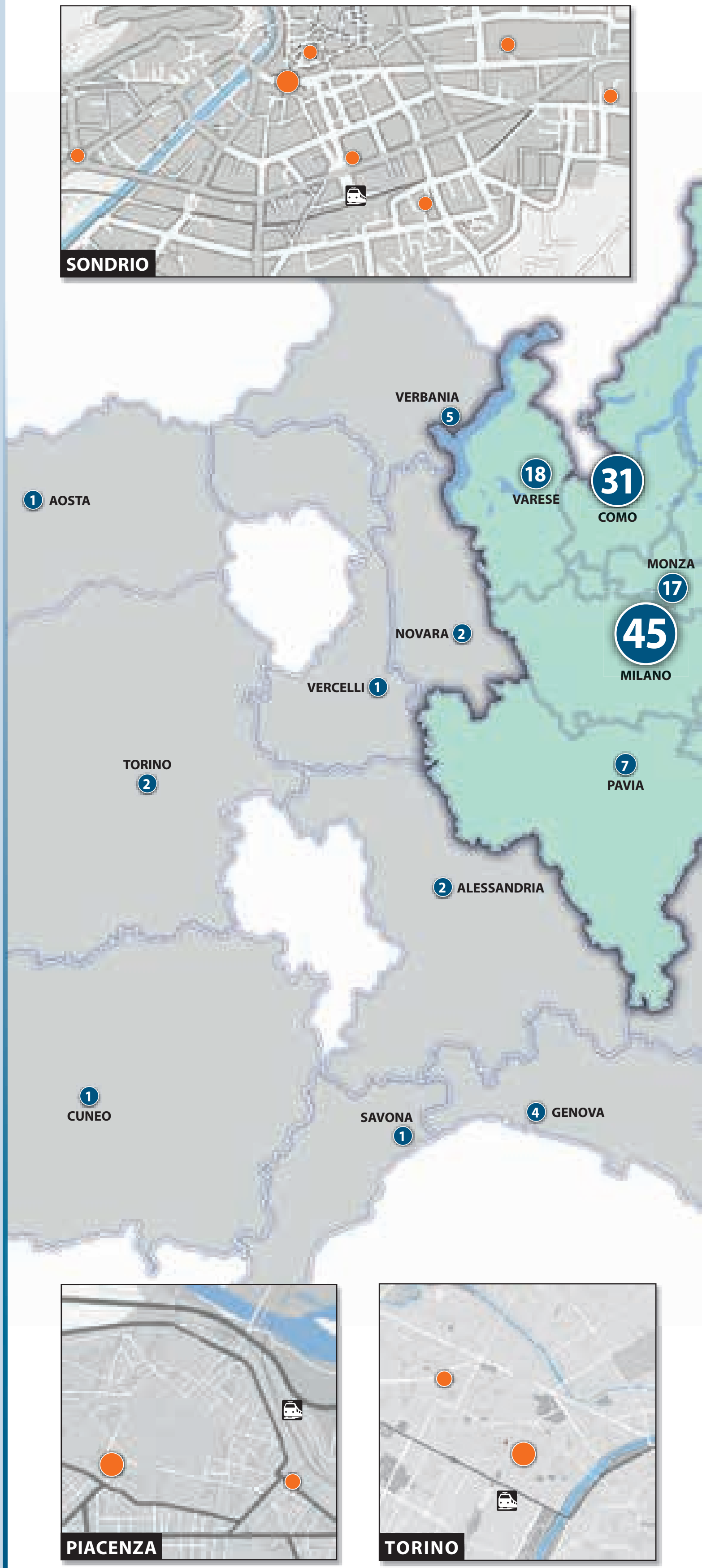
Factoring of Corporate Receivables

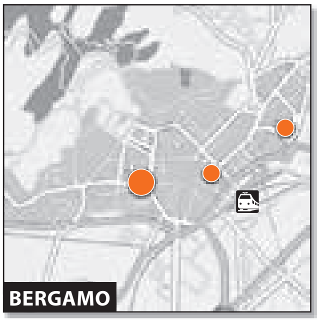
Branches in:
- MILANO • TORINO • PADOVA
- BOLOGNA • SIENA • ROMA • NAPOLI

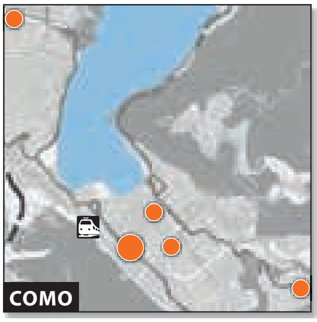
in addition to 270 foreign correspondents in the main international markets. It operates at the branches of Banca Popolare di Sondrio and at those of the associated banks.

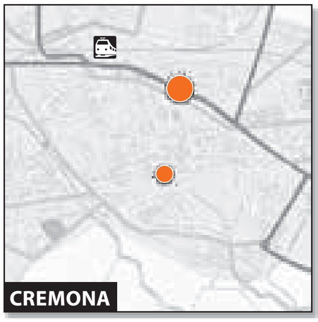
Number of branches in each province

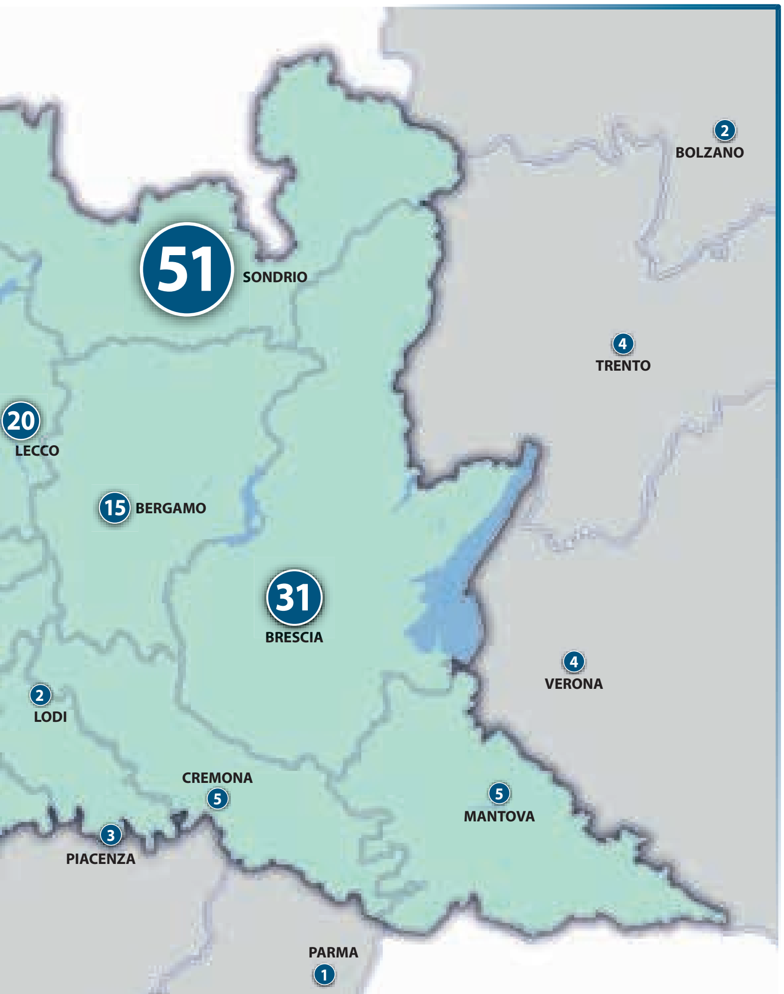
Branches in each city

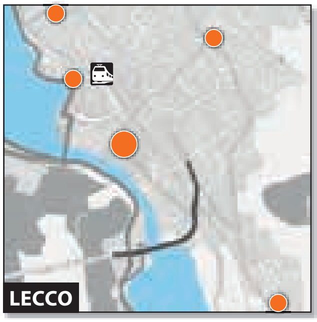


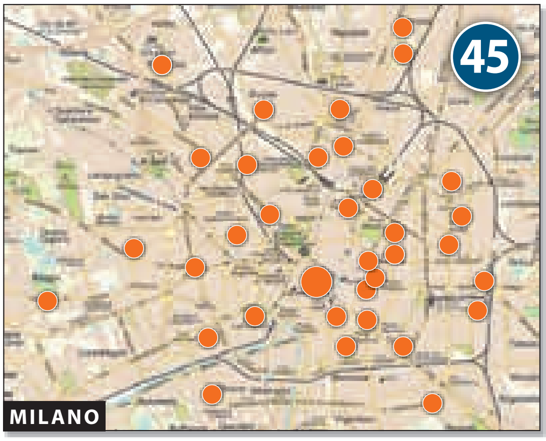


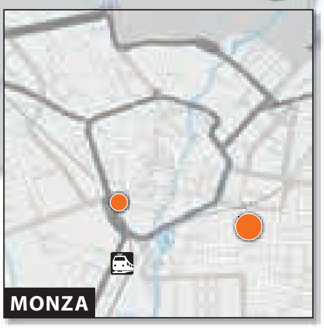


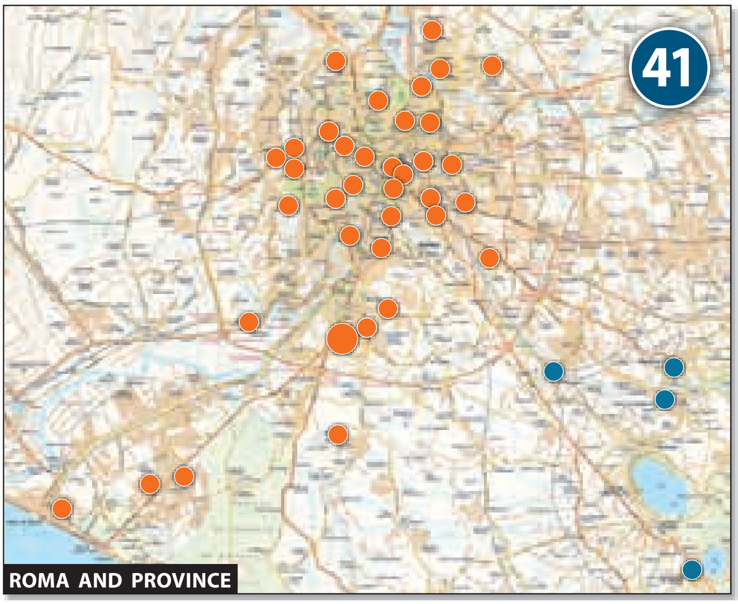


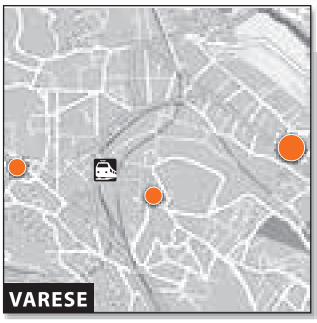












Updated to 27 March 2014

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO

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

MANAGEMENT AND HEAD OFFICE

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

BRANCH OFFICES

ORGANISATION AND IT SYSTEMS:
"F. Morani" Service Centre - via Ranée 511/1
Berbenno di Valtellina (So) - fraz. S. Pietro
INTERNATIONAL UNIT: lungo Mallero Luigi Cadorna 24, Sondrio
COMMERCIAL BANKING, TREASURIES AND PUBLIC ENTITIES, SUPPLY OFFICE, TECHNICAL OFFICE, SAFETY AND SECURITY:
corso Vittorio Veneto 7, Sondrio

BRANCHES - Country code +39

PROVINCE OF SONDRIO

ALBOSAGGIA via al Porto 11 tel. 0342 54771
APRICA corso Roma 140 tel. 0342 74401
ARDENNO via Libertà tel. 0342 66501
BERBENNO DI VALTELLINA - fraz. San Pietro
via Nazionale Ovest 110 tel. 0342 49151
BORMIO
Head Office, via Roma 131
- ang. via don Evaristo Peccedi tel. 0342 91451
Branch no. 1, via Roma 64 tel. 0342 90051
CAMPODOLCINO via Corti 67 tel. 0343 59001
CEPINA VALDISOTTO via Roma 13/E tel. 0342 95231
CHIAVENNA
via Francesco e Giovanni Dolzino 67 tel. 0343 26211
CHIESA IN VALMALENCO via Roma 138 tel. 0342 45001
CHIURO via Stelvio 8 tel. 0342 48541
COLORINA via Roma 84 tel. 0342 49141
COSIO VALTELLINO - fraz. Regoledo
via Roma 7 tel. 0342 60951
DELEBIO piazza San Carpoforo 7/9 tel. 0342 69761
DUBINO - Nuova Olonio - via Spluga 83 tel. 0342 69301
GORDONA via Scogli 9 tel. 0343 4361
GROSIO via Roma 67 tel. 0342 84131
GROSOTTO via Statale 73 tel. 0342 84141
ISOLACCIA VALDIDENTRO
via Nazionale 31 tel. 0342 92201
LANZADA via Palù 388 tel. 0342 45021
LIVIGNO
Head Office, via Sant'Antoni 135 tel. 0342 97761
Branch no. 1, via Saroch 728/730 tel. 0342 97771
MADESIMO via Giosuè Carducci 3 tel. 0343 5551
MADONNA DI TIRANO piazza Basilica 55 tel. 0342 71251
MAZZO DI VALTELLINA
via Santo Stefano 18 tel. 0342 86301
MONTAGNA IN VALTELLINA
via Stelvio 336 tel. 0342 54741
MORBEGNO
Head Office, piazza Caduti per la Libertà 7 tel. 0342 60561
Branch no. 1, via V Alpini 172 tel. 0342 60481
NOVATE MEZZOLA via Roma 13 tel. 0343 6381
PASSO DELLO STELVIO tel. 0342 904534
PIANTEDO via Colico 43 tel. 0342 68291
PONTE IN VALTELLINA piazza della Vittoria 1 tel. 0342 48531
SAMOLACO - fraz. Era, via Trivulzia 28 tel. 0343 22211
SAN CASSIANO VALCHIAVENNA
via Spluga 108 tel. 0343 2091
SAN NICOLÒ VALFURVA via San Nicolò 82 tel. 0342 94701
SEMOGO VALDIDENTRO
via Cima Piazzi 28 tel. 0342 92211
SONDALO via Dr. Ausonio Zubiani 2 tel. 0342 80911
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16 tel. 0342 528111
Branch no. 1, via Bernina 1 tel. 0342 54701
Branch no. 2, via Tomaso Nani 32 tel. 0342 54721
Branch no. 3,
Ingresso Ospedale Civile - via Stelvio 25 tel. 0342 54711
Branch no. 4,
piazzale Giovanni Bertacchi 57 tel. 0342 54751
Branch no. 5, Galleria Campello 2 tel. 0342 54731
Branch no. 6, via Giacinto Sertorelli 2 tel. 0342 54761
TALAMONA
via Don Giuseppe Cusini 83/A tel. 0342 67431
TEGLIO piazza Santa Eufemia 2 tel. 0342 78401
TIRANO piazza Cavour 20 tel. 0342 71201
TRAONA via Valeriana 88/A tel. 0342 65511
TRESENDA DI TEGLIO via Nazionale 57 tel. 0342 73601
VILLA DI CHIAVENNA via Roma 38 tel. 0343 26221
VILLA DI TIRANO traversa Foppa 25 tel. 0342 79801

AUTONOMOUS REGION OF VALLE D'AOSTA

AOSTA corso Battaglione Aosta 79 tel. 0165 21841

PROVINCE OF ALESSANDRIA

ALESSANDRIA corso Crimea 21 tel. 0131 20211
NOVI LIGURE via Guglielmo Marconi 25 tel. 0143 31071

PROVINCE OF BERGAMO

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

PROVINCE OF BOLZANO

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

PROVINCE OF BRESCIA

BERZO DEMO via Nazionale 14 tel. 0364 62511
BIENNO via Giuseppe Fantoni 36 tel. 0364 30191
BRENO piazza Generale Pietro Ronchi 4 tel. 0364 32211
BRESCIA
Head Office, via Benedetto Croce 22 tel. 030 281551
Branch no. 1, via Crocifissa di Rosa 59 tel. 030 384821
Branch no. 2, via Solferino 61 tel. 030 281581
Branch no. 3, viale Piave 61/A tel. 030 369791
Branch no. 4, via Fratelli Ugoni 2 tel. 030 281541
COCCAGLIO via Adelchi Negri 12 tel. 030 771751
COLLEBEATO via San Francesco d'Assisi 12 tel. 030 251891
CORTE FRANCA piazza di Franciacorta 7/C tel. 030 984801
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12 tel. 0364 52411
Branch no. 2, piazza Patrioti 2 tel. 0364 52401
DESENZANO DEL GARDA
via Guglielmo Marconi 1/A tel. 030 915091
EDOLO piazza Martiri della Libertà 16 tel. 0364 77311
ERBUSCO via Provinciale 29 tel. 030 776231
GARDONE VAL TROMPIA
via Giacomo Matteotti 300 tel. 030 833791
ISEO via Roma 12/E tel. 030 986911
LONATO DEL GARDA
corso Giuseppe Garibaldi 59 tel. 030 991791
LUMEZZANE - fraz. Sant'Apollonio
via Massimo D'Azeglio 108 tel. 030 825261
MANERBIO via Dante Alighieri 8 tel. 030 937301
MONTICHIARI via Mantova
- ang. via 3 Innocenti 74 tel. 030 967111
ORZINUOVI piazza Giuseppe Garibaldi 19 tel. 030 940091
OSPITALETTO via Brescia 107/109 tel. 030 684291
PALAZZOLO SULL'OGLIO via Brescia 23 tel. 030 740511
PISOGNE via Trento 1 tel. 0364 88201
PONTE DI LEGNO piazzale Europa 8 tel. 0364 90881
REZZATO via Broli 49 tel. 030 2794224
SALE MARASINO via Roma 33/35 tel. 030 986771
SALÒ viale Alcide De Gasperi 13 tel. 0365 44191
TOSCOLANO MADERNO
piazza San Marco 51 tel. 0365 54301

PROVINCE OF COMO

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

PROVINCE OF CREMONA

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

PROVINCE OF CUNEO

CUNEO piazza Tancredi Duccio Galimberti 13 tel. 0171 31951

PROVINCE OF GENOVA

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

PROVINCE OF LECCO

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

PROVINCE OF LODI

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

PROVINCE OF MANTOVA

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

PROVINCE OF MILANO

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

Branch no. 20, *Sempione,*
via Antonio Canova 39 tel. 02 3103971
Branch no. 21, *Politecnico,*
via Edoardo Bonardi 4 tel. 02 2660071
Branch no. 22, *Santa Sofia,*
via Santa Sofia 12 tel. 02 5849881
Branch no. 23, *Certosa,* viale Certosa 62 tel. 02 3971081
Branch no. 24, *Piave,* viale Piave 1 tel. 02 7788681
Branch no. 25, *Zara,* viale Zara 13 tel. 02 6946501
Branch no. 26, *Lodi,*
corso Lodi - ang. via S. Gerolamo Emiliani 1 tel. 02 5410931
Branch no. 27, *Don Gnocchi,*
via Alfonso Capecelatro 66 tel. 02 4030421
Branch no. 28, *Corsica,*
via privata Sanremo - ang. viale Corsica 81 tel. 02 7109601
Branch no. 29, *Bicocca,*
piazza della Trivulziana 6 - edificio 6 tel. 02 6474651
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Updated to 27 March 2014

VISENTINI BETWEEN CANALETTO AND ALGAROTTI

During the first half of the 18th century, Venice lived one of the most splendid periods of its glorious history: political and commercial fortunes were in decline, but during those decades it was one of the major centres of Europe's artistic civilisation and the most popular destination for European aristocracy, especially the British, who had chosen the Serenissima as a privileged destination during their travels in Italy. Only Naples would contend this record, but in the second half of the century. Travellers doing the Grand Tour aspired to have a picture of the city that they loved the most, which to a large extent explains the exceptional good fortune that "vedutismo" (landscape – or more usually cityscape – painting) enjoyed in Rome, Venice and Naples during the 18th century. Certainly, not everyone could buy a Van Wittel, a Canaletto or a Joli: many had to settle for replicas made by the many copyists or the engravings that were made from them.

Once again, it was the same story: a flourishing market for painted and engraved "vedute" had been created and this demand encouraged important initiatives. Like that of Antonio Visentini, a Venetian architect and engraver, who made a first set of engravings from the paintings of Canaletto in 1735 for the publisher Giovanni Battista Pasquali. This first set consisted of sixteen engravings (fourteen "vedute" and two frontispieces).

The work was very successful, even if circulation was limited, with most of the copies being purchased by Joseph Smith, the British Consul, a key figure in Venetian art collecting and patronage and the essential link between Venice and his home country. In 1742 Visentini published a far richer edition of the Urbis Venetiarum Prospectus celebriores, with thirty-eight "vedute", including those of Canaletto. The success and diffusion of this work have been analytically reconstructed, and were such that there were still print runs being made in the mid-nineteenth century.

But beyond the undisputed publishing success, there still remains the key problem of the relationship between the original painting by Antonio Canal and derivations etched by Visentini, and the relationship that they have with the series of Vedute. Others having been taken from I Luoghi Altre (Other Places) designed by Canal himself. Any comparison between the two goes to the advantage of the painter, even when he used the medium of engraved copper, but Visentini, who has less "fire", shows an integrity of line, a taste for the scene and a sense of measure in his ability to reduce urban scenes of different sizes and proportions to plates of the same format. The relationship between the two mediums is always one of loyalty and betrayal: the painting uses various colours, whereas it gets transposed onto copper in black and white, which inevitably means developing a sort of table of concordance. The distant views of Visentini's first series were followed by greater attention to the architectural composition of smaller portions of the urban landscape, which are a sort of anticipation of that Admiranda Urbis Venetiae that in three volumes offers the most ample repertoire and scientific recording of Venetian palaces. Once again, it was commissioned by Joseph Smith.

There is no doubt that the liveliness of Canaletto's painting, the witticisms that are implicit in his brush, the deliberate infringement of the rules of perspective and proportions between the different types of architecture that make up the scene, his taste for figures and costumes in Venice's piazze, campi, campielli and rii suffer a reduction in Visentini's beautiful drawings and a further banalisation in his copper plates. Visentini is an excellent engraver, also thanks to his training as an architect and fully aware of a cultural climate that was turning towards a post-rococo linguistic syntax. From the complete set of his drawings, engravings and etchings and observing each triptych simultaneously, it is possible to deduce the logic – and not just a graphical logic – which governs Visentini's eye. His intentional and repeated use of artistic language seems to be moving towards a new shore, which is the one half seen by Algarotti, another friend of the artist and part of that Smithian circle that seems to be the epicentre of many of the commissions and ideas that circulated in the lagoon city at that time. Visentini replied to the "capricci" (caprices) of Canaletto and Piranesi and the "sprezzature" (nonchalance) of Tiepolo, with his Palladian measure and it undoubtedly contributed towards the spread of Venice's fame.

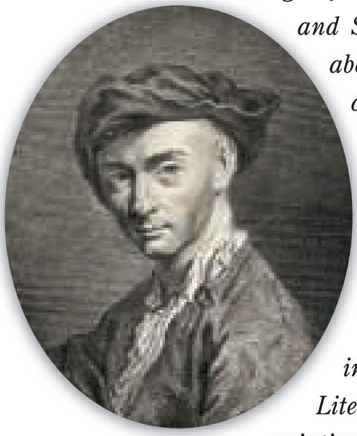
Cesare de Seta

Professor of History of Architecture
University of Naples "Federico II"

ANTONIO VISENTINI

(Venice 1688 - 1782)

Antonio Visentini was born in Venice in 1688. Architect, engraver and painter of perspectives, around 1717 he got to know the banker and collector Joseph Smith, the future British Consul to the Serenissima, whose summer villa in Mogliano he restructured in 1731. Ever since he arrived in Venice in 1709, Smith acted as the agent for British collectors of the greatest Venetian artists of the time, Marco and Sebastiano Ricci, Rosalba Carriera, Francesco Zuccarelli and, above all, Canaletto. And it is precisely for him to have a sort of visual catalogue of the 14 vedute of Venice that Canaletto painted specifically for him that Smith commissioned the album from Visentini with their reproductions in the form of etchings. It was first published in 1735, followed by a second edition in 1742 with the addition of 24 more vedute and the title Urbis Venetiarum Prospectus celebriores. *They were printed at the printing house of G.B. Pasquali, for whose atelier Visentini had designed the logo in 1736 with the motto* Litterarum Felicitas *(The Happiness of Literature), which is stamped on the printed editions. For the same printing house, between 1738 and 1742, Visentini also engraved 20 vedute of the islands of the Venetian lagoon to illustrate the two-volume edition of Guicciardini's* Della Istoria d'Italia *(History of Italy).*



Again on behalf of Smith, in 1746 he worked with Francesco Zuccarelli to produce the challenging cycle of eleven decorative lintels with the depiction of architecture inspired by Palladio and fantasy landscapes. Two years earlier, again with Zuccarelli and Giambattista Tiepolo, Visentini painted two pictures, commissioned by Francesco Algarotti, The Church of San Francesco della Vigna *and* The Interior of the Church of the Redeemer *in which he is portrayed along with Consul Smith.*

After 1746 he devoted himself increasingly to the theory and practice of architecture, staying within a restrained classicism of the Palladian style, at odds with the baroque extravagance of his time. He was responsible in 1751 for the restructuring and new marble façade of Palazzo Balbi, the Venetian home of Consul Smith, and in 1766 the Palazzetto Giusti, next to the Ca d'Oro.

In those same years, Visentini also carried out a thorough investigation of Venetian, Veneto and Italian architecture, doing hundreds of drawings. Some of these became part of his Admiranda Artis Architecturae Varia, *now in the British royal collection at Windsor Castle, whereas others are in the three volumes of his* Admiranda Urbis Venetae, *a veritable compendium of Venetian architecture, again commissioned by Smith. After Smith's death in 1770, now devoid of his protector and a secure client, Visentini asked for and obtained the chair of architecture in Venice, which he held until 1778. He died aged 94 in 1782.*

Canaletto, Visentini and Consul Smith

The 40 etchings with views of Venice that make up the album *Urbis Venetiarum Prospectus celebriores* by Antonio Visentini (1688-1782) are the most famous collection of vedute of the entire 18th century in Venice, not only for their intrinsic quality, which confirms the supremacy of Venice in the art of engraving and printing, but because around them unfolds an important chapter in the city's 18th century artistic culture, which has a close relationship with the history of good taste and of British art collecting in that era.

Visentini's vedute reproduce, as you know, almost all of Canaletto's paintings between 1726 and 1740, at the height of his artistic maturity. Bringing them together in an album was commissioned by the highly cultured British businessman and collector Joseph Smith, who had settled in Venice in 1709, subsequently, in 1744, becoming the British Consul to the Serenissima. The first 14 had already been published in 1735 under the title *Prospectus Magni Canalis Venetiarum* and were derived from the vedute that Canaletto painted between 1726 and 1734, which Smith himself owned, as can be read in the engraved frontispiece (*In aedibus Josephi Smith Angli*), subsequently to be sold in 1762 to George III of Great Britain. The 24 plates of the second and third part, on the other hand, are vedute by Canaletto (though we now know that one is by Bernardo Bellotto), mostly commissioned by Smith on behalf of British collectors.

The engravings in album *Prospectus Magni Canalis* of 1735 had been ordered by Smith from Visentini, who was also his trusted architect. He wanted it as a visual catalogue of the works by Canaletto that he owned, which he then used to stimulate commissions from wealthy British aristocrats for paintings by the great Venetian vedutista, for whom Smith acted as art dealer and patron. The complete collection *Urbis Venetiarum Prospectus celebriores*, published in 1742 by G.B. Pasquali, Smith's favourite printer, instead includes 14 plates of the *Prospectus* of 1735, considerably retouched by the same Visentini, plus other 24 plates reproducing views by Canaletto, ten of which, now lost, belonged to the Duke of Marlborough, two to the Duke of Bedford, two to the Duke of Leeds, and two to Earl Fitzwilliam, all clients of Joseph Smith. The role of the album by Antonio Visentini in generating awareness and dissemination of the work of Canaletto was therefore extremely important. Indeed, Visentini wanted to emphasise this point in both editions of the album, adding a frontispiece with portraits of himself and Canaletto in which the image of the painter and that of the engraver were indissolubly associated.

This close association has long been the source of some misunderstandings as to the value of Visentini's work, at times considered a mere translator of Canaletto's vedute, which in the black and white engraving, all reduced to the standard measurement of the etching, lost the spectacular and luminous colouring that was their essence. In recent decades, however, critics have rightly reassessed the artistic value of Visentini's *Perspectives of Venice*, their masterful ability to replicate the luminosity of Canaletto's paintings in the black and white of the etching, but, more importantly, their own expressive force that manages to give us a new image of Venice, perhaps more rational and utopian, but in any case less frantic than that of Canaletto and outwith the baroque rhetoric of his time.

«In the pages of the *Perspectives* – wrote Dario Succi – the artist contemplates this unique city with a steady, clear eye and soaks the various forms in a bath of luminous, rational certainty. Precise buildings rise from the water as light as air and shine in the impeccable parade of volumes [...] the technique used is very personal; the fine, clean incisions approach each other, then fragment, thin out, and meet again. The result reflects a stimulating contemplative serenity: the city mirrors itself joyfully on the liquid surfaces run through by silken shadows. From the clarity of the description comes a shiny spell, a rarefied expressive balance, a trenchant fixity. [...] nothing must disturb the rationality of the rules of perspective, the truth of the vision, the Enlightened confidence of a certain, ordered, unique experience» (D. Succi, *The illuminated happiness of Antonio Visentini's etchings*, Vianello, 1984).

The same need for Enlightened rationality also governs the order in which Visentini puts Canaletto's views in his album, giving them a systematic approach that allows the reader to interpret Venice as a whole, as an urban organism that has the Grand Canal as its central axis. Each perspective starts where the previous one ends. The first part is entirely dedicated to the Grand Canal, which Visentini makes us see unfold towards the east and towards the west, starting from the Rialto Bridge, the pivotal point of the entire city. The second part goes from the canal of Santa Chiara north to the entrance of the Grand Canal near the Riva degli Schiavoni, while the last 12 plates are devoted to "campi" (squares) and churches, culminating in the two animated and spectacular closing images of Piazza San Marco.

The architectural link between the various buildings in the *continuum* of the urban fabric is clearly delineated and that, beyond all other considerations, clearly distinguishes Visentini's Perspectives from the other collections of vedute that preceded it, those of Carlevarijs (1703), Lovisa (1717) and Marieschi (1723), in which it was the individual sites and architectural styles that emerged, whereas the city as a whole was lost.

There is in all this an echo not only of the rationalist and neo-Palladian classicism that was the stylistic cypher of Visentini the architect, but also of the ideas and the first stirrings of the Enlightenment that was maturing in the intellectual circle that gathered around Consul Smith.

It is no coincidence that one of the first admirers of Visentini's etchings was a refined man of the Enlightenment, Francesco Algarotti, who in 1743 considered them *«dignes d'entrer dans le Cabinet du Roy»*.

With these etchings of Visentini, the traditional image of the Serenissima reaches its climax in Europe, a little more than fifty years before the curtain closed in 1797, at the hands of Napoleon.

Franco Monteforte

SUMMARY OF THE BANK'S GROWTH
(2003/2013)

(in millions of euro)	2003	2008	2013
Customer deposits:			
direct	8,184	16,612	24,059
indirect	12,690	16,742	25,609
Equity (excluding net profit for the year)	774	1,478	1,725
Customer loans:			
cash loans	7,117	14,936	20,844
overdraft facilities	1,690	2,767	4,354
Financial assets	1,888	3,955	6,803
Income from banking activities	341	438	895
Result of ordinary operations	101	49	98
Net profit for the year	60	14	49
Number of branches	191	262	318
Personnel (number)	1,993	2,376	2,582

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NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary and extraordinary annual general meeting (AGM) at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 25 April 2014 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, 26 April 2014 to discuss the following

AGENDA

Ordinary part

1) Presentation of the financial statements as of 31 December 2013: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;
2) Mandate to the Board of Directors to buy and sell treasury shares in accordance with art. 21 of the articles of association;
3) Approval of the document entitled "Compensation Policies of the Banca Popolare di Sondrio Banking Group" and information on how these compensation policies were implemented in 2013, as required by the Bank of Italy;
4) Approval of the Remuneration Report, as per art. 123-bis of Decree 58/98 (Consolidated Finance Act);
5) Determination of directors' emoluments;
6) Appointment of five Directors for the three-year period 2014-2016.

Extraordinary part

1) Proposed increase in share capital via a bonus issue and for cash:
   – bonus issue of shares, nominal value 3 euro each, with normal enjoyment rights, by a maximum nominal amount of € 100 million, to be matched by a transfer from the «share premium reserve» to «share capital»;

– simultaneous extraordinary issue of shares for cash under option to the members and the shareholders, up to a maximum amount of € 350 million inclusive of the share premium;
– delegation of the widest powers to the Board of Directors by the Extraordinary Meeting to determine the date for the operation at any time during the current year, as well as to establish all other terms, conditions and procedures, including the allotment ratio for the bonus shares, the option ratio and the subscription price, including any share premium, for the part issued for cash, as well as the reimbursement of expenses in proportion to the number of new shares subscribed for in cash.

2) Related and consequent resolutions and granting of powers.

Share capital

The share capital, fully subscribed and paid up, amounts to € 924,443,955 and is made up of 308,147,985 ordinary shares with a par value of € 3 each. There are 179,481 shareholders with voting rights.

Attendance at the Meeting

Pursuant to arts. 13.2 and 27 of the articles of association, shareholders are entitled to attend shareholders' meetings and exercise their voting rights if they have been recorded on the shareholders' register for at least ninety days and providing they have delivered to the bank's head office the declaration that the appointed intermediary that holds the shares on deposit has to make to the issuer at least two working days prior to the date of the meeting at first calling. In any case, art. 83-sexies, paragraph 4, of Decree 58/98, Consolidated Finance Act, applies.

Shareholders are asked to bring a copy of this declaration to the meeting to facilitate entry formalities.

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

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

Shareholders may be represented at the meeting by another shareholder, by means of a proxy ballot issued in compliance with Italian law. No shareholder can be a proxy for more than two other shareholders. Proxy forms are available at all branches of the Bank and on its website www.popso.it/assemblea2014.

The proxy will have to be handed over when entering the meeting.

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

Addition of items to the agenda for the Meeting

Shareholders representing at least one-fortieth of the total number of shareholders entitled to vote may request, within ten days of publication of this notice, for items to be added to the agenda, according to the terms and conditions laid down in art. 126-bis of Decree 58/98,

Consolidated Finance Act. The request, to be submitted to the head office at Piazza Garibaldi 16, Sondrio, should contain an indication of the new topics being proposed or of the motions proposed on matters already on the agenda. Requests shall be submitted in writing and the signature of each shareholder submitting it must be authenticated as required by law.

Shareholders wanting to add items to the agenda should prepare a report summarising the reasons for the new topics that they would like to propose for discussion, or the reasons for additional motions that they would like to propose on matters already on the agenda.

This report has to be sent in no later than the deadline for submission of the request.

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

Documentation

The explanatory reports of the Board of Directors containing the proposed resolutions and documents that will be submitted to the Shareholders' Meeting will be made available at head office, at Borsa Italiana SpA and on the Company's website at www.popso.it/assemblea2014 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 2014-2016

With reference to paragraph 6) on the agenda for the Ordinary Shareholders' Meeting - Appointment of five directors for the three-year period 2014-2016 - the following is the text of art. 35 of the articles of association.

Art, 35
Presentation of lists of candidates

Directors are appointed on the basis of lists with the same number of candidates as the number of candidates that have to be appointed; on these lists, the candidates are progressively numbered and listed in that order. The lists must be deposited at the head office of the Bank by the deadline laid down in current regulations.

The lists must be prepared in such a way as to ensure gender balance in the composition of the Board of Directors resulting from the vote, according to the principles laid down by law and by the current articles of association, taking into account the election mechanism governed by Article 36 below in the allocation of a progressive number to each candidate.

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

Lists have to be presented by at least 500 shareholders, with the requisites laid down in art. 13, paragraph 2.

One or more shareholders with the requisites laid down in art. 13 and who have a total interest of not less than 0.50% in the share capital can also present lists. Shareholders have to declare the number of shares that they own in total and certify their ownership of this shareholding.

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

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. Candidates should also declare if they have the requisites of independence as per art. 33.2 and, if they do, this is mentioned in the lists. Any lists that are deposited without complying with the methods and deadlines laid down in these instructions are considered as though they had not been presented.

""

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

Lists for the election of the Board of Directors can also be filed electronically by certified e-mail to segreteria@postacertificata.popso.it It should also be remembered that art. 32, paragraphs 3 and 4, of the articles of association states that:

"The composition of the Board of Directors must ensure gender balance in accordance with current regulations. For the first three partial renewals of the Board - pursuant to art. 34, paragraph 2 - more than one year from the date of entry into force of Law 120 of 12 July 2011, the gender balance is achieved by ensuring that at least one-fifth of the directors elected for a three-year term go to the gender that is less represented." Pursuant to art. 33, paragraph 1, of the articles of association, the directors have to meet the requirements laid down by law and by the supervisory rules for banks. Art. 33, paragraph 2, also states that at least two members of the Board of Directors must meet the independence requirements laid down in art. 147-ter, paragraph 4, of Decree 58/98, Consolidated Finance Act. In this regard, note that of the ten directors whose term of office is not about to expire, five meet this requirement.

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

For the presentation of lists, the shareholders are required to take into account the document "Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio" published on the Company's website at www.popso.it/assemblea2014.

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, 25 March 2014

FOR THE BOARD OF DIRECTORS
The Chairman
(Piero Melazzini)

The notice of calling was published, as required by law, on the Company's website at www.popso.it/assemblea2014 and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 26 March 2014.

ORDINARY PART

Note. The figures in this report are in euro; all changes expressed as percentages refer to comparable data from the end of 2012, 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,

It was a short step from serious national economic crisis to a full banking crisis. That summarises 2013 in a nutshell. The economic crisis continued to lash businesses, while expectations for a recovery in productive activities were gradually deferred until, finally, they extended beyond the time horizon under review. Despite repeated action by the ECB, in terms of rate reductions and the provision of liquidity, the underlying conditions for an economic upturn were absent.

As a result, Italy was among the hardest hit in the EU. Indeed, despite the progress made on the containment of public borrowing and the cost of refinancing this debt, the country was unable to mirror the signs of macroeconomic improvement that emerged elsewhere.

Unemployment was much the worst symptom of the situation, laying waste the plans of many young persons. This said, the list of unresolved problems remains particularly long. To mention just a few: the need to stimulate recovery and investment, the urgency of lowering the burden on taxpayers, and the requirement to limit bureaucratic intervention and improve public-sector activity without further procrastination. Over the years, these related issues have resulted in the inextricable intertwining of interests and restrictions, to the detriment of economic growth.

All this has weighed heavily on the domestic banking system that, in addition to the slowdown in funding and lending, has also been faced with a further deterioration in loan quality. The consequences for profitability have been serious.

Considering our bank, the aspect to report is the growth in direct deposits by 1.68% to 24,059 million, confirming the long-established confidence of our customers. Although lending contracted by 6.91% to 20,844 million, the scale still reflects our commitment to households and businesses in the territories served.

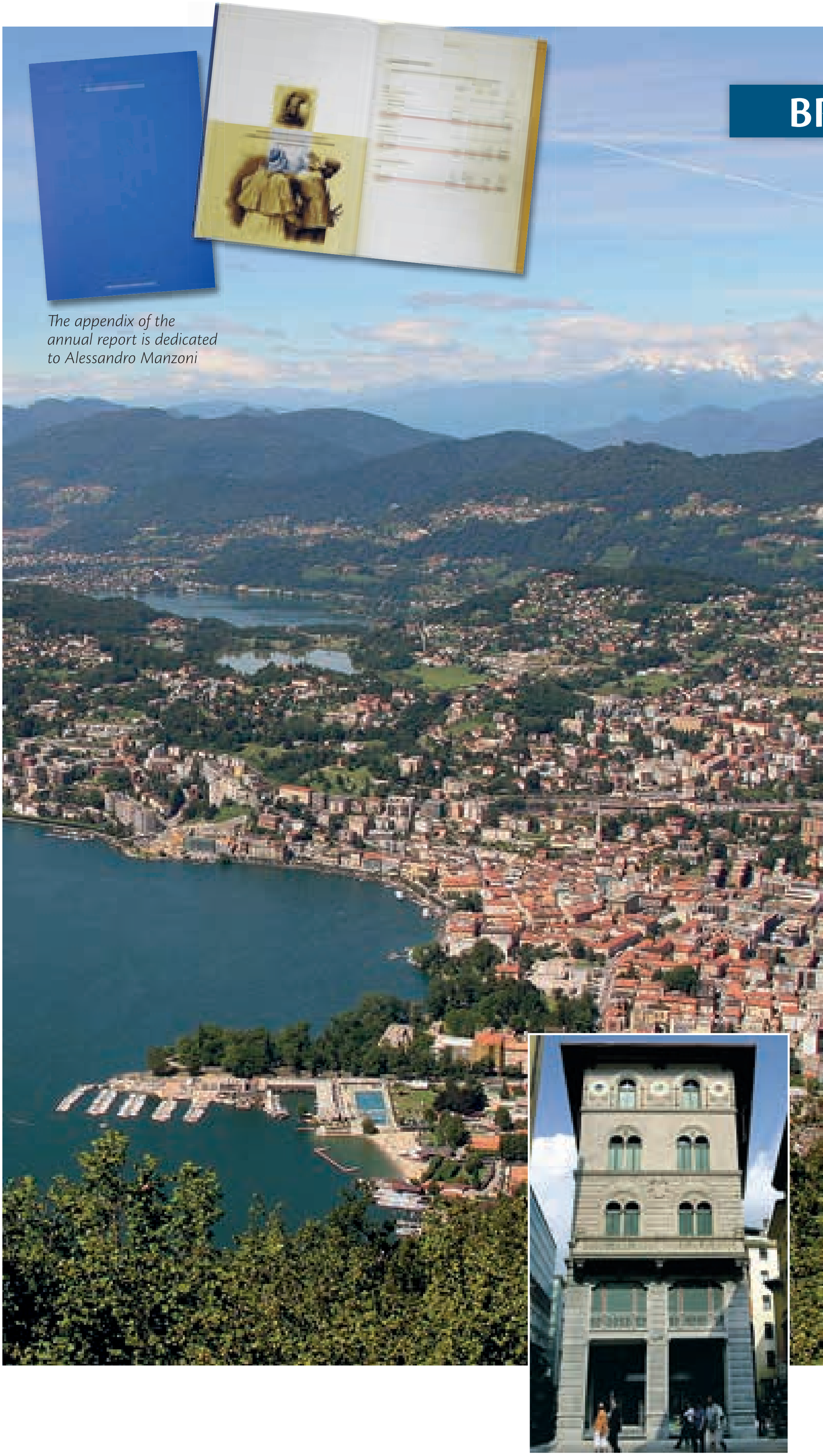
Profitability was satisfactory, given an improvement in net interest income and the containment of operating costs, leaving room to make substantial prudent provisions against impaired loans. The increased coverage of these loans guarantees the quality and health of the funding provided.

The bottom line of the income statement reports net profit for the year of 48,832 million, up by 89.11% with respect to the prior year. This result reflects a significant improvement in profitability, founded on operational efficiency, despite the poor macroeconomic situation. The share price was penalised in a market dominated by extremely short-term speculation, falling over the year by 4.38%. The rise in the number of members to 181,217 is a good reason for optimism.

RESULTS IN BRIEF

(in millions of euro)	2013	2012	Change %
Statement of financial position			
Due from customers	20,844	22,390	-6.91
Due from banks	1,482	1,855	-20.13
Financial assets	6,803	4,844	40.43
Equity investments	412	399	3.29
Total assets	30,463	30,145	1.05
Direct customer deposits	24,059	23,662	1.68
Indirect customer deposits	25,609	22,652	13.05
Insurance premiums	719	618	16.34
Customer assets under administration	50,387	46,932	7.36
Other direct and indirect funding	4,988	4,772	4.52
Equity (excluding net profit for the year)	1,725	1,686	3.65
Income statement			
Net interest income	488	461	5.78
Income from banking activities	895	858	4.31
Result of ordinary operations	98	82	19.01
Net profit for the year	49	26	89.11
Key ratios (%)			
Net interest income/Total assets	1.60	1.53	
Balance of financial management/Total assets	1.39	1.33	
Net interest income/Income from banking activities	54.56	53.79	
Administrative expenses/Income from banking activities	40.86	40.63	
Net profit for the year/ Total assets	0.16	0.09	
Profit/Average equity (excluding net profit for the year)	2.86	1.56	
Non-performing loans/Customer loans	2.16	1.26	
Capital ratios (%)			
Tier 1 capital/Risk-weighted assets (Tier I)	10.54%	10.20%	
Total capital/Risk-weighted assets (Total capital ratio)	14.54%	14.62%	
Free capital	1,029	1,058	
Other information			
Number of employees	2,582	2,569	
Number of branches	318	306	

BPS (SUISSE)



The appendix of the annual report is dedicated to Alessandro Manzoni

Growth in volumes and the portfolio of customers confirms the ability of the Bank to expand in the areas served, and therefore its ability to compete within the selective Swiss banking system. The representative in Neuchâtel has become a branch from 2014, while the Contact Center has changed its name to Direct Banking and become a virtual unit. This subsidiary has 21 branches, including that in the Principality of Monaco and the virtual branch mentioned above. The quality and diversity of the commercial products offered are enhanced by the contributions made by Popso (SUISSE) Investment Fund Sicav and Sofipo SA.

BPS (SUISSE)

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

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

www.bps-suisse.ch

FACTORIT

Branches in: **• Milan • Turin • Padua • Bologna • Siena • Rome • Naples**
in addition to 270 foreign correspondents in the main international markets.
It operates at the branches of Banca Popolare di Sondrio and banks with which it has special arrangements.

Given the complex dynamics of the real economy, Factorit provides support to businesses of all sizes via targeted factoring packages. These also address the efficient management and guarantee of the receivables concerned, thus containing the related collection risks.
This activity effectively complements, in terms of diversification and specialisation, those of the banking group in serving productive activities in the areas covered.
The satisfactory volume of business introduced by the banking shareholders and other banks – we are still the principal intermediary for factored receivables – enables Factorit to maintain a leading position in the Italian market and confirms the professionalism with which the company works.

GRUPPO Banca Popolare di Sondrio

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

PIROVANO STELVIO

Pirovano continues to contribute to the enhancement of the Bank's image – not least via the numerous initiatives discussed in the chapter on Promotional and cultural activities – and that of the Stelvio area, whose unrivalled scenery merits greater attention from sector operators and the institutions. Accordingly, we have re-affirmed our support for the company and the special environment represented by the Province of Sondrio, within which the Stelvio area is very important for its natural, cultural and sporting attractions. This is consistent with our mission, as a cooperative bank, to work in close contact with the territories served and facilitate their sustainable development.

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

I - 23100 Sondrio SO
Via Delle Prese 8
Tel. +39 0342 210040 - 515450
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Albergo Quarto Pirovano
Stelvio Pass
Tel. +39 0342 904421
Fax +39 0342 903433
info@pirovano.it
www.pirovano.it

Let's now take a look at the figures, which are the fruit of the intense efforts of our staff, which consists of 2,582 people. Total assets have increased to 30,463 million, +1.05%.

Net interest income rose to 488,150 million, +5.78%; net commission income amounted to 225,820 million, +1.50%. Income from banking activities totalled 894,767 million, +4.31%.

The effective monitoring of expenses ensured cost containment, while - as mentioned - the level of loan adjustments reflected the adoption of a prudent policy on provisions.

Banca Popolare di Sondrio (SUISSE) SA and Factorit spa have contributed to the business development of the Banking Group, offering quality services in their respective areas of operation. Based on the results for the year, the Board is of the opinion that a dividend of 0.05 euro per share (+51.52%) marks a fair point of equilibrium between the needs of the shareholders and those of the Bank in terms of self-financing.

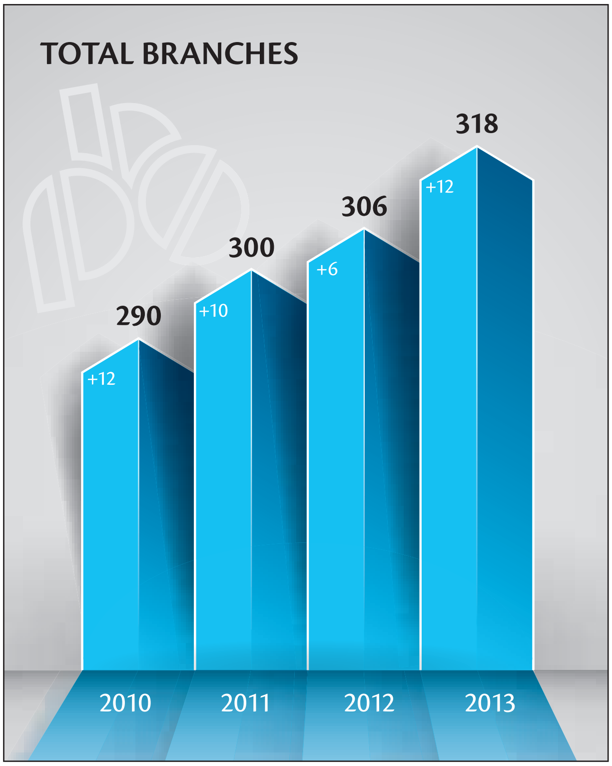
TERRITORIAL EXPANSION

The branch network provides evidence of our expansion. With pride, when visiting smaller towns and centres, we may find a branch and remark: we're here as well! Indeed, we have come a long way over the years, extending our presence into new and broader territories while, at the same time, intensifying our activities in more established areas. This process has not been governed by a rush for growth for its own sake. Each step has been carefully thought out, with careful evaluation of the commercial validity of each location and the related costs. In line with established practice, we have also preferred to grow independently.

This decision has undoubtedly resulted in having to make greater and more extensive efforts to enter into new areas, but has paid off over the long term with cost savings and a more homogeneous and compact branch structure.

Strengthened by this experience, we intend to continue our work, driven by market demand on the one hand and, on the other, by a desire to find new locations in the context of territorial continuity. At the same time, we also intend to dedicate energy and investment to the other distribution channels, not least that of electronic communications which is preferred by many customers - there are a lot of «born digital» persons these days.

Branches will remain the focus of our approach to territorial banking over the coming years, in the conviction that direct contact with our customers is, and will continue to be, fundamental for building mutual trust. This said, many things are changing. The migration away from traditional branch banking, towards more advanced approaches to the management of business relations, will continue and indeed accelerate. This effort will be underpinned by the overhaul of operating procedures and, above all, by drawing on new professional skills. The commercial network continued to expand during 2013, as the opening of 12 branches raised the total to 318. Most of the new locations are found in Piedmont, Liguria and, of course, Lombardy. The first branch to be opened, in Novi Ligure (Al), establishes our presence in southern Piedmont, although operationally it is managed from Liguria. This town, of almost 29,000 inhabitants, lies at the heart of a territory where agriculture is steadily being joined by considerable industrial activity. The principal factories are active in the engineering, metal-working, pharmaceuticals, food processing and confectionery sectors. This last sector, in particular, is populated by firms well known to the general public, such as Elah-Dufour and Pernigotti. Of course without forgetting the Cinzano Campari group, whose main production facilities are in Novi Ligure. Again in Piedmont, we also opened in Cuneo, the principal town in the province of the same name that, due to its area – the third largest in Italy – is known as La Granda. This town, with more than 56,000 inhabitants, has a sound commercial base and is home, among others, to numerous humanistic and scientific faculties of Turin University. The local economy is rooted in agriculture and animal husbandry. More recently, a sound industrial base has developed to include manufacturers of excellence in the foods sector, that are well known and valued both in Italy and abroad. Confectionery is represented by such names as Ferrero, Maina, Balocco, Venchi; the milk and cheese sector counts Biraghi and Osella.



At this point, it was natural to strengthen our presence in Turin. Just 8 years after opening a main branch in via XX September, the No. 1 city branch is now active in via Luigi Cibrario. The new location serves the historic San Donato district, marked by numerous Liberty-style buildings that are home to mostly mid/high-end residents. The district is also populated by numerous commercial and professional activities. In particular, there is a large concentration of accountants, engineers and lawyers. The last-mentioned group benefit from the location close to the court house.

2013 was also Genoa's year, with the opening of two city branches to complement the main branch that opened in via XXV April during November 2007. Over the years, we have become well established in the economic and social fabric of Liguria's main city, obtaining a satisfactory share of the market. Accordingly, it was decided to grow this activity by opening the No. 1 city branch in piazza Tommaseo, which is a key hub in the urban infrastructure - linking, via corso Buenos Aires, the centre of Genoa and the Foce area with the residential district of Albaro.

The second branch serves the Pegli district in the west, which is undoubtedly one of the most beautiful and characteristic parts of the city.

Various aspects establish Pegli as a separate area: about 28,000 residents, mostly mid/high end; good network of services and shops, together with supporting services such as professional offices, clinics and medical centres; significantly, numerous commercial activities along the sea front. Once a famous holiday resort, Pegli has maintained its attraction for tourists thanks to a warm climate, vast green areas and numerous buildings and museums of artistic and cultural interest. A large number of Liberty-style villas on the hillside characterise and set the tone for the entire area.

Again in Liguria, we also opened in Savona which is the principal town in the province with the same name, counting about 61,000 residents. Located on the west coast just 55 kilometres from Genoa and linked by the Autostrada dei Fiori motorway, Savona is also connected with Turin by the A6. The municipality occupies a considerable part of the coast, in fact absorbing Albisola Marina and Vado Ligure. The Savona-Vado port is a major gateway to Corsica and, above all, represents one the Mediterranean's most desirable ports of call for cruise ships, which make a major contribution to commerce in the town. The Savona-Vado basin, administered by the Savona Port Authority has seen considerable growth in recent years, not least due to the good land-based logistics existing between Vado Ligure and Val Bormida - an area that is home to the largest businesses in the province.

Our return to Lombardy was marked by an opening in Melegnano (Mi). Following our appointment to manage the municipal treasury, we considered it appropriate to open a branch in this important centre that counts about 17,000 inhabitants on the border of the provinces of Milan and Lodi. Located at a strategic point on the motorway system south of Milan, Melegnano has turned that characteristic to its advantage. A hive of commercial activity, there is also an industrial presence by operators largely active in the logistics sector. Traditional agricultural activities are also well developed.

Trescore Balneario (Bg) is the main centre in lower Val Cavallina, about 15 kilometres east of Bergamo. The town, which has grown rapidly in recent years to almost 10,000 residents, has been well known for the curative properties of its spa waters since Roman times. The local economy comprises small and medium-sized enterprises operating in various sectors. The adjoining municipality of Cenate Sopra is home to Gewiss spa, a leading Italian manufacturer active in the lighting and domotics sectors. Lastly, numerous wine producers are situated on the nearby hills.

Two new branches were opened in Milan: Branch No. 33 in corso di Porta Romana and No. 34 in via Cino del Duca. The first intensifies our efforts in the south-east sector of the city. Porta Romana is one of the six principal gates in Milan's city walls, marking the starting point for the main road of the same name. The level of the district is good, with numerous bars and restaurants, clothing shops and professional offices. Bocconi University is not far away – where a branch has operated since 1994 – while the historical seat of Milan University can be found by moving towards the city centre. Branch No. 34 is situated in via Cino del Duca, just a few steps from piazza San Babila. The property, owned by the Bank, also houses the offices of Factorit spa. The districts is marked by elegant streets with top-class buildings that house numerous professional offices. Commercial activities include the most famous and prestigious tailors and «maisons», especially in the «fashion quadrangle», operating side by side with bars and restaurants. The area represents an irresistible attraction for the most demanding international clientele.

From the capital of fashion and finance to the political capital: Branch No. 35 has opened its doors in corso Vittorio Emanuele, Rome. This location is in the heart of the city centre, half way between piazza Navona and Campo dei Fiori, with a high volume of tourist traffic. Many of Rome's principal and most well-known monuments can be found in the vicinity, ensuring the highest visibility for our new branch. The vehicle and pedestrian traffic is intense in corso Vittorio Emanuele, where many commercial activities (shops, restaurants, bars etc.) and artisans (antique dealers, restorers, framers etc.) are located.

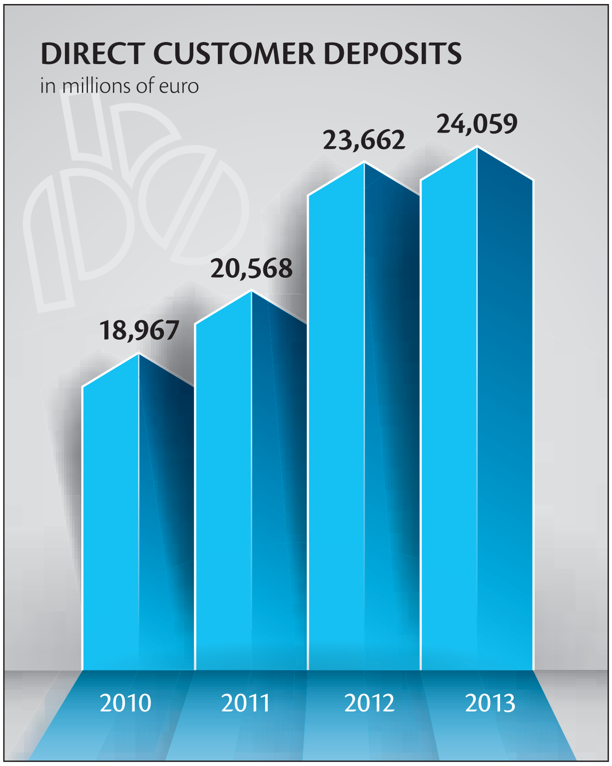
In Veneto, we have opened in the delightful town of Bardolino (Vr), which is considered to have one of the highest standards of living in Italy, due to the general affluence of the area, its attractive locations and the climate. With almost 7,000 inhabitants, happily positioned on the east bank of Lake Garda, Bardolino has a flourishing tourist industry. Indeed, there are many hotels of different types that attract a foreign clientele, in particular, with around 15,000 beds in total. Additionally, Bardolino is especially well known for its wine, which is well received in international markets.

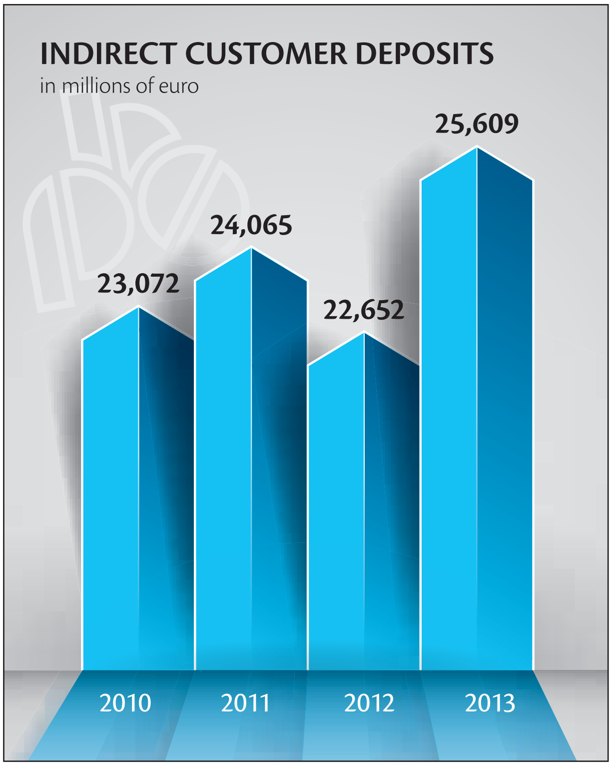
Our overall market presence also includes 494 ATMs, of which 14 were added during the year.

DEPOSITS

Savings are essential for a healthy economy that is growing harmoniously; at the same time, households can only save regularly if the economy is in a good state. Considering this, it is easy to understand how the current prolonged crisis has seriously dulled the propensity to save of Italians. In fact, the purchasing power of households has been eroded steadily and significantly, with an unavoidable impact on their willingness to save. As a result, the ability of Italians to set aside resources to cover the risks associated with unemployment, health and future income has diminished. The situation could have been much worse, but fears for the future have induced many to defer their spending decisions – thus further depressing consumption – in order to save at least a small amount. This objectively difficult situation has created overwhelming uncertainties, accompanied by disorientation and insecurity. In this context, we have continued in our role as a solid and reliable bank for our customers. The credibility earned over the years, the flexibility demonstrated in «tailoring» our services to the varying needs of counterparts and our ability to present ourselves dynamically in new local markets, via the expansion of our commercial network, have all helped to build trust.

And with trust has come growth in the volume of savings deposited with us, even though interest rates have had to follow the downward trend imposed by market conditions and the measures adopted by the ECB.





DIRECT CUSTOMER DEPOSITS

(in thousands of euro)	2013	%	2012	%	Change %
Savings deposits	415,800	1.73	451,369	1.91	-7.88
Certificates of deposit	9,038	0.04	29,569	0.12	-69.43
Bonds	2,766,991	11.50	2,712,867	11.47	2.00
Repo transactions	210,968	0.88	533,811	2.26	-60.48
Bank drafts and similar	74,609	0.31	75,019	0.32	-0.55
Current accounts	16,170,845	67.21	14,712,607	62.17	9.91
Time deposit accounts	3,852,033	16.01	4,564,397	19.29	-15.61
Foreign currency accounts	559,134	2.32	582,343	2.46	-3.99
Total	**24,059,418**	**100.00**	**23,661,982**	**100.00**	**1.68**

TOTAL DEPOSITS

(in thousands of euro)	2013	%	2012	%	Change %
Total direct customer deposits	24,059,418	43.45	23,661,982	45.76	1.68
Total indirect customer deposits	25,608,578	46.25	22,651,517	43.82	13.05
Total insurance premiums	718,808	1.30	617,866	1.20	16.34
Total	**50,386,804**	**91.00**	**46,931,365**	**90.78**	**7.36**
Due to banks	3,692,634	6.66	3,828,808	7.41	-3.56
Indirect deposits from banks	1,295,125	2.34	943,176	1.81	37.32
Grand total	**55,374,563**	**100.00**	**51,703,349**	**100.00**	**7.10**

Direct customer deposits have increased to 24,059 million, +1.68%; although limited in percentage terms, this rise is rather good considering the performance of the banking system as a whole.

Indirect customer deposits measured at market value now total 25,609 million, +13.05%, following a transfer of securities from other intermediaries and favourable market conditions. Insurance premiums increased to 719 million, +16.34%.

Total customer deposits therefore amount to 50,387 million, +7.36%. Deposits received from banks have fallen by 3.56% to 3,693 million. As in the prior year, this balance includes refinancing operations with the European Central Bank totalling 1.8 billion, as explained in the chapter on «Treasury and trading operations». Securities under administration for banks have increased from 943 a 1,295 million. Total deposits from customers and banks therefore amount to 55,375 million, +7.10%.

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

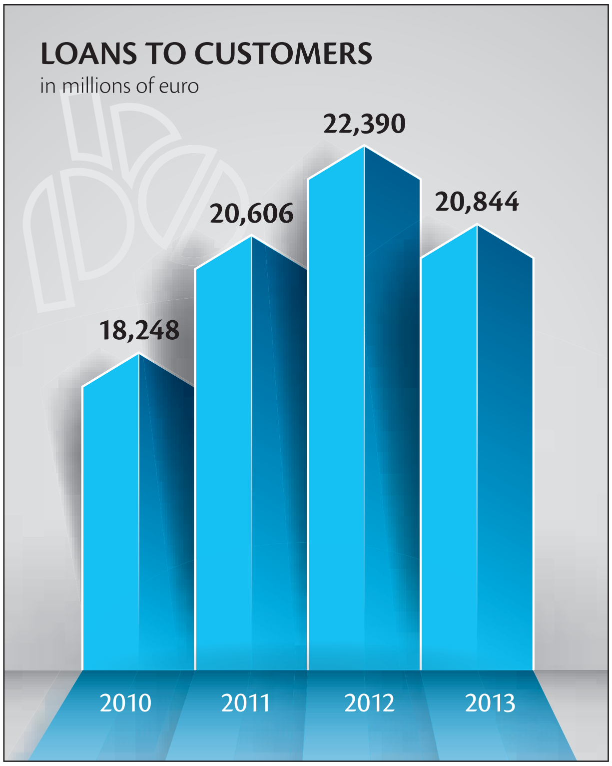
Considering the individual components, euro and currency accounts have increased to 16,730 million, +9.38%, in part due to a reduction in deposit accounts to 3,852 million, -15.61%, given the cost-containment policy adopted in relation to funding. Euro and currency accounts represent 69.53% of total direct deposits. The slight increase in bonds from 2,713 to 2,767 million, +2.0%, demonstrates continued interest in these instruments, even though they are no longer taxed at a favourable rate. Savings deposits have declined 7.88% to 416 million, while repo transactions fell 60.48% to 211 million; Certificates of deposit dropped to 9 million, -69.43%, and remain entirely marginal. Bank drafts also fell slightly to 75 million, -0.55%.

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

LENDING

It was a difficult and complex year on the lending front, which can be summed up in just a few words: fall in lending to high-risk customers. Nevertheless, non-performing loans have continued to grow. This is a sort of self-perpetuating vicious circle that generates damaging effects for both banks and businesses.

The long-awaited recovery failed to materialise. Just like a cord that can be pulled, but not pushed, even the cut in rates has been unable to give impetus to the Italian economy, at least for now. Without a real and appreciable upturn in the economic cycle, lending dynamics have continued to deteriorate. The understandable tightening of supply by the banking system was a contributory factor, but demand from businesses was also lower as result of the downturn in production and investment. The most significant phenomenon was however the further decline in the quality of lending. The ongoing economic crisis is undoubtedly the key factor; however, the chronically



inadequate capitalisation of Italian firms should not be overlooked. Historically over reliant on bank borrowing, businesses lack the own funds that would have enabled them to mitigate the effects of the recession.

Given this rather problematic scenario, we had no choice but to increase our focus on specific risks, working professionally both to grant new loans and to manage and monitor those already outstanding. With particular regard to problem loans, prudence and greater prudence were applied when making the related impairment adjustments. These have raised the coverage of non-performing loans to among the highest levels in the Italian banking system. This provides important assurance about the quality of our loans portfolio.

All, of course, without foregoing our mission as a cooperative bank, our sense of responsibility for the economic development of the territories served, while also providing necessary financial support to deserving households and businesses, so they are not abandoned at a time of crisis.

Affected by the general dynamics of the economy, lending amounted to 20,844 million, down by 6.91%. Although the year-end total is lower, fresh loans to both new and established customers were, once again, significant percentages of the overall amount. The ratio of loans to deposits is 86.63% compared with 94.62% last year.

DUE FROM CUSTOMERS

(in thousands of euro)	2013	%	2012	%	Change %
Current account overdrafts	6,531,629	31.34	8,077,183	36.07	-19.13
Foreign currency loans	1,145,180	5.49	1,409,848	6.30	-18.77
Advances	412,235	1.98	438,264	1.96	-5.94
Advances subject to collection	254,092	1.22	274,594	1.23	-7.47
Discounted portfolio	11,626	0.06	13,859	0.06	-16.11
Artisan loans	17,173	0.08	19,233	0.09	-10.71
Agricultural loans	32,363	0.16	33,861	0.15	-4.42
Personal loans	166,907	0.80	143,846	0.64	16.03
Other unsecured loans	5,115,620	24.54	4,615,186	20.61	10.84
Mortgage loans	6,656,909	31.93	6,595,516	29.46	0.93
Net non-performing loans	450,431	2.16	282,799	1.26	59.28
Repo transactions	49,412	0.24	485,863	2.17	-89.83
Total	**20,843,577**	**100.00**	**22,390,052**	**100.00**	**-6.91**

DUE FROM CUSTOMERS - DOUBTFUL LOANS

(in thousands of euro)		31/12/2013	31/12/2012	(+/-)	Change %
Impaired loans	Gross exposure	2,861,689	1,833,781	1,027,908	56.05%
	Adjustments	1,098,777	604,057	494,720	81.90%
	Net exposure	**1,762,912**	**1,229,724**	**533,188**	**43.36%**
– Non-performing loans	Gross exposure	1,108,980	618,706	490,274	79.24%
	Adjustments	658,548	335,907	322,641	96.05%
	Net exposure	**450,432**	**282,799**	**167,633**	**59.28%**
– Watchlist loans	Gross exposure	1,225,496	670,595	554,901	82.75%
	Adjustments	381,159	201,939	179,220	88.75%
	Net exposure	**844,337**	**468,656**	**375,681**	**80.16%**
– Restructured loans	Gross exposure	41,350	60,343	-18,993	-31.48%
	Adjustments	6,575	12,004	-5,429	-45.23%
	Net exposure	**34,775**	**48,339**	**-13,564**	**-28.06%**
– Past due loans	Gross exposure	485,863	484,137	1,726	0.36%
	Adjustments	52,495	54,207	-1,712	-3.16%
	Net exposure	**433,368**	**429,930**	**3,438**	**0.80%**

Net doubtful loans, comprising non-performing, watchlist, restructured and past-due amounts, have climbed to 1,763 million, +43.36%, or 8.46% of total customer loans. As mentioned, this situation is principally attributable to the persistent macroeconomic difficulties.

The adjustments recorded for impaired loans total 1,099 million, +81.90%, representing 38.40% of the gross amount compared with 32.94% last year. The table gives an overview of doubtful loans.

Net non-performing loans amount to 450 million, +59.28%, corresponding to 2.16% of total customer loans, compared with 1.26% at 31 December 2012. This aggregate is significantly lower than that of 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 659 million, +96.05%, representing 59.38% of the gross amount compared with 54.29% last year. Considering the amounts written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 74.36%.

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, amount to 844 million euro, +80.16%, representing 4.05% of total loans to customers compared with 2.09% in the prior year.

Restructured loans amount to 35 million, -28.06%. The reduction essentially reflects the reclassification of certain positions to other categories of impaired loan.

Impaired past due loans, as defined by the Supervisory Authorities, amount to 433 million, +0.80%, representing 2.08% of total loans to customers compared with 1.92% in the prior year.

The different technical forms have contributed in varying degrees to the trend in lending. These items are indicated here using different criteria and in greater detail than in table 7.1 of the Explanatory Notes in Section 7, Part B.

Mortgage loans amount to 6,657 million, +0.93%, and represent the largest percentage (31.93%) of the total due from customers. This balance includes loans sold but not derecognised totalling 1,323 million in relation to the securitisation arranged by the Bank. These loans were not derecognised because the requirements of IAS 39 were not met. Current account overdrafts have decreased from 8,077 to 6,532 million, -19.13%. This contrasts with the increase in other unsecured loans to 5,116 million, +10.84%; personal loans have also risen to 167 million, +16.03%. Repo agreements have contracted considerably (-89.93%) to 49 million, as have foreign currency loans, which fell 18.77% to 1,145 million. Advances declined by 5.94% to 412 million, while advances subject to collection decreased by 7.47% to 254 million.

Our collaboration with the Consorzi Fidi (loan guarantee consortiums) continued in 2013, representing a privileged way for many companies, especially SMEs, to access soft loans.

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 46 million, local or state-owned enterprises for 358 million and various other entities for 168 million.

TREASURY AND TRADING OPERATIONS

Stock markets

Despite the uncertainties, during 2013 the leading stock markets repeated and improved upon the positive results achieved in the prior year. Possible destabilising factors internationally – the conflict in Syria; strife within the USA concerning the growth of the national debt and the scale of government bond purchases, later moderated; the risk of Cypriot insolvency – only had a temporary effect on the market. The relative relaxation of macroeconomic tensions also helped, with good signs of recovery from many industrialised countries, excluding a number of not insignificant countries in the Euro area, while the slowdown in emerging countries was less than expected. Stability in Europe was facilitated by the very expansionary monetary policy adopted by the ECB, whose reference rate reached the historical low of 0.25% towards year end.

The leading stock markets rose significantly: Dow Jones Eurostoxx 50 Index, +17.95%; MSCI World Index, +24.10%; Standard & Poor's 500 Index, +29.60%; Nikkei Index, +56.72%. Even the FTSE Italia All Share rose by 16.56%. Concrete signs of a reduction in sovereign risk, induced in particular by the work on public sector finances, were reflected in the bond issues made successfully by peripheral European countries. This trend was supported by ECB action, which reduced the reference rate to a historical low in view of the current low level of inflation. As a result, Italy was able to overcome the persistent political uncertainties and avoid a reduction in rating. In this context, the yield curve on Italian issues shift down across the board, reaching a minimum in the monetary segment. The MTS CCT index rose 5.81% over the year, while the spread between 10-year BTPs and the equivalent German Bund was 217 basis points at year end, compared with a post-election maximum of 350 points.

Against this market background, investors exhibited a muted confidence that was reflected, in particular, in the performance of the asset management sector. Both the central and branch organisations of the Bank maintained a balanced approach, seeking to facilitate investment decisions that were consistent with the objectives and risk profiles of customers. On this basis and after intensive training of the personnel involved, a portfolio consultancy service was launched across the entire network.

The propriety of the Bank's activities in this area is confirmed by the very small number of complaints received during the year, which were dealt with promptly. The following comments relate to: the interbank market and corporate liquidity; the proprietary portfolio and its components. Volumes remained low in the market for interbank deposits during 2013 with a gradual contraction of the excess liquidity, as banks repaid the LTRO (Long Term Refinancing Operation) loans granted in the past by the ECB. Intermediaries continued to be concerned about counterpart risk, mainly restricting their operations to very short-term maturities: daily, with regard to the e-MID market; weekly, in relation to the collateralised New MIC market, where operations are backed by guarantees. Deposits placed with the ECB now earn essentially nothing. The Bank has two LTRO loans from the ECB outstanding at year end. Originally with a three-year duration, these loans total 1,800 million – 1,300 million due on 29 January 2015 and 500 million due on 26 February 2015 – and may be repaid early.

At 31 December 2013, the net interbank position reflected borrowing of 2,211 million, up by 237 million from 1,974 million at the end of 2012. This change essentially reflects the increase in financial assets held, as partially offset by the reduction in customer loans caused by a contraction in demand, despite the Bank's continued willingness to finance creditworthy households and businesses. Excluding the above LTRO loans reduces the net position to 411 million.

The liquidity situation is monitored daily over a three-month time horizon and has always been optimal. The stock of high-quality financial assets acceptable to the ECB was substantial at all times. Treasury activities on own account were as intensive as usual, with a preference for lending transactions, although down with respect to 2012, over funding transactions, which were up. The Bank maintained significant positions in the e-MID and New MIC markets throughout the year, with substantial volumes. In fact, according to statistics at December 2013, the Bank places third at national level for interbank volumes traded on the New MIC market.

The size of the financial portfolios continued to grow during the year, particularly as a result of the abundant liquidity available in the markets.

Engraved frontispiece with title

Etching, engraved part 264 x 420 mm., plate 271 x 425 mm.

At the centre of the engraving: *Prospectus / Magni Canalis Venetiarum / addito Certamine Nautico et Nundinis Venetis: / Omnia sunt Expressa ex Tabulis XIV / Pictis ab Antonio Canale, / in Aedibus Josephi Smith Angli, / Delineante atque Incidente / Antonio Visentini / Elegantius recusi Anno MDCCXLII.*

Lower left margin: *Ant. Visentini Inv. Del. et Sculpsit*

Lower right margin: *Angela Baroni Lit Sculpebat*

Stage II of 2

The Latin title, with the name of the two artists (Canaletto for the paintings, Visentini for the engravings) and the year of publication (1742), stands at the centre of the etching inside a baroque composition of figures and allegorical motifs that was interpreted well by André Corboz thirty years ago. Top centre, enclosed in the circle of the ouroboros, the snake that bites its own tail which is a symbol of the Earth, tied with a ribbon, two crossed trumpets, bay leaf and the caduceus (the winged rod of Mercury with intertwined snakes), all auspicious symbols of immortal fame. On the sides, the allegory of Wisdom (left) and Force (right). The first, on whose chest shines the sun of Justice, holds a lighted lamp, the sign of an alert mind, while holding a book on a shelf with the other. The second, with a helmet on his head, a creative symbol of mental strength, his foot on a quiver full of arrows and a club in his hand resting on the ground, is the personification of Creative Force that relies more on intelligence than on violence. The two figures both stand on a cornucopia of abundance and look at each other, a sign that they are complementary. In fact, together, Wisdom and Creative Force are an allegory of Venice. At the feet of one are the symbols of Art (brushes and palette), Music (lute) and Theatre (mask); at the feet of the other, those of Poetry (pen), Sculpture (hammer and chisel) and Architecture (square and compass). Below, there is the Lion of St. Mark, the supreme symbol of the Serenissima, with the sword, the Gospel, the corno ducale (the Doge's phrygian-style cap) and the scales of Justice. We are, in short, looking at a celebration of the glory of Venice, its virtues and its arts, of which this work and its authors form part.

Frontispiece with portraits of Canaletto and Visentini

Etching and engraving - engraved part 262 x 420 mm., plate 270 x 427 mm.

In the engraving, bottom left: *Antonius Canale. / Origine Civis / Venetus.*

Bottom right: *Antonius Visentini. / Venetus.*

Lower left margin: *Ex monochromate Io. Bapt. Piazzetta.*

Right: *Ant. Visentini Inv. Del. et Sculp.*

Stage II of 3

In the two ovals are engraved portraits of Antonio Canal ("Canaletto") and Antonio Visentini, the first being the author of the paintings from which the second made the engravings.

The portrait of Canaletto is taken from a monochrome by G. Battista Piazzetta, while that of Visentini is a self-portrait made specially for this engraving, as is clear from the two corresponding texts in the lower margin:

Ex monochromate Io. Bapt. Piazzetta (on left), *Ant. Visentini Inv. Del. et Sculp.* (on right).

In the first edition, the text on the left said ex monochromatis Io. Bapt. Piazzetta, which led many to think that both portraits had been taken from monochromes by Piazzetta. Precisely to avoid this ambiguity, in the second edition of 1742 Visentini corrected the plural (*monochromatis*) with the singular (*monochromate*).

The authorship of the engraving is also clearly indicated by the way that Visentini, as the author, is looking at the viewer in the self-portrait.

In the centre, between the two, there is the flame burning like a hearth, which is the alchemical symbol of the fire of passion needed to complete this work of art.

The Bank's portfolios of financial assets at 31 December 2013 total 6,803 million, +40.43%. The following table summarises the various amounts involved:

FINANCIAL ASSETS

(in thousands of euro)	2013	2012	Change %
Financial assets held for trading (HFT)	3,167,661	2,097,394	51.03%
of which, derivatives	68,755	94,241	-27.04%
Financial assets carried at fair value (CFV)	79,226	104,224	-23.98%
Financial assets available for sale (AFS)	3,373,245	2,438,074	38.36%
Financial assets held to maturity (HTM)	182,621	204,644	-10.76%
Hedging derivatives	–	–	–
Total	**6,802,753**	**4,844,336**	**40.43%**

As in the past, the portfolio largely contains domestic government bonds. The volume of these increased significantly during the year, given the attractive yields and better sentiment regarding Italian sovereign risk, as confirmed by the improved outlook. The overall short duration of these securities (less than 3 years) is a further indication of the limited risk involved. Key information about each portfolio is provided below.

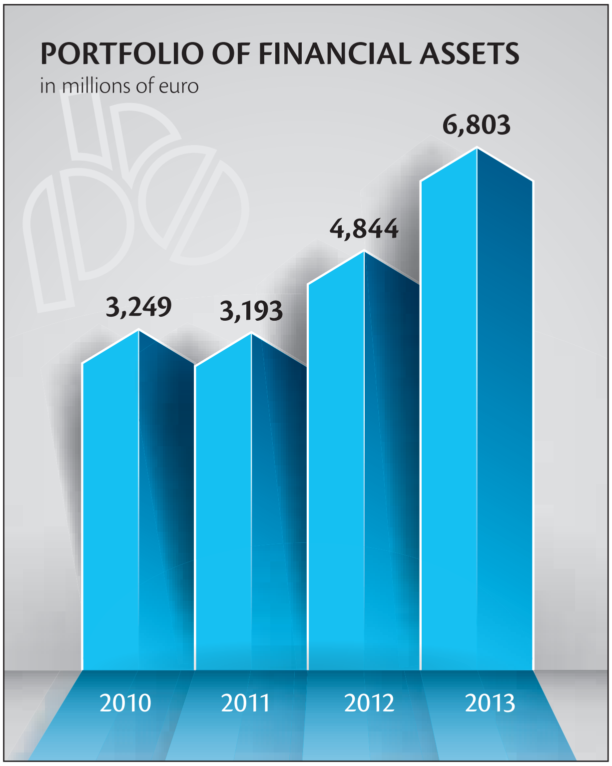
As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2013 these portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 6,047 million. The portfolios did not include any securities issued by peripheral countries within the Eurozone.

Financial assets held for trading

Financial assets held for trading (HFT), as shown in the following table, amount to 3,168 million and have increased by 51.03%.

(in thousands of euro)	2013	2012	Change %
Floating-rate Italian government securities	1,791,494	1,290,481	38.82%
Fixed-rate Italian government securities	1,036,683	346,064	199.56%
Bank bonds	153,291	253,373	-39.50%
Bonds of other issuers	19,083	21,448	-11.03%
Securitisations	33,804	38,424	-12.02%
Variable-yield securities and mutual funds	64,551	53,363	20.97%
Net book value of derivative contracts	68,755	94,241	-27.04%
Total	**3,167,661**	**2,097,394**	**51.03%**

The HFT portfolio largely comprises CCTs, representing 56.56% of the total. This is down in percentage terms – although up in absolute terms as a result of substantial purchasing – following the disposal of securities about to mature and the greater weighting of BTPs and BOTs.



The positive tone of the financial markets is reflected in the portfolio, both in terms of its value and with regard to the results of trading. In particular, unrealised gains totalling 43.267 million have been recognised, of which 38.583 million on CCTs, compared with unrealised losses of 3.406 million. Unrealised gains amounted to 67.731 million in the prior year, while unrealised losses totalled 3.221 million.

The net profit from HFT portfolio transactions was 81.399 million, compared with 133.629 million in 2012. «Net trading income», which refers to total fixed-yield securities, includes net trading profits of 33.102 million, unrealised gains of 43.267 million and unrealised losses of 0.879 million. We then have to add profits of 6.811 million and net unrealised losses of 0.902 million on variable-yield securities and mutual funds. In 2012, on the entire portfolio, we booked: net profits of 69.119 million; unrealised gains of 67.731 million; unrealised losses of 3.221 million.

As mentioned, the HFT portfolio continues to largely comprise CCTs, 1,791 million representing 56.56% of the total. Corporate bonds amount to 172 million, down by 103 million, of which 153 million relate to bank issues. Securities that are part of securitisations are all senior and have been reduced to 34 million as a result of partial reimbursements and sales. Fixed-rate Government securities has tripled to 1,037 million, following the purchase of BTPs and BOTs. Variable-yield securities and mutual funds, which are still marginal, have increased to 65 million, +20.97%. Derivatives have fallen by 27.04% to 69 million and comprise: derivatives on debt securities and interest rates, 48 million; derivatives on equities and equity indices, 1 million; derivatives on foreign currency, gold and precious metals, 20 million.

Financial assets carried at fair value

Financial assets carried at fair value (CFV) amount to 79 million, -23.98%. The change reflects the sale of CCTs totalling 30 million, representing the debt securities component, together with an increase in fair value by 5 million. This portfolio now solely comprises various types of mutual fund.

Financial assets available for sale

Financial assets available for sale (AFS) amount to 3,373 million, +38.36%, mainly following the purchase of CCTs, BOTs and BTPs, valued at 3,172 million at the end of the year. The increase confirms the Bank's determination to include securities in this portfolio that are not held with a view to immediate disposal. This approach seeks to limit, at least in part, the impact on the income statement of the volatility experienced by financial markets in recent years. The portfolio also includes fixed-yield securities of banks and other issuers of 63 million, variable-yield securities of 65 million and mutual funds of 73 million. A careful assessment has been made to detect any impairment that should be recognised in the income statement. The valuation reserve reported in equity includes the net change in unrealised gains of 25.441 million, after tax effect, which increased the year-end balance from 6.872 a 32.313 million.

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

The changes included: purchases of debt securities of 3,357 million, relating to government securities and bonds; increase on mutual funds of 65 million; increase in equities of 2 million; increase in fair value of 61 million, while other changes of 135 million comprise coupons, discounts and positive effects of accounting at amortised cost. Decreases included the disposal of fixed-yield securities of 2,293 million, equities of 6 million and mutual funds of 62 million. Redemptions totalled 225 million; impairment adjustments amounted to 13 million, of which 10 relates to the investment in Release spa, while the remainder relates to listed equities and mutual funds; transfers to other portfolios of 4 million relate to the interest held in Unione Fiduciaria, now classified as an equity investment following an increase in the size of the holding; decrease in fair value of 2 million. Other decreases, 79 million, reflect the collection of coupons amounting to 49 million, reclassifications from equity on disposals of 20 million, amortised costs of 2 million, disposaals of equities and the expiry of profit-sharing agreements of 3 million and reclassifications from equity of 2 million, together with the redemption of mutual funds of 1 million and reclassifications from equity of 2 million.

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

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

Founded on 14 October 1983, a few months after the law allowing the establishment of mutual funds, this company is in full health after thirty years of activity. Indeed, Arca SGR is among the most active and long-established asset managers in Italy.

These long-term operations and the constantly professional approach are reflected in the competitiveness of the services offered.

Over the past year, Arca SGR – given a «Triple A» rating by «Milan Finanza Global Awards 2013» – issued several mutual funds with coupons («Arca Cedola 2018 Obbligazione Attiva» and «Arca Cedola 2018 Paesi Emergenti Valuta Locale») that were well received by investors.

The company's results are positive.

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

Specific professional skills, functionally spread among the various members of the group, and the substantial volume of activity have consolidated the position of ICBPI as a leader in the domestic markets addressed. The volume of mutual business has been intense, involving various areas of activity.

Positive economic results are expected.

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

As a leading operator in the market, the company focuses constant attention on technological and product innovation. Services are provided to the many banks, including ourselves, that distribute CartaSi cards. Our collaboration includes the development of products with special characteristics of interest to the target clientele concerned.

Positive economic results are expected.

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

Steady growth of the assets under management confirms the ability of the company to combine ethical finance with an effective investment strategy, founded on responsible and sustainable principles. The company liaises with the selected issuers in order to encourage socially and environmentally appropriate conduct. Special recognition was given for this work in the context of the 2013 Sustainable Investor Award, organised by the Forum for Sustainable Finance.

The financial statements are expected to show positive results.

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

Caution in the financial markets during 2013 did not facilitate placements of this kind, with an inevitable impact on the activities of the company. A broad break-even situation is expected.

Financial assets held to maturity

The portfolio of financial assets held to maturity (HTM) amounts to 183 million, a decrease of 10.76% that was largely a consequence of redemptions.

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 2013, these securities are carried at 108 million, which is down 19.97% from 135 million in the prior year as a result of redemptions. They have a fair value of 102 million. The theoretical loss, before tax effect, therefore amounts to 6 million.

Asset management

The asset management sector performed well in 2013, supported by significant net inflows and the strong performance of the financial markets. Investors tended to prefer bonds and flexible products, while the growth of balanced lines and equity-based products was less dynamic. The monetary segment contracted, due to the low yields available. In this renewed climate of confidence, the Bank operated with transparency and prudence, having regard for the risk profiles and investment objectives of savers.

At the end of 2013, the various forms of asset management amount to 3,342 million, +8.40%. The mutual funds managed by Arca SGR have increased to 1,584 million, +11.54%. The other types of fund placed also performed well, including those of Popso (SUISSE) Investment Fund and Etica SGR, which increased in total to 400 million from 368 million previously, +8.80%. The assets managed centrally by the Bank increased by 4.85% to 1,358 million.

EQUITY INVESTMENTS

As usual for the Bank, the equity investments held mainly consist of companies that supply products and services that complement our normal commercial activities. 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, preferably agreed with other cooperative banks.

The equity investments classified as subsidiaries and associates are discussed in this chapter, while that on «Treasury and trading operations» deals with the principal minor interest held as financial assets available for sale (AFS).

At 31 December 2013 equity investments amount to 411.740 million, an increase of 13.103 million. The main increases refer to:
– an increase in the share capital of Alba Leasing spa;
– transfer from the AFS portfolio of the holding in Unione Fiduciaria spa following an increase in the size of the holding;
– coverage of the 2012 losses of Pirovano Stelvio spa.

The main decreases refer to:
– writedowns of the holdings in Alba Leasing spa, Banca della Nuova Terra spa and Pirovano Stelvio spa.

Subsidiaries:

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

Growth in volumes and the portfolio of customers confirms the ability of the bank to expand in the areas served, and therefore its ability to compete within the selective Swiss banking system. In particular, direct customer deposits have increased by 6% to CHF 2,976 million; loans to customers have risen by 5% to CHF 3,310 million, the large majority relating to home mortgages. Indirect customer deposits total CHF 2,366 million, +2%.

The bank reports profitability even though the rate situation, with those expressed in Swiss francs at historical lows, has penalised net interest income: net profit for the year, after appropriate amortisation and depreciation and prudent provisions amounted to CHF 2,050,000, +335%. While giving close attention to technological and organisational updates, the above results were achieved as a result of rigorous cost control and the rationalisation of the branch network.

In particular, the St. Gallen branch was merged with the Zurich main branch, while the city branch is now responsible for all activities in Basel. The representative in Neuchâtel has become a branch from 2014, while the Contact Center has changed its name to Direct Banking and become a virtual unit. Accordingly, this subsidiary now has 21 branches, including that in the Principality of Monaco and the virtual branch mentioned above. The quality and diversity of the commercial products offered are enhanced by the contributions made by Popso (SUISSE) Investment Fund Sicav and Sofipo SA.

Following allocation of the entire net profit to reserves, shareholders' equity now amounts to CHF 282 million.

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

Given the complex dynamics of the real economy, Factorit provides support to businesses of all sizes via targeted factoring packages. These also address the efficient management and guarantee of the receivables concerned, thus containing the related collection risks. This activity effectively complements, in terms of diversification and specialisation, those of the banking group in serving productive activities in the areas covered.

From the Church of the Carità to Punta della Dogana

Etching, engraved part 250 x 423 mm.,
plate 272 x 430 mm.

Lower margin: *Hinc ex Aede Charitatis, illinc ex Regione S. Vitalis usque ad Telonium*

Bottom right: *III*

Stage I of 5

A lost corner of Venice

The view, like the equivalent painting by Canaletto, is of great interest because it shows the original appearance of the fifteenth century Gothic church of Santa Maria della Carità, whose façade – after the complex's decline at the end of the 18th century and the heavy tampering in the early nineteenth century when it became the seat of the Academy of Fine Arts – today remains the bare arched tripartite structure with decorative hanging arches, whereas the three cusps which crowned the pointed arches, adorned with large rampant leaves and statues at the top, have been lost, along with a marble entrance portal and two long side windows with pointed arches. The decomposition of the façade had already begun at the time of Canaletto, whose painting is faithfully reproduced in this engraving, was already missing the statue on the right cusp and some pinnacles that were ruined in 1730. In 1744 the bell tower collapsed, triggering off the degradation of the entire complex in the second half of the 18th century.

The scene opens in the right foreground with the façade of the church and the Carità complex (now the Gallerie dell'Accademia) and to the left, on the opposite bank, with the Palazzo Cavalli in S. Vitale, continuing after the Church of the Salute, marked by its huge dome, to the Punta della Dogana, where they collected the teloneo, one of the five excise duties on goods in transit in the Serenissima, from which the customs complex took its Latin name, *Telonium*.
Today, the whole perspective in the foreground is profoundly changed after the creation in 1854 of the Accademia bridge (rebuilt in stone in 1934) between Campo Vidal, beside Palazzo Cavalli, and Piazzale della Carità.
The engraving, carried out around 1732, is here at stage I, where the water is drawn with fewer horizontal lines than in subsequent stages. It is this effect of clearer water in this stage that allows the shadow of the lateral façade of Palazzo Cavalli on the left to continue down to the lower edge of the engraving.
The equivalent painting by Canaletto and all of the ones from which Visentini made the 14 views for the first part of his album were sold in 1762 by Smith to George III of Great Britain and are now in the Royal Collection at Windsor Castle.

The entrance to the Grand Canal

Etching, engraved part 251 x 420 mm., plate 272 x 427 mm.

Lower margin: *Caput Canalis et Ingressus in Urbem*

Bottom right: *VI*

Stage I of 5

The view stretches from Punta della Dogana da Mar, towards Santa Maria della Salute, to the church of the Carità, of which you can see the bell tower and the three cusps in the distance.
There is an interesting juxtaposition between the deep perspective and the animated foreground with the entrance to the canal and the horizontal motion of the boats between the two banks. Two of these boats that stand out are the small rowing vessel and the gondola in the centre of the picture which guides our gaze and focuses attention on the spectacular succession of Baroque architecture on the left, from the small and elegant Loggia della Dogana, built in 1677 by Giuseppe Benoni, on which stands the short tower surmounted by two bronze *Atlases* by Bernardo Fancone which support a globe topped by a statue of *Fortune* that acts as a weathervane.
In the background, the monumental complex of the church of Santa Maria della Salute, whose construction began in 1631 in fulfillment of a vow for the end of the plague, was completed only in 1687, three years after the death of Baldassare Longhena, the great architect who designed it.

The Venetian gondola

The gondola, with its low elongated profile, is Venice's most typical and representative boat. Its name evokes the sweet, swinging pattern that it makes as it glides over the water.
Its origin is mediaeval, but it was in the 18th century that it reached its present form, as shown in this beautiful engraving by Visentini. Here, in the centre of the gondola, they have mounted a "felze", a small mobile cabin with side curtains to shelter from the cold in the winter or, in any case, to protect the occupants from prying eyes. The most characteristic and decorative feature, however, is the "comb" or iron prow-head, also for its symbolism. The six front "teeth" of the comb symbolise the six "sestieri" (districts) of the city, whereas the one at the back represents the Giudecca.
The arch above the front teeth is a symbol of the Rialto Bridge, while the upper part reproduces the shape of the Doge's hat. Lastly, the S-shape of the entire comb from top to bottom sums up the form of the Grand Canal.

The satisfactory volume of business introduced by the banking shareholders and other banks – we are still the principal intermediary for factored receivables – enables Factorit to maintain a leading position in the Italian market and confirms the professionalism with which the company works.

The net profit for the year was 19.352 million, following good growth over the year (+30.06%).

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

Constant efforts by this subsidiary, in terms of the quality and diversification of services, have not been appropriately rewarded. Results have inevitably been compromised by the prolonged nationwide contraction of tourism and, in particular, the skiing sector. These dynamics are reflected in the income statement, where a loss was reported.

Nevertheless, Pirovano continues to contribute to the enhancement of the Bank's image – not least via the numerous initiatives discussed in the chapter on Promotional and cultural activities – and that of the Stelvio area, whose unrivalled scenery merits greater attention from sector operators and the institutions.

Accordingly, we have re-affirmed our support for the company and the special environment represented by the Province of Sondrio, within which the Stelvio area is very important for its natural, cultural and sporting attractions. This is consistent with our mission, as a cooperative bank, to work in close contact with the territories served and facilitate their sustainable development.

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

The subsidiary provides operational support for the property requirements of the Bank and members of the banking group. In particular, it makes targeted purchases on favourable terms of properties to be rented to Group companies on arms-length conditions. Other services include the management and maintenance of the units concerned, to the extend agreed with each tenant.

The company's results are positive.

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

The financial statements show positive results.

Associated companies:

Unione Fiduciaria spa (24% formerly 18.309%). This company was founded and is owned by the cooperative banking movement. It acts as a trustee and provides fiduciary services to banks, financial intermediaries and other businesses.

Constantly among the sector leaders in Italy, this company has consolidated its position thanks to its independence and professionalism. The provision of specialist advice is a key activity, especially with regard to the regulations governing the banking and financial sectors, as well as the property and art sectors. Activities are supplemented by the services made available by affiliates, including Sofipo SA based in Lugano, as well as by high-level conferences and targeted publications.

The increase in this equity investment, involving the payment of 1.85 million, reflects the favourable valuation deriving from a reorganisation of the ownership structure and will help to ensure operational stability.

The financial statements show positive results.

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

Alba Leasing spa worked effectively during the year, significantly increasing the volume of new loans despite the contraction of the domestic market. In terms of the volume of business, the company ranks fifth at national level. The Bank's contribution is significant with regard to the referral of work and financial support. With regard to the latter aspect, during the year the Bank and all other shareholders subscribed to the capital increase of 70 million recommended by the company, involving the payment of 14.7 million.

In view of the loss reported for the year, this equity investment has been written down. The work performed in 2013 to rationalise the organisation and the cost structure, combined with the fresh resources made available, should enable financial equilibrium to be restored within a reasonable period.

Banca della Nuova Terra spa (19.609%). This bank specialises in lending to farmers and businesses active in the agricultural, food processing, environmental protection and renewable energy sectors.

Business remains affected by the adverse conditions affecting the primary sector, particularly with regard to the quality of loans and the reduction of the banking aggregates. Results were inevitably affected and a loss was reported.

The shareholders are evaluating alternative solutions. In the meantime, this equity investment has been written down.

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

Professionalism and the competitive nature of the company's products resulted in satisfactory net inflows during the year. The situation was facilitated by the buoyancy of the financial markets, which was reflected in the various forms of asset management. The volume of business referred by the Bank was good, including with regard to the loss insurance activities of Arca Assicurazioni. The financial statements show positive results.

Polis Fondi Immobiliari di Banche Popolari S.G.R.p.A. (19.60%).

This company promotes and manages real estate investment trusts. Sensible operating policies and a professional approach have enabled this company to cope with the prolonged contraction of the property market, not least via some diversification with respect to the company's principal activities. A profit was reported for the year.

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

The representative offices in Hong Kong and Shanghai provide effective advice and support to the company's banking shareholders and other banks, as well as to their customers and the businesses and institutions interested in examining the opportunities available in the Asian market. High-level work is also performed by the Milan office on the assessment of country risk, especially with regard to emerging nations, credit systems and credit institutions.

The company's bottom line is 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 10.34% of total loans to customers and banks and financial assets and 4.93% 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 2013, the Bank's corporate bodies decided the following transactions of greatest significance:

– Factorit spa, subsidiary; granting of an overdraft facility of 700,000,000 repayable on demand; revolving facility for advances of up to 140,000,000, available until revoked; renewal of lines of credit totalling 981,039,000 repayable on demand; and 500,000,000 repayable on 28/02/2013; resolutions of 31/01/2013;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal of lines of credit totalling 631,043,399 repayable on demand; resolution of 18/02/2013;
– Banca della Nuova Terra spa, associated company; renewal of lines of credit totalling 188,000,000 repayable on demand; resolution of 18/02/2013;
– Release spa, associated company; revolving facility for guarantees in favour of residents of up to 6,240,000, available until revoked; revolving facility for guarantees in favour of residents of up to 3,744,000, available until

revoked; revolving facility for guarantees in favour of residents of up to 1,248,000, available until revoked; renewal of lines of credit totalling 220,000,000 repayable on demand; resolutions of 12/03/2013;
– Factorit spa, subsidiary; revolving facility for advances up to 545,000,000, available until revoked; resolution of 26/03/2013;
– Falck Renewables spa, a company in which Federico Falck, a director of the Bank, has an indirect equity interest; sureties in favour of non-resident of 15,000,000, available until revoked; renewal of lines of credit totalling 26,502,830 repayable on demand; resolution of 14/05/2013;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; guarantee deposit of securities totalling 10,500,000, expiring on 01/04/2014; guarantee deposit of securities totalling 4,000,000, expiring on 01/11/2016; revolving guarantee deposit of securities up to 3,000,000, available until revoked; revolving guarantee deposit of securities up to 250,000, available until revoked; resolutions of 01/08/2013;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; guarantee deposit of securities up to 14,500,000, expiring on 01/04/2014; resolution of 06/11/2013.

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 2013 balance sheet or results with regard to the related-party transactions carried out during 2012; in any case none were atypical, unusual or not on market terms.

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

During 2013 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

In accordance with Article 84-quarter of Consob Regulations 11971 of 14 May 1999, as amended, we have prepared a separate compensation report on the remuneration paid to, and the shares of the Bank and its subsidiaries held by, Directors, Statutory Auditors, the General Manager and key executives (or by their spouses, unless legally separated, and their minor children), whether directly or through subsidiaries, trust companies or third parties.

The notes to the financial statements (Part H, «Transactions with related parties») also show the credit facilities granted to and guarantees given on behalf of Directors, Statutory Auditors and the General Manager, 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 role as a cooperative bank, focused on the needs of the territory we serve, is entirely compatible with the attention we dedicate to relations with the rest of the world. The readiness of our people to start and build relationships with foreign counterparts at the highest level underpins our ability to provide businesses with suitable support in global markets. In this way, we are able to respond effectively to ever increasing demand from grassroots level, especially from those small and medium-sized firms that have always been the focus of our attention.

The decision to invest and expand in this specialist sector has been justified many times over. Faced by the deep and persistent slump in domestic demand, many Italian firms have in fact sought new commercial outlets abroad, requesting for this reliable banking support, high-level services and the necessary financial assistance.

We are able to guarantee these firms precise and professional support, since our personnel do not improvise solutions, but apply the skills patiently accumulated over the years. Founded on a dense network of relationships and agreements covering the globe, our services have been diversified and expanded in order to encourage firms to grasp the opportunities available in foreign markets, as well as to provide custom responses, as far as possible, to the widely diverse requests received.

With a view to increasing awareness about the countries of greatest interest, while also developing experienced personnel within each firm, we have organised specific training courses on different aspects of international trade. These have been accompanied by numerous «Country Days» and meetings between operators and our contacts spread throughout the world. In this regard, we have formal correspondence relationships with banks in 159 countries, as well as 35 desks abroad.

We have invested heavily in the trade finance sector, which is strategic both for the development of our activities and for the successful internationalisation of those customers seeking to address the fastest growing geographical areas, where the risks are often high. Our offices are equipped with the latest technological innovations, while our personnel – always up to date – provide practical support to customers as well as the tools to hedge their risks.

The Single Euro Payments Area was officially launched on 1 February 2014, although payments not in SEPA format are allowed until 1 August 2014. This change has radically transformed existing payment and collection systems. Preparations, throughout the whole of 2013, have required efforts on multiple fronts, from the installation of an innovative IT platform capable of handling the change, to extensive training for our personnel, first of all, and then for our customers - businesses, bodies and institutions, including the international organisations active in Italy.

The international unit was active across the board during 2013, with a drive for quality in every sector. This commitment was translated into concrete action: speed of execution and operational flexibility; focus on innovation and improvement; constant analysis of operations to identify and correct any mistakes; careful assessment of the satisfaction experienced by counterparts.

Positive confirmation was received in this regard from the auditors of Det Norske Veritas, who carried out their periodic checks at the international unit and a number of foreign offices. Thanks to their contribution and the regular training of personnel, behaviours designed to optimise the internal organisation, develop competitive advantages in the reference markets and improve the image of the Bank are now an integral part of our business culture.

Our daily activities are able to count on the support and assistance provided by experienced international partners, in the context of reciprocal collaboration intended, in the final analysis, to guarantee the provision of effective and economic services to our business customers.

Servizi Internazionali e Strutture Integrate 2000 Srl plays an important role in this context. Via the representative offices based in Hong Kong and Shanghai, and the Milan office specialised in risk analysis, we have been able to deliver customised services to firms interested in exploring the new business opportunities available in the dynamic areas of Asia.

Thanks to CBE-GEIE, a European economic interest group based in Brussels, in which we are a leading partner, detailed information has been distributed about the activities of the European Commission and the various international and community financing programmes. CBE also provides a fixed point of reference for presenting loan applications and participating in competitive bids. In addition, numerous initiatives have provided local support, with meetings, roundtable discussions and training programmes for economic operators.

We have renewed the agreement that, for the past decade, has placed us alongside Promos, the international arm of the Milan Chamber of Commerce. This company has two key objectives: support the competitiveness

The Regatta on the Grand Canal

Etching, engraved part 250 x 423 mm., plate 272 x 430 mm.

Lower margin: *Nauticum Certamen cum Prospectu ab Aedibus Balborum, ad Pontem Rivoalti*

Bottom right: *XIII*

Stage I of 5

The Regatta

The regatta is one of Venice's most typical contests of strength. Its origins date back to 1300 and its name is possibly derived from auriga *or charioteer (hence* aurigata*), by analogy with chariot races, or perhaps from the fact that the boats started off the race in line (in* riga *or* rigata*). Various regattas took place in Venice, including a women's regatta and even a burlesque race of wheelbarrows on land, but the most spectacular ones were those that took place during the visit of kings and princes.*

The boats in the race started from the point at Sant'Antonio a Castello and rowed all the way up the Grand Canal to the Ponte della Croce, where they turned round the paleto *(pole) and rowed back down the canal until they reached the "machine", the lavish pavilion on barges with a colonnaded canopy – seen here in the foreground on the left – under which sat the three patricians who handed over the prizes to the four rowers who arrived first. The winner got a prize in cash, whereas the last to arrive got a live piglet.*

This view goes from Palazzo Balbi on the left, festively decorated, to the Rialto Bridge, which is just visible in the distance. It represents a moment of the famous regatta, the *Nauticum Certamen*, where the small boats are involved in the race, surrounded by larger spectator boats with six or eight oars (called variously bissone, peote, *margarote* and *balotine*), lavishly adorned by patrician families or by the art and craft guilds. From the windows of the palazzi adorned with flags, tapestries and carpets, the nobles and the ladies enjoy the show taking place between two wings of the crowd massed along the *fondamenta* of the canal.

Palazzo Balbi, which faces onto the Grand Canal, also marked the finishing line of the regatta, and as such, was its most spectacular background, depicted in many paintings. It was here next to the palazzo, on the rio, or narrow canal, that separates it from the adjacent Palazzo Foscari (out of view here), that they built the "machine" on a series of barges to create the massive stage where the prize-giving ceremony took place.

Despite its position in the sidelines, the baroque façade of Palazzo Balbi, perfectly detailed, still manages to dominate the entire animated scene in the foreground.

This plate, carried out around 1734, was the last of this first series, engraved by Visentini together with that of the Festa del Bucintoro, during which the Regatta took place.

The Bucentaur on the Feast of Ascension

Etching, engraved part 251 x 422 mm.,
plate 272 x 427 mm.

Lower margin: *Bucentaurus et Nundinae Venetae in die Ascensionis*

Bottom right: *XIV*

Stage I of 5

In the Basin of San Marco, in front of the Doges' Palace and the entrance to the great square of the Basilica, gondolas and boats crowd around the Bucentaur, the sumptuous galley of the Venetian doges, which is docking at San Marco on Ascension Day after returning from the port of San Nicolò al Lido where the doge threw a wedding ring blessed by the Patriarch of Venice into the water to celebrate the traditional marriage of Venice with the sea.
On the bank, we can see the 16th century Library building on the left (now the Marciana Library), which was designed by Jacopo Sansovino and Vincenzo Scamozzi, behind which stands the tall bell tower of San Marco. At the centre of the bank, there are the two tall columns leading to the Piazzetta, one with a statue of St. Theodore, the first patron of the city, the other with the Lion of St. Mark, and on the right the Ducal Palace with its façade in shadow. In the background the great Basilica and the Clock Tower. The corresponding Canaletto painting, now in the Royal Collection at Windsor Castle, is one of the most successful he ever did on this subject, for the perfect chromatic balance between the foreground and the various types of architecture that turn it into a theatrical set, in which the Bucentaur stands out with its long purple-red lining and the huge flag waving above it. In the black and white of the engraving, on the other hand, it is the large galley that closes the whole composition on the middle right.

The Bucentaur

The Bucentaur pictured here is the one built in 1729 by Michele Stefano Conti, the most sumptuous of Venice's entire history. It survived until 1798, when the French, after occupying the Serenissima, decreed its demolition after removing anything made of gold. Today part of its remains survive in the Correr Civic Museum and part at the Arsenale, where historically the Bucentaur was kept in dry dock after the festa, once its decorations had been removed. The name derives from borcio d'oro *(or* burzino d'oro *in Venetian), meaning a lagoon vessel covered in gold, and not from the legendary Bucentaurus, a human creature with the body of a bull, as mediaeval legend would have it. On the bow of the Bucentaur there was a figurehead symbolising Venice in the form of Justice. The solemn parade of the Bucentaur, on Ascension Day, closed the cycle of the* Nundinae Venetae, *the nine days of festivities and markets that Visentini mentions in the title of his etching.*

and development of Lombardy businesses in international markets; strengthen the ability of the regional system to attract foreign investment.

The accord with ICE stands out among the new collaboration agreements signed. The task of this Agency is to promote Italian economic and commercial relations abroad, with a particular focus on the needs of SMEs and their consortiums and groupings.

Contacts with the Italian Chambers of Commerce abroad have also been intensified, partly via our official membership of their association, Assocamerestero, which unites the 80 Chambers present in 54 countries, with 24,000 business members.

Global Compact

Lastly, we are «active» participants in the «Global Compact» project, which is an important UN initiative designed to promote universally recognised principles in the areas of human rights, employment, the environment and the fight against corruption. Our «Communication on Progress» included a description of the principal activities carried out by the Bank in the area of social responsibility, indicating the progress made thanks to: the adoption of a code of business ethics; full compliance with the domestic and international regulations governing money laundering, as well as the fight against terrorism and corruption; our respect for human rights and the principles of environmental protection.

SERVICES, PROJECTS AND STRUCTURE

Sales and Marketing

The dynamism expressed by the Bank via the reasoned expansion of the branch network is fully reflected in the effectiveness of our commercial actions. The validity of the products offered and the quality of the services provided, both to the private sector and to the institutions that represent our local communities, give meaning to and justify the investment made in each territory. As a result, we have been able to expand our share of the business available.

SCRIGNO

The efficiency of the SCRIGNO telematic channel is notable and the growth in its use confirms the approval expressed by individuals, businesses and entities.

Timely updates to the catalogue of products, organised by the competent functions within the Bank in collaboration with our affiliates, help to optimise our competitiveness. The professionalism and readiness to assist of our people are distinguishing characteristics of this service, founded in our traditions and passed on to new generations.

Asset management

The commercial range is primarily designed to satisfy the needs of savers, via clear and balanced proposals. With this objective in mind, we have expanded the range of asset management products to include «GPM Obbligazionaria Inflation Linked», focused on bonds linked to the rate of inflation, and «GPF Dinamica Bilanciata 30% Valori Responsabili», whose underlying assets belong to issuers that work in accordance with ethical principles, respecting – among others – social values and the environment.

Arca SGR has launched «Arca Cedola 2018 Obbligazione Attiva» I, II, III, IV and «Arca Cedola 2018 Paesi Emergenti Valuta Locale» I, II and III. These mutual funds paying a coupon have been well received by investors. «InvestiTime 3x2 - Placement dated 6 February 2013» and «InvestiTime 2.25 – Placement dated 20 May 2013» are Sector I insurance policies written by Arca Vita. They have similar characteristics to the mutual funds mentioned above – capital protection and periodic coupons. This company has also launched «Arca Rendita Sicura», which provides an immediate annuity on payment of a single premium.

Arca SGR
Arca Vita

In the loss sector, Arca Assicurazioni has presented RiparaCasa New, which updates the existing policy by offering optional cover for earthquake risks. To celebrate its 10th anniversary, Etica SGR offered favourable terms for subscription to its Valori Responsabili capital accumulation funds.

Arca Assicurazioni
Etica SGR

PRESTIplus and PRESTIpolizza are innovative products that improve and increase the flexibility of the personal loans made available to consumers.

PRESTIplus
PRESTIpolizza

«Milano Finanza Global Awards 2013», a prestigious event organised by Milano Finanza, an authoritative daily newspaper, once again reserved flattering recognition for the Bank and our Chairman. As a bank, we received the «Creatori di Valori» award, taking first place nationally in the Lombard rating of medium-sized businesses. Our Chairman, Piero Melazzini, received the «Guido Carli - Banchiere Retail» award for «never having deviated from the behaviour expected of a little big territorial bank».

Milano Finanza
Global Awards

Central offices

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

SOSI (systems and IT) is responsible for the business systems and technology used by the Bank, a role that requires an ability to innovate, in addition to significant investment, professionalism and long-term commitment. Changes are planned and implemented in rapid succession, with a view to improving operational efficiency and implementing, on time, the new regulations that are imposed on the banking system with growing intensity.

SOSI

Examples include the new front desk procedure that enhances the operational and commercial functions available; the availability of advice for stock trading activities, designed to enhance the awareness of investors; the attention paid to multi-channel integration. With regard to regulatory matters – covering anti-money laundering, banking transparency, the processing of personal information and investment services – the SEPA-Single Euro Payments Area project, regarding retail euro payments not made in cash, has absorbed considerable resources. In terms of business continuity, the annual comprehensive test of the recovery plan was completed successfully.

The *Public Entities and Treasury Offices* service provides concrete evidence of the quality of our work, offering professional treasury, cash

Public Entities and
Treasury Offices

management and collection services to public institutions, in particular, including some of national importance. The increase in the number of mandates confirms the competitiveness of our proposals that, nevertheless, are designed to facilitate – in terms of operational efficiency – relations between the community and the institutions active in the local areas concerned.

Following a targeted update, the services provided via SCRIGNOGesTes, the IT tool made available, now include electronic invoicing since this will soon become obligatory in relations between the PA and suppliers.

Virtual Unit

The *Virtual Unit* specialises in the provision of remote-access services, mainly to professionals. This consolidates the business and spreads our name in geographical areas not directly served by branches. The Unit is supported by effective technology and, most importantly, by the professionalism of our personnel, whose activities also include management of the related call centre in a pro-active and polite manner.

Corporate Finance

The *corporate finance* service has continued to assist customers with the restructuring of their liabilities, not least in order to overcome the financial difficulties caused by the macroeconomic situation. In order to finance new investment projects, we have implemented a new funding channel represented by the issue of mini-bonds. This tool is very common in Anglo-Saxon countries but, until now, has only been used in Italy by larger companies.

We have also effectively assisted institutional investors, especially those active in the private equity field, to meet their short-term financing requirements. Lastly, the service collaborates with functions within the Bank on the analysis of special transactions involving our affiliates.

Planning and Control Department

Given the persistence of the economic downturn, the *Planning and Control* department has been working especially hard to refine the effective analytical tools and methodologies needed to help senior management understand the economic and financial position of the Bank, and its exposure to the various categories of risk.

The department lies at the heart of the system of internal controls, given its responsibility to report internally and externally on the estimates of profitability, net of risk factors, the level of capitalisation and the liquidity situation over the short-medium term. The way we monitor these parameters is subject to constant scrutiny by the Bank of Italy, with which the department interacts on a privileged basis during the periodic inspections, as well as via the submission of data and information used for supervisory purposes.

This role of support and interaction in dealings with the Authorities is being confirmed, strengthened and extended in the context of the Asset Quality Review, which involves making new contacts, not least with the European Central Bank.

The department monitors with great care the changes in the regulatory landscape, which are increasingly frequent with ever more complex implications. The flood of often unaligned regulations governing the systems of control and prudential supervision, both at domestic and international level, means that our personnel are challenged by the not-so-easy task of assimilating the changes and then implementing them. As a consequence, the scope of their responsibilities and activities has already been broaden considerably. This process is continuing as the regulatory environment evolves.

The professionalism of the department, both individually and collectively, founded on solid specialist skills, provides assurance that it will successfully tackle the pressing and challenging tasks visible on the horizon.

Technical, Health and Safety Department

The *Technical, Health and Safety* department looks after the structural needs of the Bank, both via the development of new locations and by modernisation and maintenance work. Considerable effort resulted in the completion of 28 projects during 2013, with 14 still in progress. All work is carried out in accordance with the health and safety regulations, paying close attention to the functionality of the environments created and the containment of costs.

The Bank's properties extend over 142,367 sq.m, including 4,977 sq.m operated under finance leases, with a total volume of 439,680 cu.m. The land owned by the Bank has a surface area of 78,773 sq.m.

The carrying amount of the owned and leased property, net of accumulated depreciation, is 107.895 million and 29.879 million respectively. Additions to owned property for purchases and restructuring in 2013 amounted to 22.495 million, while decreases for depreciation came to 3.397 million; new finance leases totalled 0.058 million, while depreciation amounted to 1.019 million. The market value of the Bank's property reflects significant unrealised capital gains. We own 46 buildings and 60 units in condominiums. Banking operations are carried on in 76 properties owned by the Bank and in 398 leased premises, including 4 held under finance leases.

Security

The contribution made by the *Security* department is particularly important. Working with other central functions, this group seeks to enhance the physical security of personnel and assets, as well as the IT security of banking transactions. Maximum attention is given to the prevention of both raids on branches, principally via the installation of systems for protection and dissuasion, and telematic fraud. Both these areas are key concerns for the entire banking system.

Supply Office

The *Supply Office* ensures the availability of logistical support and supplies, constantly seeking to improve the relationship between the quality of the goods and services acquired and their cost.

This attention to efficiency extends to the management of properties, file archives and various other activities that require appropriate IT and organisational procedures, in full compliance with the related regulations.

Legal and Claims Department

The *Legal and Claims* Department continues to deal with the issues arising from the lines of credit granted, such as the preparation of legal deeds for the recovery of loans and the management of creditors' arrangements. The number of the latter has increased considerably following changes in the related legislation and that governing debt restructuring agreements. The basis and timing of the agreement and enforcement procedures continue to place an unacceptable burden on the creditors involved.

The professionalism of the department is confirmed by the expert advice provided to the Bank's central and peripheral offices and, not least, in the relations maintained - on a proper and timely basis - with the Authorities involved in verification work of various kinds.

Compliance Unit

As part of the system of internal controls, the contribution and work of the *Compliance Unit* has intensified following the strengthened and expanded role envisaged for it under recently-revised regulations, especially with regard to the governance of legal and reputational risks. The Unit strives to prevent and mitigate these risks, not least to consolidate the culture of regulatory compliance and control at operational level.

In this regard, specific attention is paid to the number of complaints received about our investment services - particularly low and promptly handled, the management of conflicts of interest, the transparency of banking services and, more generally, the consumer protection rules. These activities are carried out in collaboration with the other control functions, not least with a view to facilitating the necessary cohesion between the propensity to accept risk and real needs of customers on the one hand, and the Bank's commercial policies on the other.

Anti-Money Laudering

The *Anti-money laundering function* seeks to prevent and combat laundering transactions and the financing of terrorism by customers. This function, as a centre of expertise on this delicate subject, is responsible for monitoring the controls on parties, accounts and transactions carried out every day by the banking network, which is kept constantly alert and informed about the issues involved.

Once again, the anti-money laundering function provided valid support for the uniform application of the relevant regulations during 2013, especially with regard to those that are difficult to interpret or apply in practice. While ensuring that the required checks are carried out and that significant events - as defined in the latest regulations - are recorded, the function also promotes the action needed to strengthen the internal system of deterrents and controls over this phenomenon. Significant contributions have also been made to the harmonisation of control standards and practices within the Group, not least by coordinating the guidelines given for the mitigation of laundering risks in the various operational contexts.

Internal Audit Department

The delicate functions of the *Internal Audit* department include the assessment of operational processes in order to identify and contain the related risks, in the context of the wider system of internal controls; no less important, as a third-level control, are the checks carried out on the functioning of the specific second-level controls required by the regulations, such as risk control, anti-money laundering and regulatory compliance.

The central and satellite audit offices work at the central and branch-level operating units to check their compliance with the internal and external regulatory frameworks, both of which are subject to constant change. Activities during 2013 involved 560 on-site and remote inspections, of which 87 were carried out together with the Board of Statutory Auditors.

Audit work also extended to various members of the banking group, covering numerous important areas with a view to consolidating collaboration and discussions - respectful of the different roles - designed to identify and implement the best operational practices.

RISK MANAGEMENT

With regard to the credit risk arising from exposure to ordinary customers, the parent bank has used internal rating models to estimate the PD since 2007. The following segments are covered: Private Customers, Small Business, Micro Businesses, SMEs, Large Enterprises and Public Enterprises. This analysis is supported, for all credit risk, by internal models for EAD/ LGD.

The project to create a new departmental database, started in 2012, was finalised during the year with a view to meeting the analytical needs of the Risk Control function and facilitating the recalibration and re-estimation of the risk models. The operational segmentation of risk has also been redefined, in preparation for a complete overhaul of the rating and LGD models. This process commenced at year end and is still in progress. A gradual approach is being adopted, starting with the corporate customer portfolios before looking at retail customers. At the same time, a new supporting IT infrastructure has been put into production in collaboration with the IT department.

This project is particularly challenging for us. Nevertheless, it is required in order to improve and align the systems concerned, which are of fundamental importance to the management and operations of the Bank. Furthermore, their use may well have regulatory implications and, in future, might have to be approved by the Supervisory Authorities.

Again with regard to the regulatory environment, an ongoing ICAAP project is addressing the interest-rate risk on the banking portfolio. In particular, the current accounts (deposits and loans) and demand deposits in euro of the Bank's ordinary customers are being allocated to re-pricing bands based on the results of internal statistical modelling, rather than by using the simplified model indicated in Bank of Italy Circular 263/2006.

The meaningfulness of the underlying decisions required for implementation induced us to develop the model in accordance with the indications provided by the Supervisory Authorities. We have also sent them detailed notes on the methodology adopted and decisions taken, together with the estimates made.

At the same time, we also applied the ALM procedure to measure for operational purposes, using a static analysis, the interest-rate exposure of the financial statements as a whole.

The analysis of average financial duration provides a measure of the immediate change in the net value of assets and liabilities in the event of a 1% increase in interest rates: the monthly analyses for 2013 averaged -86.149 million; the last measurement at 31 December showed a historical maximum of -99.443 million. The increase since the end of 2012 (75.641 million) reflects the purchase of additional fixed-rate and other securities, for both the bank book and the trading book.

The analysis of mismatches measures the potential change in net interest income for the year in the event of a 1% decrease in interest rates: the monthly analyses for 2013 averaged -113.114 million; the measurement at 31

December showed a figure of -61.577 million. The large reduction evidenced by the most recent figure reflects an update of the estimated viscosity of demand items at the last stage in the decline of market rates.

The scenario analysis provides a measurement of the difference between the future net interest margin for the next twelve months after the calculation date in the best and worst case scenarios: the monthly analyses for 2013 averaged -59.982 million; the measurement at 31 December showed a figure of -11.457 million.

As regards the credit risk (counterparty and issuer) involved in the financial activity, as always, we have carried out daily measurements of capital absorption and maximum capital absorption, which we calculate by weighting drawdowns and lines of credit by means of coefficients linked to the credit worthiness of each counterparty/issuer. The following were also identified: the maximum credit, weighted as above, granted to individual counterparties/issuers or groups of counterparties/issuers (individual counterparty risk); the total weighted lines of credit granted to the top ten individual counterparties/issuers or groups of counterparties/issuers (concentration risk); the total lines of credit granted to counterparties/ issuers from the same nation (excluding Italy), weighted by the macroclass to which that nation belongs (country risk).

This information is set out in the following table.

(in thousands of euro)	**31/12/2013**	Average	Minimum	Maximum	Limit
Capital absorption	84,909	77,920	67,037	107,852	110,000*
Maximum capital absorption	270,870	267,910	260,592	271,963	275,000
Individual counterparty risk	16,080	15,947	15,000	19,740	16,500
Concentration risk	101,190	100,573	96,030	105,300	110,000
Country risk	22,722	22,722	22,722	22,722	27,500

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

The limits, unchanged since the end of last year, have always been respected except, in late March/early April, for that regarding the weighted exposure to the most significant borrowing group. The situation was influenced by a rating downgrade and was gradually corrected via a reduction in the nominal value of the lines of credit granted.

With regard to the market risks associated with the trading book, the VaR limit was only exceeded three times in relation to the exchange-rate exposure of the financial statements taken as a whole. This reflected the increased volatility caused by the sudden weakness of the Swiss franc in mid-January, and was resolved by a reallocation of the limits concerned. Aside from this, the most critical moment (in relative terms) arose after the political elections when the consequent uncertainty raised the capital absorption - obtained by converting the daily VaR into a period VaR, considering the number of trading days until the end of the year, and adding the absolute value of net losses and any net unrealised capital losses identified since the start of the year – to a maximum of 94.762 million on 26 February, compared with the unchanged Maximum Acceptable Loss of 120 million, following a jump of more than 40 million. The emergence of almost 16 million in unrealised losses on securities was accompanied, in fact, by an increase of 24.5 million in the maximum loss to the end of the year; however the overall VaR remained with its daily limit. After exceeding the limit on price risk on three consecutive occasions, the related threshold and the total were both raised.

With specific regard to the derivatives monitored, their exposure to market risks was reflected in an average VaR over the year of about 252 thousand, with a maximum of close to 1 million.

The system for calculating the cash management margins, using internal transfer rates supplemented by the cost of liquidity, will be used for management control purposes from 2014.

Based on the capital projections contained in the internal development plan, a funding plan has been devised. Considering the expected new volume of business over the year and the related expected maturities, it is possible to forecast the financial structure at the end of the period. This is compared with the starting position and the Bank's objectives, resulting in the adoption of any corrective measures that may be needed.

Following an initial feasibility study, work commenced on a programme for the issue of covered bonds guaranteed by residential mortgages. This should be implemented during 2014.

With regard to the monitoring of short and medium/long-term liquidity risk, the work to check and reorganise the processes concerned – started at the end of 2012 – was continued during the year. This work included revising and expanding the indicators monitored and the summary schedules produced, as well as creating a General Regulation on Liquidity Risk that pulls together and replaces the previously separate documentation.

The revisions firstly addressed the early warning indicators (now defined in the General Regulation) used to highlight any signs of difficulty in the structural liquidity of the Bank and the Group, with particular reference to the concentration of funding and the transformation of maturities. The following aspects were considered: the concentration of funding in terms of maturity and type of customer, the loan to deposit ratio, usage of the securities portfolio available for guarantee purposes and the funding ratio, represented by the ratio of loans to deposits maturing beyond 1 or 5 years.

This list of contingency indicators monitored every day was also revised and supplemented, with a view to identifying early any signs of stress or crisis in the liquidity of the Group or the market.

With regard to the revision of our internal regulations governing liquidity risk, the various pre-existing documents were combined in a General Regulation. This has amended and replaced the «Regulation for the management of liquidity risk», the «Liquidity risk emergency plan», and the documents that established the thresholds of attention in relation to the contingency indicators and detailed the principal assumptions underlying the stress analyses performed on the liquidity positions identified. By addressing matters previously considered separately, the General regulation on liquidity

View from Santa Croce towards the Church of the Discalced ("Scalzi")

Etching, engraved part 248 x 419 mm.,
plate 269 x 428 mm.

Lower margin: *Prospectus ab Aede S. Crucis ad P.P. Discalceatos*

Bottom right: *2*

Stage I of 4

In the right foreground, the façade of the Church of Santa Croce. In the background, again on the right bank, the dome of the Church of San Simeone Minor, while the Baroque façade of the Church of the Discalced can be seen on the other side. All of the buildings on the left bank, between the foreground and the Church of the Discalced, which marked the *fondamenta* of St. Lucia, have since been demolished to make way for the new railway station.

As in the corresponding Canaletto painting, also in the perspective depth of this etching, the various buildings get miniaturised and what stands out is the animated movement of the boats and gondolas along the two banks of the canal. Here in the foreground we see the gondola with its felze to protect passengers, especially in the winter, heading in the direction of a larger boat with a cabin loaded with merchandise. To give the passengers more room to move around, this boat does not have any rowers and is being towed by the smaller boat in front of it, to which it is attached by a rope.

The Rialto Bridge looking east

Etching, engraved part 251 x 420 mm., plate 272 x 428 mm.

Lower margin: *Pons Rivoalti ad Orientem*

Bottom right: *8*

Stage I of 4

The Rialto Bridge stands at the centre of this view with its beautifully harmonious single-span architecture delicately decorated with a balustrade and the rows of shops bordering its three internal stepped walkways linked at the centre by arches. In front of it, anchored on both banks of the canal, large cabin or covered boats used for the transportation of goods to commercial emporiums around the bridge, but also gondolas that ferry important people between the two sides. Of the various buildings, one that stands out in the right foreground is the beautiful façade in the sun of the 16th century Palazzo Dolfin-Manin designed by Jacopo Sansovino, now the offices of the Bank of Italy.
In this very close-up perspective, the multitude of boats in the foreground and the many buildings on the two banks do nothing to detract from the admirable descriptive clarity of every minute detail and the lively atmosphere of the whole. The painting by Canaletto, which is faithfully reproduced in this engraving, is now at the Jacquemart-André Museum in Paris.

The Rialto Bridge

The Rialto Bridge, originally made of wood, was rebuilt in stone in 1591. Its construction cost the Republic 250,000 ducats and until the mid-nineteenth century it was the only bridge that connected the two parts of the city. Because of its depth (Rio Alto *means deep channel), this place formerly served as the city's canal port. This explains why the most important commercial emporium concentrated there over time, turning the two banks into a single, large commercial system. This feature was visible in the daring architecture of Antonio da Ponte, which we still admire today, a single large arch 28 metre long and 7.5 metres tall, divided into three stepped walkways between two rows of shops.*

Bookshops and printing houses also concentrated around the bridge, making Venice the capital of the European book trade and of the art of printing.

risk sets out a comprehensive approach to the monitoring and management of this type of risk, both under normal conditions and at times of stress or crisis.

Lastly, multiple regulatory changes introduced over time have required amendments to the calculation and presentation of the relevant «Basel 3» indicators, being the LCR (Liquidity Coverage Ratio) and the NSF (Net Stable Funding Ratio), in order to satisfy the requirements of the Supervisory Authorities.

The Planning and Control department has intensified its collaboration with the enlarged monitoring unit established within the Loans department. This unit monitors the largest exposures, «major risks» and related parties, assesses profitability as adjusted by the risk inherent in large lines of credit, monitors the exposure to banking and financial counterparts, acts as a centralised rating desk and provides a closer check on the principal indicators of deterioration in the loans portfolio.

Work during the current year on the project to gather, monitor and analyse the operational losses actually incurred has defined and developed statistical methodologies designed to appropriately estimate the exposure to operational risks. This has involved identifying and using data on the internal and external losses incurred by those members of the DIPO observatory whose risk profiles are similar to that of the Bank. With a view to establishing a process for the management of operational risks that best adapts to changing business realities, work commenced at year end on an assessment of the quality of the procedures and processes in place to monitor and contain risk, and of their compliance over time with current regulations.

The seventh annual comprehensive test of the business continuity plan was carried out successfully in early December 2013. The test was carried out at the alternative site in Lecco, where the local branch of the Bank maintains the necessary facilities. As usual, the verification work covered the typical functions of key banking processes in the areas of financial services, treasury management for institutions, international business and payment systems. As regards the disaster recovery plan, tests were carried out successfully during the year, with periodic testing of data recovery and the verification of operations relating to the different components of the bank's information system: mainframe, internet/intranet services provided by the departmental systems housed at the Bank's server farm, certification of the telematic networks and local workstations.

As required by the 9th update of Circular 263 dated 27 December 2006 «New supervisory instructions for banks», published by the Bank of Italy on 12 December 2011, which revised Title V – Chapter 5 on «Risk activities and conflicts of interest with related parties», the meeting of the Board of Directors held on 15 May 2012 approved a policy document, applicable to the entire banking group, on the internal controls for the mitigation of these risks.

This document, entitled «Regulation for managing the risk of conflicts of interest with related parties», establishes guidelines for defining how tomanage transactions with related parties and those associated with them, together referred to as «related parties»; the instructions will be reviewed at least every three years and kept available for inspection by the Authorities, if requested.

This document, presented to the Shareholders' Meeting held on 27 April 2013, has not been amended since and is available (in Italian) on the Bank's website at the address www.popso.it/assemblea2014.

HUMAN RESOURCES

Our work is based on relationships; on thousands if not millions of relationships with members, customers, other banks, financial intermediaries and the multitude of counterparts we are in contact with every day. All these relationships are explained by and founded on the reliability and good name of the Bank, both values that are essentially in the hands of our personnel. Our staff are responsible for building trust in the Bank, involving new members, expanding the customer base and consolidating established relations, by providing quality services that meet the specific expectations of each counterpart.

In other words, our people are the life blood of the Bank, embodying the distinctive characteristics that justify the preference expressed by the public. This is why we need human resources whose style and spirit of service are combined with a balanced and prudent approach, thereby helping customers to make aware decisions consistent with their personal profiles and needs, especially in the financial area. The overall objective is to maintain these relationships over the long term, applying a proper and transparent approach that assure mutual satisfaction.

The careful selection of recruits gives continuity and new energy to our operations and business culture, supported by advanced training programmes and the functional management of the staff within each unit comprising the Bank's central and branch-level organisation. The personnel department performs this work with great care, skill and commitment, thereby making an important contribution to the competitiveness of the Bank.

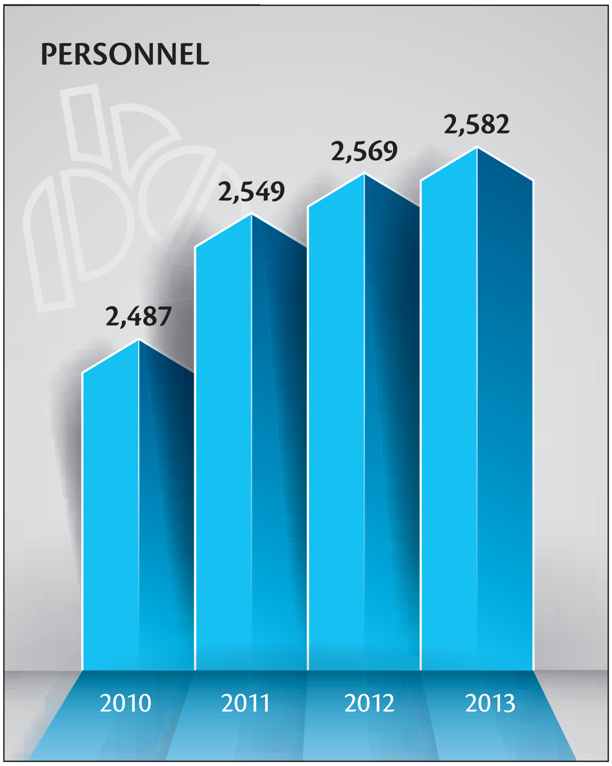
At year-end the workforce consists of 2,582 persons, an increase of 13, +0.51%. 22.93% of employees worked in the branches and 77.07% at the central offices. The average age of employees (38 years and 5 months) and their average length of service (14 years and 5 months) have increased by 8 and 10 months respectively.

The personnel department makes every effort to support the general objective of the Bank to grow by internal means.

The professional growth of employees is achieved by means of varied experience at branch level, where the principal skills are acquired both alongside more expert colleagues and by targeted job rotation, as well as via intensive training in the classroom and using multimedia tools.

Classroom activities involved the delivery of 55,510 man-hours of training to 1,878 participants during 2013, while 2,477 employees dedicated 38,417 man-hours to multimedia courses.

The classroom training mainly related to operational matters, such as



lending (investigation, guarantees, management and control of outstanding loans), the management of treasury services and communicating with customers, for branch tellers. As envisaged by IVASS Regulation 5/2006, the courses on regulatory matters included coverage of the insurance broking forms. These courses were attended by both new employees and those already authorised to operate. The training also addressed the anti-money laundering and anti-terrorism requirements, as well as banking transparency.

The multimedia courses principally addressed the banking regulations, such as privacy, usury and health and safety at work, as well as the anti-money laundering and transparency aspects already mentioned.

The training of new recruits involved 220 persons during the year and consisted of five modules, each lasting one week, that covered the organisation of the Bank and branch activities; teller operations and communications with customers; commercial products and services; lending and international; investment services. In addition, 9 branch managers participated as tutors on the training courses envisaged by the regulations that govern professional apprenticeship contracts.

Lastly, there was significant participation – 308 technical high school and university students drawn from the territories in which the bank is present – in internships both at branch level and at the central offices. Some of these were organised in collaboration with the Lombardy Region's Internship Desk.

Relations with the trade unions continue to be based on reciprocal respect.

PROMOTIONAL AND CULTURAL ACTIVITIES

The ties between the Bank and its territories underpin our long-standing commitment to the promotion of the culture, art, history, traditions and natural wealth of the areas in which we operate.

While this commitment represents a dutiful gift to those communities and places that saw us form and helped us to grow and develop, it also represents a way to understand even better the mould that formed our identity as a cooperative bank.

The promotional and cultural activities carried out year after year have deepened our ties with the areas served. The wealth created, not so much in terms of works of exceptional value, but rather by the pervasive testimonials emanating from a collective spirit, is also available to the general public thanks to the Internet. Related to this, our website nonsolobanca.popso.it provides wide-ranging information and analysis on matters concerning Valtellina and Valchiavenna, not least as support for tourism there.

The activities carried out during 2013 are discussed below.

We contributed with particular pleasure to the solemn beatification – on 15 April 2013 in piazza Garibaldi, Sondrio – of don Nicolò Rusca, the archpriest of Sondrio from 1590 to 1618, the «pastor bonus» who died under torture defending the catholic faith. A large image of him was placed above the main entrance to our head office and Notiziario, our in-house organ, published an interesting article about him by don Saverio Xeres in issue 120, December 2012.

The annual programme of conferences was opened on 17 May 2013 by professor Alberto Quadrio Curzio, President of the Class of Moral, Historical and Philological Sciences and Vice President of Accademia Nazionale dei Lincei. His authoritative public lecture was entitled «Persistence of the crisis in Europe and in Italy». This was followed, on 14 June 2013, by a meeting with film director, producer and writer Pupi Avati, on «The great invention - An autobiography», which was inspired by his book with the same title. On 13 September 2013 we welcomed Marco Bonometti, chairman and managing director of OMR-Officine Meccaniche Rezzatesi srl, who addressed the highly topical subject of «Money and Work». On 26 September 2013 professor Marco Vitale, business economist, and retired professor Vittorio Coda, formerly with Bocconi University, discussed «Business values in action», from the title of their joint publication.

The conference held on 31 October 2013 by Giorgio Merletti, national chairman of the Confederation of Artisan Businesses, was entitled «The leading role of artisans in the economy; history, traditions and the future». This was also an occasion to celebrate with the local chapter the 89th World Savings Day dedicated to «Working with skill with the hand and the mind». The meeting was opened by Gionni Gritti, chairman of the local chapter of the Confederation of Artisan Businesses; following the speech given by Giorgio Merletti, Fabio Panzeri, managing director of Teleunica, coordinated and contributed to a discussion with a number of artisans.

With regard to publishing – represented in primis by our ever popular Notiziario – we gave the «Tourist Guide to the Province of Sondrio - 2nd Edition» to the members who attended our AGM in Bormio on 27 April 2013. This guide, originally prepared by the Bank, is the only complete «vademecum» covering Valtellina and Valchiavenna – inclusive of their historical, artistic and environmental background – that has been published to date. The new edition has been enriched by the notes of Claudio Magris, writer and Germanist.

The book-diary «Fantasy and the days of 2014» represents a further publication edited by Gigliola Magrini.

The 2012 financial statements of the parent bank and its Swiss subsidiary were accompanied by interesting cultural inserts. The notes about the parent bank discussed the Russian icons and western religious works of art held in our collection, with an introduction by Cardinal Gianfranco Ravasi and a commentary by Franco Monteforte. The appendix dedicated to the Swiss bank covered Vincenzo Vela, the Ticino sculptor who worked intensively in Italy.

Our «Luigi Credaro» reference library in Sondrio is an increasingly popular public meeting place, with a larger number of books and documents to attract readers. The inter-library loan services, arranged with major Universities in Lombardy, are also well received.

Working together with the Sondrio chapter of the Confederation of Artisan Businesses, we organised «Manufatti» - a travelling exhibition of artistic work by artisans - that visited seven branches, including the Sondrio head office at the time of the conference held on 31 October 2013.

The popular travelling documentary exhibition «Carlo Donegani: a way to follow. Engineering and technical work on the alpine roads», was organised together with Sondrio's Donegani Scientific High School. In May, the - exhibition visited our main branch in Lecco.

The Bank's Bormio facilities organised pleasant cultural initiatives together with the Cultural Commission of the Municipality of Bormio. The poetic autobiography «Tröi šbilénch» by Domenico Schena, included in the La Reit collection, was presented on 25 May 2013; then, on 30 July 2013, we hosted a recital by two voices – Guido De Monticelli, film and artistic director, and Mira Andriolo, actor – entitled «Ibsen and the Mountains».

A vast turnout of participants and public alike repaid the efforts made by the Squinzi family for the 9th edition of the Mapei Day. On 14 July 2013, more than 3,000 athletes – runners, cyclists, many competing in the 28th Re Stelvio, and skirollers – tackled the challenging Bormio-Stelvio Pass route. As in the past, we willingly helped with the organisation, together with Unione Sportiva Bormiese and our subsidiary, Pirovano Stelvio.

Between 22 July and 4 August 2013, our branches in Bormio hosted an interesting exhibition on local tuberculosis sanatoriums entitled «Dal mal sottile alla tubercolosi resistente - Un secolo di sanatori in Valtellina», dedicated in particular to the Morelli di Sondalo Village. This was followed, between 9 and 24 August 2013, by an exhibition of watercolours by Giovanni Dradi entitled «Vette ghiacciai cascate torrenti laghi valli boschi - Parco Nazionale dello Stelvio Ortles Cevedale», organised together with and covering all aspects of the Stelvio National Park.

On the annual remembrance of the Madonna della Neve, 11 August 2013, don Giuseppe Corti, an episcopal delegate to the Diocese of Como, said Mass at the Rese Basse dello Scorluzzo alpine hut situated in the Stelvio Pass.

We took part in the XIIth edition of the ABI initiative «Invitation to the Palace» by organising guided tours of the Bank's head office, giving particular attention to our works of art, the «Luigi Credaro» library and the «Carlo Donegani» museum at the Stelvio Pass.

The 14th Snowfestival, organised by Pirovano from 11 to 13 October 2013, was an opportunity – among other activities – to raise considerable sums for the benefit of Fondazione Ariel and AIL.

In the traditional spirit of fun, the 4th Interbank Quadrangular Meet was held at the Stelvio Pass on 18 and 19 October 2013. This skiing competition, between our Bank, Intesa Sanpaolo, Unicredit and Deutsche Bank, took place alongside the 12th Pirovano Interbank Meet involving 120 athletes from 17 banks.

Lastly, on 29 December 2013, the Bormio Cultural Commission held a meeting at the Terme Bormiesi conference hall dedicated to the Nobel Prize winner Thomas Mann, with a special focus on his novel «The Magic Mountain» (*Der Zauberberg*). This event, coordinated by Leo Schena and presented by Maria Franca Frola, benefited from the contributions made by narrators and musicians of the highest level.

With regard to solidarity and charitable activities, the Solidarity Current Account makes significant contributions each year to ADMO, AIRC, AISLA, AVIS and UNICEF.

Many congratulations to the Bank Club that, from 2013, is active in the organisation of cultural, touristic and sporting activities.

CAPITAL

The economic and financial crisis has heavily penalised the quality of lending within the banking system and, therefore, the profitability of banks. It is also the reason for the more demanding capital adequacy requirements introduced by the Supervisory Authorities, despite awareness that banks under pressure in this way might reduce their lending, with an additional adverse impact on the general economic situation. This was accompanied by the introduction of the new rules contained in the CRR - Capital Requirements Regulation and the CRD IV - Capital Requirements Directive, which adopt within the European Union the standards defined by the Basel Committee (Basel 3).

In implementation of the system of banking supervision at European level, from November 2014 the European Central Bank will become responsible for the supervision of the EU's largest banks (including ourselves and 14 other Italian banks). In the case of Italy, the ECB will work together with the Bank of Italy.

On 16 May 2013, the EBA recommended the competent supervisory authorities to carry out an Asset Quality Review of the principal European Banks, with a view to checking the classification and measurement of their loans. The overall objective was to address concerns about a deterioration in credit quality caused by the macroeconomic conditions in Europe. On 23 October 2013, the ECB communicated that, working together with the national supervisory authorities, it would perform an in-depth assessment of the banking system pursuant to the Single Supervisory Mechanism (Council Regulation (EU) no. 1024/2013 of 15 October 2013), which came into force on 3 November 2013. By this exercise, the ECB seeks to increase the transparency of the financial statements of banks before taking over their supervision. The assessment comprises three elements: the first, already

From Palazzo Grimani to Ca' Foscari

Etching, engraved part 252 x 421 mm.,
plate 273 x 429 mm.

Lower margin: *Prospectus hinc illinc ab Aedibus Grimanorum Theupolorumque ad Foscaros*

Bottom right: *9*

Stage I of 4

The view to the south is along the two banks of the canal from a balanced point of view, slightly shifted to the right, which tends to give preference to the architecture on the left bank. Among these, in the foreground, the façade of Palazzo Grimani, a masterpiece by Michele Sanmicheli and Giangiacomo de' Grigi, now the seat of the Court of Appeal. On the right, the shaded profile of the beautiful façade of the contemporary Palazzo Papadopoli (Theopolorum) built in 1560 by Giangiacomo de' Grigi, topped by two high pinnacles. The dense bustle of gondolas that animates the foreground of the canal almost seems to create a visual link between the two palazzi. Beyond the screen of gondolas, the canal flows gently on to Ca' Foscari, whose unmistakable gothic façade can be seen centrally in the distance.
There is no known corresponding Canaletto painting for this etching, only one veduta, now in a private collection in London, taken from exactly the same viewpoint, but with a different arrangement of boats in the foreground.

The quay towards the Riva degli Schiavoni

Etching, engraved part 250 x 419 mm.,
plate 266 x 423 mm.

Lower margin: *Prospectus a Columna S. Marci ad Ripam Dalmatarum, vulgo de' Schiavoni*

Bottom right: *11*

Stage I of 4

The second set of perspectives ends with two vedute of the long quay that faces the Basin of San Marco. Both views start from the two 12th century columns that form a sort of portal of entry to the city, that of the Lion of St. Mark, the symbol of the city's patron saint, and St. Theodore, the first patron saint of Venice.

This view starts from the first column of St. Mark looking towards the Riva degli Schiavoni (so called because of the merchants who used to come from the ancient kingdom of Schiavonia or Slavonia, now Dalmatia), but it focuses immediately on the spectacular 14th century façade of the Doges' Palace, located in a strategic position on the quay facing the Basin of San Marco which controlled the access routes to the sea.

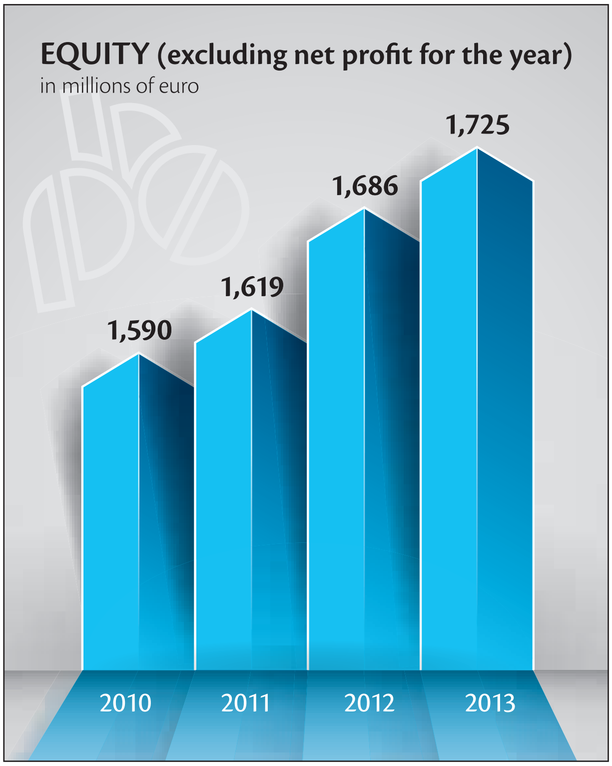
All of the boats are moving towards the quay, as if to emphasise the centripetal force of the Palace that magnetically attracts one's gaze, focusing the whole vision on it.

From the foreground, the view extends along the whole of the Riva, stretching almost to the point at Castello with the wide bay that seems to close the lagoon in an embrace.

The corresponding Canaletto painting, which is slightly different from the etching, is today located in Milan's Civic Museum at the Castello Sforzesco.

The quay of St. Mark

Together with the Rialto Bridge, which constitutes the city's internal centre of gravity, the quay of St. Mark is the city's other fundamental point of attraction, the one that emphasises Venice's connection with the sea. In ancient times, the quay of St. Mark was the city's harbour. It then became the hub of city life in the 9th century when the Doges moved there from Rialto, triggering off further development of the area. Thanks to its proximity to the port and the political and religious centre of the city, this area soon attracted many of the commercial activities and support services. While the private palazzi of the most distinguished patrician families looked onto the Grand Canal, this area next to the Basilica saw a concentration of the city's major public buildings starting with the most important, the Doges' Palace, the Serenissima's centre of political power.



completed, involved an analysis of risks for supervisory purposes in order to assess in qualitative and quantitative terms the fundamental risk factors, including those relating to liquidity, financial leverage and lending; the second, involves an Asset Quality Review that is already in progress at the Bank and which will continue far into the summer - the objective here is to improve the transparency of banking exposures by analysing the quality of bank assets, including the adequacy of the measurements of assets and guarantees, as well as of the related provisions; the third, due to start at the beginning of April, involves a stress test – to be completed in October – to check the ability of each intermediary to cope, in terms of capital adequacy, with especially adverse macroeconomic and financial conditions. The assessments will be made with reference to a benchmark parameter of 8% for the Common Equity Tier 1 Ratio, as defined in CRD IV and CRR I, both for the Asset Quality Review and for the scenario underlying the stress tests.

Shortly before taking over its new supervisory role, the ECB will make public the results of the above assessments and if, having regard for the results of the Asset Quality Review, the stress tests show that banks do not satisfy the capital adequacy requirements established by the EBA, it may require specific action by them to overcome the capital shortfall.

The Bank has always dedicated great care and attention to the matter of capital adequacy, in order to balance scale and operational growth - intended to ensure support for the territories served - with the capital required to ensure harmonic and balanced growth, built on solid foundations. Own capital represents on the one hand the fuel for growth and, on the other, the protection against risk.

Finding and maintaining the correct balance is not trivial, since it means taking account of differing interests, choosing between alternative approaches and establishing long-term strategies that are acceptable to the members.

This last aspect - as a cooperative society with more than 181,000 members – is fundamental for the Bank and is reflected in the approach to growth adopted over the past decades, and when planning that for the years to come. In the past, the capital and operations of the Bank have been expanded by a combination of self-financing and special capital operations. This will continue in the future.

Consistent with this approach, the directors have resolved to request the shareholders to approve a capital increase, both via the issue of bonus shares and by cash payments of up to 350 million, as described further in the report addressed to the Extraordinary Meeting. This report describes the reasons for the operation, which is intended to support the ongoing growth of the Bank and align our capital with the risks faced, thereby improving considerably our capital ratios and establishing the resources that may be needed as a consequence of the Asset Quality Review and stress tests mentioned above. The directors have also resolved to issue a subordinated bond of 500 million. Given the above, the 2014 consolidated Common Equity Tier 1 ratio is estimated to increase to 9.45%.

At 31 December 2013 capital and reserves amounted to a 1,774 million, with an increase of 63 million, +3.65% – including net profit for the year. Share capital, represented by 308,147,985 ordinary shares with a par value of 3 euro each, is unchanged at 924.444 million. The share premium reserve is also unchanged at 171.450 million. The reserves rose to 638.001 million (+2.52%) due to allocation of a large part of the net profit for 2012. This reflected the resolutions adopted at the Shareholders' Meeting held on 27 April 2013, which approved the 2012 financial statements and the proposal to distribute a dividend of Euro 0.033 per share. Valuation reserves now amount to 15.358 million, compared with a previously negative balance of 8.394 million. They have two components: the first is the difference between the unrealised capital gains and losses recognised on financial assets available for sale, which amounts to 32.313 million, compared with 6.872 million in 2012; the second comprises the actuarial losses on long-term employee benefits, as defined in IAS 19, amounting to 16.955 million, compared with 15.266 million in the prior year.

As regards treasury shares, the Bank holds 3,020,000 shares with a carrying amount of 24.316 million, unchanged compared with 2012. There were no purchase or sale transactions during 2013.

Performance of the BPS stock

The market price of our shares fell by 4.38% during the year, in conditions dominated by speculation.

By contrast, the number of members increased by 4,121 to 181,217 - confirming our ability to involve a growing number of persons in the activities of the Bank.

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.

Proof of the Bank's capital adequacy is also given by the following elements. Risk-weighted assets total 15,739 million.

The Bank's individual solvency ratio (ratio of capital for supervisory purposes to risk-weighted assets) is 14.54%, compared with the minimum of 8% required under current regulations for banks that belong to 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 Bank carried out an impairment test on the entire structure. The results of this test showed that the Group was worth more than its consolidated equity. Further details are provided in Part F «Information on equity» of the notes.

The relationship between capital and the main items in the financial statements is summarised below, which confirm its adequacy.

– *capital/direct customer deposits*
  7.37% v. 7.23%
– *capital/customer loans*
  8.51% v. 7.64%
– *capital/financial assets*
  26.07% v. 35.33%
– *capital/total assets*
  5.82% v. 5.68%
– *net non-performing loans/capital*
  25.39% v. 16.52%.

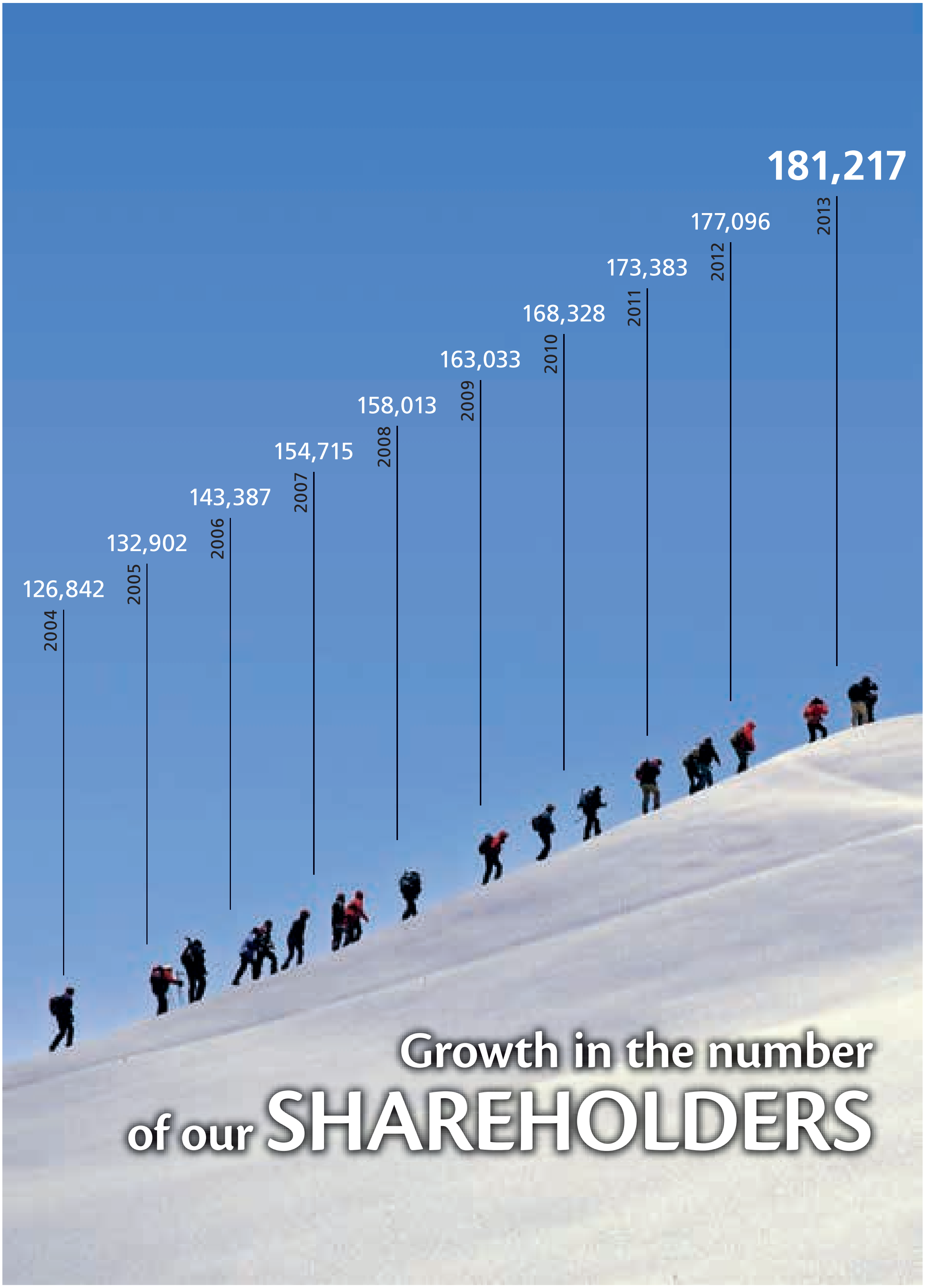
INCOME STATEMENT

The report on operations accompanying the 2012 financial statements stated that there were no signs of improvement in the economic situation, indeed that the fears of lasting recession appeared well founded. We would have preferred to be false prophets; unfortunately, the conditions remained adverse and, even after the slight signs of a new dawn towards year end, the hoped for recovery will still be slow. In the meantime, the quality of lending has continued to deteriorate and, in the general gloom, the only positive note came from the financial and money markets which, among other things, benefited from the ECB's decisions on interest rates, which are at historical lows.

Our banking activities were of course conditioned by the general troubles. In fact, as in the prior year, the income statement inevitably supported an extremely high, indeed anomalous, level of loan adjustments. Despite this, net profit for the year amounted to 48.832 million, up by 89.11% compared with 2012.

Net interest income

Net interest income declined during the first half of the year, but recovered strongly in the second semester to close the year up by 5.78% from 461.455 to 488.150 million, despite further contraction of the spread. Interest income was essentially unchanged. The effect of lower lending to customers and deposits with banks was offset by action to ensure a proper balance between remuneration and the risks accepted. The increased size of the securities portfolio also made a contribution, although their yields were much lower, with government securities - in particular - reflecting the relaxation of market tensions. Interest expense on the other hand fell by 5.43%, due to


181,217
2013
177,096
2012
173,383
2011
168,328
2010
163,033
2009
158,013
2008
154,715
2007
143,387
2006
132,902
2005
126,842
2004
Growth in the number
of our SHAREHOLDERS

The quay with the Library looking towards the beginning of the Grand Canal

Etching, engraved part 250 x 419 mm., plate 273 x 429 mm.

Lower margin: *Prospectus a Columna S. Theodori ad ingressum Magni Canalis*

Bottom right: *12*

Stage I of 4

The Marciana Library

The Marciana Library was built in the middle of the 16th century by Jacopo Sansovino on the so-called Piazzetta, opposite the Doges' Palace to house the book collection donated by Cardinal Bessarione, though the wing towards the quay was completed in 1582, after Sansovino's death, by Domenico Scamozzi from Vicenza. He probably also designed the Mint, originally conceived by Sansovino as single unit together with the Library.

Construction of the building began in 1537 and was particularly long and complex, also because of Sansovino's innovative architectural solutions that caused him a number of problems. In fact, in 1545, when construction was well advanced, the building collapsed and Sansovino was first imprisoned and then set free to resume his position as chief architect, but only after having shouldered the costs of the reconstruction.

In this second perspective, which is the same as the previous one but looking in the opposite direction, the view goes from the column of St. Theodore, the first patron saint of the city, and from the wing of the 16th century Marciana Library which is followed by the Mint, on to the entrance of the Grand Canal with the Dogana da Mar and the great dome of the Church of the Salute. In front of the Library and the Mint are the stalls of the food merchants whose boats are moored to the pontoons in front of the quay.

The whole of the foreground is dominated by the picturesque animation of the piazzetta and the quay that offer a tasty piece of Venetian life in the 18th century with the boats manoeuvring, two children playing, a knot of bourgeois citizens conversing, the stalls of the vendors and two senators in robes who keep an eye on everything. Visentini's engraving varies in certain details from Canaletto's painting, which was initially purchased by Smith, then sold to the Duke of Leeds and now in the Civic Museum in the Castello Sforzesco in Milan.

Campo Santi Giovanni e Paolo

Etching, engraved part 251 x 421 mm., plate 270 x 427 mm.

Lower margin: *Platea S.S. Johannis et Pauli, eorum Templum et Schola D. Marci*

Bottom right: *I*

Stage I of 4

The third part of Visentini's *Perspectives* opens with this etching, no longer devoted to the Grand Canal and its palazzi, but the squares (*campi*) of Venice and the churches that give them their names.
This engraving shows the campo named after St. John and St. Paul (Campo San Zanipòlo in Venetian), which is the most important public space in the city after San Marco. Visentini's angle, which goes from the *rio* in the foreground to the *campo* in the background, makes it possible to capture all of the various architectural features of the Church of St. John and St. Paul. The great basilica, together with the Church of the Frari, the greatest example of sacred Venetian Gothic architecture, with its characteristic shrines on high that contain the statues of St. Thomas Aquinas, St. Dominic and St. Peter Martyr, topped by pinnacles with the Eagle, the Eternal Father and the Lion of St. Mark. Here the solemn funerals of the Doges took place, and here, from 1450, were buried the city's most illustrious citizens. On the south side, the beautiful asymmetrical façade of the Scuola Grande di San Marco (1495), one of the most original examples of the Venetian Renaissance. At the centre, the equestrian statue of the condottiere Bartolomeo Colleoni, modelled by Andrea del Verrocchio. The famous soldier of fortune from Bergamo in the service of the Venetian Republic left of all his possessions to the city provided he could have an equestrian monument in Piazza San Marco. The statue was indeed erected, but in the Piazza (in front of the Scuola Grande di San Marco), a crafty expedient so that the city could still to get its hands on his huge assets with conceding the real Piazza San Marco. The corresponding Canaletto painting is preserved in the British royal collection at Windsor Castle.

Campi and *campielli* in Venice

To indicate a square, Visentini uses two different terms as Latin captions in his etchings, Platea *and* Area*. The former means a normal square that is well circumscribed even if divided into several parts, whereas* area *means a larger open public space. The Venetian term for both these Latin terms is* campo *(field), because of the fact that these spaces were originally unsurfaced and therefore similar to a* campo*, or a* campiello *as smaller squares are called in Venetian. In Venice, the term* piazza *is reserved exclusively for The Square par excellence, namely Piazza San Marco (Area Sancti Marci according to Visentini), and the term* piazzetta *to its little appendage near the quay between the Doges' Palace and the Library, and the space that opens to the left of the Basilica of San Marco, the so-called* Piazzetta dei Leoni *(of the Lions).*

the lower cost of the funding obtained from customers, now stabilising, and from the interbank market.

Net commission income rose slightly, up by 1.50% from 222.479 to 225.820 million. The good performance of commissions on guarantees given, from the acceptance of instructions and from the placement of insurance products and mutual funds, as well as from collections and payments, was offset by a reduction in those associated with loans, given the effect of the regulatory changes introduced in the prior year. There was also a reduction, on the one hand, in the commissions earned from depositary bank activities following the transfer in 2012 of the work performed for Arca Sgr and, on the other, in the commission expense incurred on guarantees received. In the prior year, this included commissions of 3.090 million paid to the Italian State for the guarantee given on the CD issued by the Bank as collateral acceptable to the ECB, as part of the refinancing of the banking system.

Dividend income rose from 5.549 to 20.253 million, principally as a result of the extraordinary dividend declared by Arca Vita Spa. The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 160.544 million compared with 168.335

SUMMARY INCOME STATEMENT

(in thousands of euro)	2013	2012	(+/-)	Change %
Net interest income	488,150	461,455	26,695	5.78%
Dividends	20,253	5,549	14,704	264.98%
Net commission income	225,820	222,479	3,341	1.50%
Result of financial activities	160,544	168,335	-7,791	-4.63%
Income from banking activities	**894,767**	**857,818**	**36,949**	**4.31%**
Net adjustments to loans and financial assets	-472,766	-457,782	-14,984	3.27%
Balance of financial management	**422,001**	**400,036**	**21,965**	**5.49%**
Personnel expenses	-170,317	-167,468	-2,849	1.70%
Other administrative expenses	-195,302	-181,053	-14,249	7.87%
Other operating income/expense	69,175	57,717	11,458	19.85%
Net provisions for risks and charges	2,556	-1,577	4,133	
Adjustments to property, plant and equipment and intangible assets	-23,470	-23,431	-39	0.17%
Operating costs	**-317,358**	**-315,812**	**-1,546**	**0.49%**
Operating profit (loss)	**104,643**	**84,224**	**20,419**	**24.24%**
Share of profit (loss) of equity investments and other investments (+/-)	-6,565	-1,813	-4,752	262.11%
Profit (loss) before tax	**98,078**	**82,411**	**15,667**	**19.01%**
Income taxes on current operations	-49,246	-56,589	7,343	-12.98%
Net result	**48,832**	**25,822**	**23,010**	**89.11%**

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

million, -4.63%. This reduction was essentially attributable to securities, given that the considerable rise in trading/disposal gains compared with the prior year, was accompanied by a marked drop in the net unrealised capital gains that were recognised. By contrast, there was a slight improvement in exchange gains.

Income from banking activities

Income from banking activities accordingly rose 4.31% to 894.767million. Within this aggregate, the weighting of net interest income increased from 53.79 to 54.56%.

Among the financial activities, the net trading income associated with the HFT portfolio contributed 102.437 million compared with 152.488 million. Analysing its component parts, net trading income on securities has decreased from 69.119 to 39.912 million; the contribution made by net unrealised capital gains was 41.487 million, compared with 64.510 million in the previous year; exchange gains and differences increased from 13.452 to 13.980 million; lastly, derivatives contributed 7.058 million, compared with 5.407 million.

The contribution made by financial assets available for sale, financial assets held to maturity and financial liabilities amounted to 52.719 million, as against 9.573 million, mainly reflecting gains on the disposal of Italian government bonds. The result from assets carried at fair value was 5.387 million, compared with 6.273 million in the previous year.

As mentioned at the start of this report, the continuing recession resulted in the need during the year to recognise further large impairment adjustments, given the deterioration in the quality of lending and the adoption of extremely prudent measurement criteria.

Net adjustments to loans, financial assets available for sale and other financial transactions came to 472.766 million compared with 457.782 million, +3.27%. The element of this relating to customer loans fell slightly from 450.957 to 446.094 million, -1.08%. This statistic, essentially unchanged with respect to the prior year, reflects the delayed effects of the reduced creditworthiness of borrowers and, as mentioned, the extremely prudent criteria adopted by the Bank for the assessment of risk. This approach takes account of our discussions with the Supervisory Authorities during the inspection carried out last year, especially with regard to the valuation of guarantees and assessment of the ability of counterparts to generate the cash flows needed to meet their commitments.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has risen from 2.01% to 2.14%. Unrealised losses from the impairment di securities have increased to 12.881 from 5.225 million, including a writedown of 9.664 million in the investment held in Release spa, as well as in certain equities and mutual funds held in the AFS portfolio, given that comparison of their market prices with their original carrying amounts revealed objective impairment. The adjustments recorded in relation to other financial transactions totalled 13.791 million. This amount comprises: 9.9 million in provisions on guarantees given, which were much higher in view of the increase in impaired loans and the general provision recorded against performing accounts on the same basis as that applied to performing loans; 3.891 million provided to cover our share of the support to be given by the Interbank Deposit Protection Fund in favour of Banca Tercas, which is in Special Receivership.

The net contribution from financial activities was therefore 422.001 million, +5.49%.

Operating costs amounted to 317.358 million, +0.49%. In addition to constant monitoring, the contained increase reflects the inclusion in other income of the CIV (Commission for rapid investigation), which was only partially present in the prior year, and the release of provisions for legal disputes. The ratio of operating costs/income from banking activities, i.e. the "cost income ratio", has fallen to 35.47% from 36.82%.

Considering the various components of this ratio, administrative expenses amounted to 365.619 million, +4.91%; of these, personnel expenses rose from 167.468 to 170.317 million, +1.70%, partly as a consequence of contractual increases; other administrative expenses increased from 181.053 to 195.302 million, +7.87%, due in the main to higher stamp duties linked to the rise in other operating income, but also to costs associated with the branch network, IT costs and consultancy and legal fees.

Net releases from the provisions for risks and charges amounted to 2.556 million because the provisions made during the year, 2.869 million, were offset by 5.425 million used or released from the provisions recorded in prior years.

The depreciation of property, plant and equipment and amortisation of software amounted to 23.470 million, +0.17%.

Other operating income, net of other operating expenses, contributed 69,175 million, +19.85%. This was mainly due to recognition of the CIV, only present for a limited period in the prior year, as well as to the additional recoveries of taxation following related increases - the cost of which is reported among the other administrative expenses.

Operating profit therefore came to 104.643 million, +24.24%.

Net losses on equity and other investments amounted to 6.565 million compared with 1.813 million in the previous year. This reflects the writedown of the interests held in Alba Leasing Spa by 3.273 million; in Banca della Nuova Terra spa by 2.831 million and in Pirovano Stelvio spa by 0.466 million; gains on the disposal of property, plant and equipment amounted to 0.005 million.

Net profit for the year

Profit before income taxes therefore totalled 98.078 million, +19.01%. Income taxes amounted to 49.246 million, down by 12.98% following new rules for the deductibility of loan losses and despite additional IRES (corporate income taxes) of 8.5%. The net profit for the year of 48.832 million compares with 25.822 million in the prior year, +89.11%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 50.21% compared with 68.67% in the previous year.

Dividend

The Board of Directors proposes a dividend of 0.05 euro per share, which takes account of the need to strengthen capital and the reasonable expectations of shareholders. It was possible to pay the shareholders a dividend of 0.033 euro in the prior 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, it will take all appropriate steps to spread and encourage saving».

Once again, our commitment in 2013 has been to satisfy the demand for banking products and services - especially, of course, the need for credit - from our customers and, in particular, our members. This is the primary mission of a cooperative bank, such as ourselves. 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. In this way, we also comply with the guiding principles established in the Valtellina Community Statute: identity, solidarity and subsidiarity.

We provide support and guidance which, especially when it comes to the granting of credit, implies exercising a sense of responsibility, prudence and measure when selecting the economic initiatives that deserve assistance.

The scale of our loans to customers, 20,843 million, shows the size of our unwavering commitment: undiminished by the general economic crisis, although rendered more challenging and delicate.

Lending activities have dedicated special attention to eco-compatible initiatives, with loans to encourage the use of renewable sources of energy and those associated with rural development plans. The work carried out with Finlombarda on the capitalisation of the social cooperatives has considerable social significance; as has 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.

Funding activities have respected the primary need to safeguard savings, a requirement that has been intensified by the ongoing economic and financial crisis. On the one hand, this crisis has made it harder to save and, on the other, it has increased the risks associated with the allocation of funds. Many of the certainties that assisted savers to make their decisions in past decades have vanished; accordingly, we have worked to provide customers with all necessary support, without neglecting those that prefer the most simple forms of saving instrument. The products and services offered – as extended and refined, in order to respond appropriately to every need – assure transparency and respect in full the propensity of individual customers to accept risk.

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.

The rise in direct deposits to 24,059 million, +1.68%, despite the concentration experienced by the banking system as a whole, confirms the positive response of our customers and their confidence in us.

Our services also dedicate professional attention to the banking needs of entities and institutions. Our offer - delivered through dedicated desks, traditional branches and electronic tools - is designed for both local entities and the numerous other institutions, sometimes operating at national level, with which we have cooperated for some time.

The number of members has increased further; the rise of 4,121 to 181,217 members confirms our ability to involve a growing number of persons in the activities of the Bank. A simultaneous increase in the number of member-customers is a concrete and dynamic reflection of the way we implement the founding principles of the cooperative banking movement.

Our institutional communications have always used - in compliance with specific legislation - ways and means appropriate to the nature and number of the shareholder base, as the main recipient of the Bank's messages.

The traditional letter from the Chairman on the performance of the Bank is sent to shareholders and friends every six months, in the middle and at the end of the year. The directors' report and annual financial statements provide a comprehensive picture of the events that took place during the year, explained using language that seeks to be understandable by all.

The Bank and the membership also come together at the annual general meeting. This key moment in the life of our business is facilitated by the provision of transport services and is marked by a lunch event. This participation by members also extends to the various meetings organised both 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;
- the donations made – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

SIGNIFICANT SUBSEQUENT EVENTS

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

At national level, the new government led by Matteo Renzi took office on 22 February, replacing the «Letta Government» that ruled the country over the preceding ten months.

Banca Popolare di Sondrio began the year by opening branches in Domodossola, Piedmont; Trezzo d'Adda in the Province of Milan; and in Rome, where the 37th branch is situated at the headquarters of Consob. There are now 321 branches.

Inspectors from the Bank of Italy commenced an audit on 10 March. This work, comprising an Asset Quality Review, involves all banks that will soon fall under the direct supervision of the European Central Bank. The last inspection by the Supervisory Authorities took place in 2013 and involved «Assessment of the adequacy of the impairment adjustments for non-performing, watchlist and restructured loans, as well as of the related policies and practical applications».

OUTLOOK FOR OPERATIONS

Despite early signs suggesting a possible, if slow, economic recovery, the general situation is far from confirming a significant upturn. On the contrary, the continuing difficulties of numerous businesses that risk closure indicate further troubles ahead for the quality of lending, with an inevitable impact on the profitability of the banking system. Against this problematic background, the Bank's net interest income is expected to remain essentially stable, even though rates are likely to stay particularly low. Credit risk will be continued to be controlled by the application of careful and prudent policies, while the cost of credit should improve, despite remaining high. Once again, the results of financial activities will be conditioned by the markets, which react to imponderables, although the reduction in sovereign risk should be beneficial. Operating costs are expected to grow only moderately, despite the expansion of our structure.

* * *

Shareholders,

The 2013 financial statements, comprising the statement of financial position, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which show a net profit for the year of € 48,831,672, have been audited by KPMG spa.

STATEMENT OF FINANCIAL POSITION

Total assets			€	30,462,715,333
Liabilities	€	28,688,948,035		
Valuation reserves	€	15,357,661		
Share capital	€	924,443,955		
Share premium reserve	€	171,449,522		
Treasury shares	€	-24,316,346		
Other reserves	€	638,000,834		
Total liabilities and equity (excluding net profit for the year)			€	30,413,883,661
Net profit for the year			€	48,831,672

ALLOCATION OF NET PROFIT FOR THE YEAR

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

– to the legal reserve 10%	€	4,883,167,20
– to the statutory reserve 30%	€	14,649,501,60
– dividend to shareholders of € 0,05 per share	€	15,407,399,25
– to the reserve for donations	€	100,000,00
– to the legal reserve, a further	€	13,791,603,95
Total	€	**48,831,672,00**

EQUITY

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

– Valuation reserves	€	15,357,661
– Share capital – 308,147,985 shares, par value € 3 each	€	924,443,955
– Share premium reserve	€	171,449,522
- Treasury shares	€	-24,316,346
– Reserves	€	671,325,107
Total	€	**1,758,259,899**

Shareholders,

After outlining the accounting data for 2013, we now have to turn our thoughts to those who were close to us and those who gave us their preference, allowing us to achieve positive results.

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

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

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

We are grateful to the boards and employees of our group companies, with particular reference to those at Banca Popolare di Sondrio (Suisse) SA and Factorit spa, the Italian Banking Association, the National Association of Cooperative Banks, to our Italian and foreign correspondents, and to our sister cooperative banks.

We express our respect and profound gratitude to the staff of the Bank of Italy, from the Governor to the Members of the Directorate.

A special mention goes to Fabrizio Saccomanni, General Manager, who has left us to become Minister for the Economy and Finance. Best wishes to Salvatore Rossi, formerly the Deputy General Manager, who has taken over this delicate role. The new Deputy General Managers, Valeria Sannucci and Luigi Federico Signorini, are also welcomed wholeheartedly in their new roles. Thanks also to the Chief of Supervision and his staff, to the general officers and the directors of the main offices and branches located in the provinces where we are present. Special greetings also go to Giuseppe Sopranzetti, recently appointed as general manager and director of the Milan head office of the Bank of Italy, to Paolo Galiani, manager of the Rome head office, and to Carmela Lanza, manager of the Sondrio branch.

The Bank of Italy has honoured us by sending us an efficient inspection team led by Francesco D'Ecclesiis. To him and his team, comprising Alessandro Patrignani, Ornella Dolce, Raffaella Ercolani and Nicola Di Iasio, we express our renewed gratitude for their teachings and advice.

Many thanks too for the constant collaboration of the directors, managers and staff of Consob, the Italian Exchange Office and Borsa Italiana, which also manages the MTA, the screen-based market where our shares are traded.

Our gratitude also goes to FINMA, the federal supervisory authority for financial markets based in Berne, for their supervision of our Swiss subsidiary, and to the Bank of France, which supervises the French banking system and therefore the branch of «Suisse» located in the Principality of Monaco.

Our heartfelt thanks to all our staff for their intelligent, passionate and loyal collaboration. We wish a long, healthy and serene retirement to Aldo Genesino Busi and Gianfranco Micheletti.

Campo San Rocco

Etching, engraved part 250 x 422 mm., plate 272 x 433 mm.

Lower margin: *Area S. Rocchi cum ejusdem Templo et Schola*

Bottom right: *V*

Stage I of 4

The Venetian "scole"

The scole *(literally schools) were professional associations based on religion and devotion, halfway between a confraternity and a trade guild, which had an important social function in Venice. La Serenissima established the number of* scole *and their regulatory framework, within which they enjoyed considerable power and autonomy. There were also numerous* scole minori*, but the most wealthy and powerful ones were the so-called* Grandi Scole*, which were not professional in nature, but brought together rich members from different professions and businesses linked by devotion to a particular saint, in this case that of San Rocco, a saint whose wide popularity in the Middle Ages was linked to the power of its miraculous virtues, the main one being the ability to heal the plague, one of the most feared and devastating plagues up until the 18th century.*

The etching shows part of the Campo di S. Rocco, which is overlooked by the Scuola Grande di San Rocco, famous for its frescoes by Tintoretto, who was a member, and the Church of San Rocco, in profile in the foreground on the right. The black and white engraving does not do justice to the sumptuousness of the Scuola's polychrome marble façade, but instead the engraving clearly highlights its architectural lines. The Scuola, which was formed from the merger of the two confraternities of St. Rocco after the great plague of 1477, owes its high prestige in Venetian society to the fact that it has the remains of the patron saint, stolen from the south of France in 1485. The façade, begun in 1516 by Bartolomeo Bon, was completed in 1550 by Giangiacomo de' Grigi. Its magnificence is the result of competition between it and the contemporary façade of the Scuola Grande della Misericordia, which then remained unfinished. In fact, the social image and prestige of a Scuola Grande (confraternity) and of its members focused very much on architectural appearance. But the etching is also interesting for the other façade that it shows, that of the Church of St. Roch, rather secluded and in shadow because it had been dismantled and was undergoing restructuring that would only end in 1771. So both Canaletto in his painting of this campo and Visentini in his etching of it could only imagine what the new façade would be like according to their own desires and judgement. But, as pointed out by Dario Succi, while in Canaletto's painting, now in a private collection, the façade is depicted in Palladian style, in Visentini's engraving it acquires a more elaborate and baroque look with a pediment surmounted by four sculptures. Two ways of imagining the future façade that do not correspond at all to the one actually completed in 1771.

Campo Santa Maria Zobenigo

Etching, engraved part 251 x 421 mm.,
plate 275 x 428 mm.

Lower margin: *Platea S. Mariae de Jubanico, vulgo Zobenigo*

Bottom right: *VI*

Stage I of 4

The theatrical Baroque façade of the church of Santa Maria del Giglio, popularly called Zobenigo from the name of the Jubenico family who founded it in the 10th century, dominates this view which extends from the church to the whole *campo* from which it takes its name, located in the *sestiere* of San Marco at the entrance to the Grand Canal.

It is a very popular *campo* in Venetian life, because it is from its bank that on 21 November, the Feast of Our Lady of the Salute, a pontoon bridge is thrown across the canal to the Church of the Salute in front of it.

The façade of the Church of St. Mary Zobenigo, characterised by strong projection of all its decorative elements, we owe to Giuseppe Sardi, who built it between 1678 and 1683 on behalf of the Barbaro family, which celebrates its apotheosis in this façade. At the bottom, in deep niches, the statues of the four brothers of Antonio Barbaro, the famous “sea captain”, whose statue dominates the central compartment of the upper order, above the door, between the allegorical sculptures of Honour and Virtue. The entire façade is theatrically conceived with the clear celebratory intent to arouse admiration and amazement, as emphasised by the presence in the square in front of the church at least four people in the act of admiring contemplation.

The corresponding Canaletto painting is today located in New York in the Wrightsman collection.

A Republic without heroes

The legislation of the ancient Republic of Venice today almost seems to confirm the truth of Bertolt Brecht’s modern motto, «Happy is the land that has no need of heroes». In fact, in the Serenissima it was forbidden to place equestrian monuments, commemorative statues and busts in public places or on the façades of private houses. The only way for important families and prominent people to celebrate themselves and enjoy public glory was to finance the construction of church façades where it was possible to place statues and busts of themselves and their relatives. The façade of the church of Santa Maria Zobenigo, with statues of the five brothers Jubenico, is one of the best examples of this aspect of Venice.

Forgive us if we have, unintentionally, forgotten anyone.

Our appreciation goes to those who have helped us with their suggestions, advice, comments and criticisms.

Shareholders,

In presenting the 2013 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 2013 and the proposed allocation of net profit for the year, which includes the payment of a dividend to the shareholders of € 0.05 per share; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the statement of financial position, 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 2013, comprising the statement of financial position, income statement and related explanatory notes; the financial statements that show a net profit for the year of € 48,831,672. The Shareholders' Meeting therefore specifically approves the allocation of net profit for the year of € 48,831,672 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	€	4,883,167.20
– 30% to the statutory reserve	€	14,649,501.60

b) to pay a dividend of € 0.05 to each of the 308,147,985 shares in circulation at 31/12/2013 with dividend rights as from 1/1/2013, 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 €15,407,399.25

c) to allocate the residual net profit:

– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	13,791,603.95

In accordance with the Stock Exchange calendar, the dividend will be paid from 8 May 2014, going ex-coupon (no. 34) on 5 May 2014.

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

Shareholders,

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

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

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

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

hereby resolves:

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

Purchases and sales of treasury shares – namely the ordinary shares of Banca Popolare di Sondrio of par value Euro 3 each – will have to be carried out on organised markets according to operating methods that ensure parity of treatment between shareholders and which do not permit direct matching of purchase and sale offers.

Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2014 financial statements. Purchases will have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of Euro 93,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 5% of the shares making up the share capital. Sales will have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 93,000,000.

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

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

Point 3) on the agenda: Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group» and information on how these compensation policies were implemented in 2013, as required by the Bank of Italy.

Shareholders,

The General Meeting on 27 April 2013 approved the «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

At the board meeting held on 25 March 2014, the directors of the Bank resolved to make a number of changes to the «Policies» proposed by the Remuneration Committee. In particular, the limit on the variable element of total remuneration was reduced from 35% to 25% for all personnel. This implements a guidelines that has always privileged the fixed element of remuneration, not least with a view to the containment of risk.

The threshold was higher for the Chairman of the board of Banca Popolare di Sondrio (SUISSE) SA, in view of his special position within the Swiss banking system. Accordingly, for the same reasons, the variable element of his total remuneration was reduced from 50% to 35%.

Lastly, the Board of Directors also made some minor updates.

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/assemblea2014 and distributed to all shareholders present.

The Compliance Unit was involved in the process of validating the compensation policy and the pay system, concluding that they were perfectly in line with the legal and Supervisory Authorities' requirements.

VALUATION ON A RETROSPECTIVE BASIS

Shareholders,

The Bank of Italy's instructions on compensation policies and practices require that the Shareholders' Meeting be given information on how such policies were implemented during the year, i.e. in 2013.

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

For its part, the Remuneration Committee has fulfilled the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors. In carrying out its work the Committee has, 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, has expressed its opinion on the achievement of performance goals and qualitative objectives to which is related the payment of the variable element of remuneration to the members of general management, those in charge of internal control functions and other managers. The Remuneration Committee has found no anomalies in the application of the compensation policies during the exercise of its functions.

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

Directors

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

Banca Popolare di Sondrio

- Total gross compensation of 555,000 euro as established by the Shareholders' Meeting.
- Attendance fees and forfeit expense reimbursements as established by the Shareholders' Meeting for a total of 126,005 euro.

Gross compensation was awarded to specific positions held in accordance with the articles of association (Chairman, Deputy Chairmen, Managing Director and Senior Director) for a total of 1,125,000 euro.

The total gross compensation of the directors of the parent bank therefore amounted to 1,806,005 euro.

Factorit spa

- Total gross compensation of 184,877 euro as established by the Shareholders' Meeting.
- Attendance fees and forfeit expense reimbursements as established by the Shareholders' Meeting for a total of 19,600 euro.

The total gross compensation of the directors of Factorit therefore amounted to 204,477 euro.

Banca Popolare di Sondrio (SUISSE) SA

- Total gross compensation of 312,098 euro as established by the Shareholders' Meeting.

Sinergia Seconda Srl

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

The total gross compensation of the Group's directors therefore amounted to 2,322,580 euro.

Statutory auditors

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

Banca Popolare di Sondrio

- Total gross compensation of 140,000 euro as established by the Shareholders' Meeting.
- Attendance fees and forfeit expense reimbursements as established by the Shareholders' Meeting for a total of 86,123 euro.

The total compensation of the statutory auditors of the parent bank therefore amounted to 226,123 euro.

Factorit spa

- Total gross compensation of 35,060 euro as established by the Shareholders' Meeting.
- Attendance fees and forfeit expense reimbursements as established by the Shareholders' Meeting for a total of 20,400 euro.

The total remuneration of Factorit's statutory auditors was therefore equal to 55,460 euro.

Banca Popolare di Sondrio (SUISSE) SA

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

Sinergia Seconda Srl

- Total compensation of 31,502 euro as established by the Shareholders' Meeting.

The total compensation paid to the statutory auditors of the Group amounted to 313,085 euro.

Key personnel

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

	Number	Total compensation	Fixed compensation	Subjective variable compensation	Objective variable compensation
Directors with executive roles	8	625,430	625,430	–	–
General managers and heads of major lines of business	7	3,002,649	2,183,010	786,839	32,800
Internal control functions in BPS	5	778,369	636,869	141,500	–

The compensation figures are expressed in euro.

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

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

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

The element linked to quantitative parameters set by the Compensation Policies cannot be more than 20% of the variable element.

The remuneration of the Chairman of the Board of Banca Popolare di Sondrio (SUISSE) SA is in line with the principles laid down in the Group's compensation policies.

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

For those in charge of control functions at the parent bank, their compensation is adequate considering the responsibilities and commitment involved in that position, whereas, in compliance with the Bank of Italy's instructions, they do not receive any incentives linked to economic performance.

The fixed portion of their compensation is pre-eminent. The variable element - up to a maximum of 35% of total remuneration - is linked to the achievement and maintenance of individual and functional qualitative objectives laid down by the Compensation Policies.

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

Managers not belonging to the category of "key personnel"

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

	Number	Total compensation	Fixed compensation	Subjective variable compensation	Objective variable compensation
Managers	21	3,483,427	2,822,402	576,255	84,770

The compensation figures are expressed in euro.

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

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

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

The element linked to quantitative parameters set by the Compensation Policies cannot be more than 20% of the variable element.

Piazza San Marco looking towards San Geminianus

Etching, engraved part 252 x 420 mm., plate 275 x 433 mm.

Lower margin: *Areae majoris S. Marci Prospectus ad Templum S. Jeminiani*

Bottom right: *XI*

Stage I of 4

Piazza San Marco

In the mid-18th century, Piazza San Marco was the centre of religious and political life in the city and its appearance was substantially the same as it had been given following its radical rearrangement in the 16th century. On the right, the Procuratie Vecchie, built in 1514 as the seat of the magistrates of San Marco, who were responsible for the Doges' Palace and the other buildings in the square; on the left, the Procuratie Nuove built in 1584 by Vincenzo Scamozzi; at the end of the square, closing the western side of the piazza, the Church of St. Geminianus, designed by Jacopo Sansovino and built as the link between the two buildings of the Procuratie, then demolished at the beginning of the 19th century to make way for the so-called Napoleonic Wing or Fabbrica Nuova, now the seat of the Correr Civic Museum.

Antonio Visentini's album closes with two views of Piazza San Marco, this one looking west, where Jacopo Sansovino's church of St. Geminianus stood until the beginning of the 19th century, and the other looking east towards the Basilica of San Marco.

In this first veduta, the perspective captures the wonderful architectural and stylistic harmony of the square, as it was built from the 16th century, thanks to the architectural lines of the buildings that surround it, all made with crisp precision.

Visentini also emphasises the lines of the paving, built a few decades earlier, in 1722, to guide our look into the distance. In the engraving, equal prominence is given to the three immense flagpoles that introduce the architectural scenario of the square.

The elegant geometry of the whole finds its lively prologue in the foreground not only with the groups of robed nobles, cloaked bourgeoisie and commoners, but also with the traders' shops huddled at the foot of the belltower and the tent-shaped vendors' kiosks.

The corresponding Canaletto painting is in the collection of Earl Fitzwilliam of Milton Park in Peterborough (UK).

Piazza San Marco towards the Basilica

Etching, engraved part 252 x 423 mm.,
plate 275 x 432 mm.

Lower margin: *Areae majoris S. Marci Prospectus ad Templum ejusdem*

Bottom right: *XII*

Stage I of 4

Antonio Visentini's *Perspectives* close with this veduta in which a festive and lively crowd gets added to the architectural spectacle of Piazza San Marco, against the backdrop of the great basilica with its characteristic three domes, the pinnacles that crown the Gothic façade and the huge bell tower with the stage in front of it, where the crowd assembles, waiting for the show to commence.
Next to the Basilica, the façade of the Doges' Palace on the right, and the Clock Tower on the left.
Here Visentini's perspective linearity reaches its peak. The strong horizontal lines of the cornices of the two Procuratie buildings and the geometric paving of the square push your gaze powerfully towards the Basilica.
At the same time, none of the Visentini's perspectives is as lively and festive as this one.
In short, if in all his previous engravings Visentini gave preference to architecture, often at the expense of that fresh urban vivacity that distinguishes Canaletto's paintings, in this last engraving these two aspects achieve a perfect balance.
This painting by Canaletto, which makes up a set with the previous one, is also in the collection of Earl Fitzwilliam of Milton Park in Peterborough.

(cont.) Piazza San Marco

The architectural harmony of the square was primarily due to the deep recesses of the galleries and the windows of the Procuratie Nuove which honeycomb the space with laced symmetry, almost abolishing the façade and creating an effect of openness and continuity with the outside world.
In this way Vincenzo Scamozzi, who was also responsible for completing Sansovino's library overlooking the Piazzetta, achieved the miracle of harmonising the fully 16th-century style of the Procuratie Nuove, which he designed, with the Venetian-Byzantine style of the Procuratie Vecchie. The paving of 1722 will finally complete the square's elegant appearance, eliminating any residual rusticity.

Officials and professional staff

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

	Total compensation	Fixed compensation	Variable portion (incentive system)	Variable portion (productivity bonus)
Officials and professional staff	137,638,412	127,354,665	3,950,789	6,332,957

The compensation figures are expressed in euro.

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

The fixed portion remunerates the skills and responsibilities involved in the position held, favouring professional abilities and experience, as well as the level of commitment shown. This remuneration then varies according to staff promotions and grades, as well as additional merit bonuses.

The variable portion is designed to reward a professional performance of particular importance, over and above the line of duty and able to produce long-term results for the Bank.

Generally speaking, the emphasis of our compensation policy has been on the fixed element. This means that in practice the variable portion has been limited to the maximum amount established in the individual compensation policies, i.e. 35% of total compensation.

The overall figures for the Group show that the incidence of the variable element on total salaries paid to employees in 2013 stood at 8.22%, in line with the previous three years.

in absolute terms, the Group's total payroll amounted to 144.9 million. The variable portion, however identified, was 11.9 million euro, of which 6.3 million for productivity bonuses agreed with the Trade Unions.

Point 4) on the agenda: Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (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 Remuneration 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; also the procedures for the adoption and implementation of this policy. The second section explains, with diagrams and tables, the compensation for the period paid to the Directors and Statutory Auditors, the General Manager and Managers with strategic responsibilities.

Under art. 123-ter, paragraph 1, of the CFA, the «Remuneration Report» was distributed and made available to the public in the manner and terms established by current legislation, in particular through the publication on the Bank's website www.popso.it/assemblea2014.

Under art. 123-ter, paragraph 6, of the CFA, we submit for your approval the first section of the Remuneration Report that has been distributed to those present.

It is up to the Shareholders' Meeting to decide «for or against» with a «non-binding» resolution.

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

Shareholders,

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

– directors' emoluments: € 37,000 for each director, giving a total of € 555,000;
– individual attendance fees: € 300 for attending meetings of the Board of Directors; € 150 for attending meetings of the Chairman's Committee; € 75 for attending meetings of the Supervisory and Discount Committees;
– individual lump sum refunds for travel expenses, for attending meetings of the Board of Directors, the Chairman's Committee and the Supervisory and Discount Committees, broken down as follows:
– for residents in the province of Sondrio: € 80;
– for residents outside the province of Sondrio: € 160.

Point 6) on the agenda: Appointment of five Directors for the three-year period 2014-2016.

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, Piero Melazzini, Miles Emilio Negri, Mario Alberto Pedranzini and Lino Enrico Stoppani.

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

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

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

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

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

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

““““““

Art. 35
Presentation of lists of candidates

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

The lists must be deposited at the head office of the Bank by the deadline laid down in current regulations.

The lists must be prepared in such a way as to ensure gender balance in the composition of the Board of Directors resulting from the vote, according to the principles laid down by law and by the current articles of association, taking into account the election mechanism governed by Article 36 below in the allocation of a progressive number to each candidate.

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

Lists have to be presented by at least 500 shareholders, with the requisites laid down in art. 13, paragraph 2.

One or more shareholders with the requisites laid down in art. 13, paragraph 2, and who have a total interest of not less than 0.50% in the share capital can also present lists. Shareholders have to declare the number of shares that they own in total and certify their ownership of this shareholding.

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

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. Candidates should also declare if they have the requisites of independence as per art. 33.2 and, if they do, this is mentioned in the lists.

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

»»»»»»

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.

In accordance with the provisions of the document entitled «Application of the Supervisory Provisions on the Organisation and Corporate Governance of Banks» issued by the Bank of Italy on 11 January 2012, the Board of Directors has made an analysis to identify in advance the optimal qualitative and quantitative composition and profile of candidates for the role of Director.

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/assemblea2014.

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 directors

Each shareholder can only vote for one list of candidates.

Directors are elected as follows:

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

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

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

Lists that do not obtain a number of votes equal to at least half the number of shareholders required for the presentation of lists will not be taken into account. If only one list exceeds this limit, as in the case when only one list is submitted, all of the directors are taken from it.

If the shareholders have not submitted a single valid, the Board of Directors can present at the Meeting a pre-filled ballot paper containing a non-binding list of candidates. In this case, each shareholder can alter all or part of the ballot paper, eliminating candidates who they do not intend to vote and, if they want, adding one or more new candidates in place of those eliminated. 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 in accordance with this paragraph, individual candidates are elected by a relative majority.

In the event that the composition of the Board of Directors resulting from the outcome of the vote does not comply with the principle of gender balance, the director who does not meet the gender requirement, elected on the list that has obtained the highest number of votes and marked by a higher sequence number is replaced by the next candidate on the same list who meets the requirement. If this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. If this still does not identify suitable substitutes, or if it proves impossible to apply the mechanism, the Meeting decides with a relative majority among the individual candidates, making the substitutions in the above order.

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.

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

Sondrio, 25 March 2014

THE BOARD OF DIRECTORS

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

Shareholders,

Pursuant to art. 153 of Decree 58/1998 («TUF») and art. 2429, para. 3, of the Italian Civil Code, we hereby report on the activities of the Board of Statutory Auditors during the 2013 financial year, the financial statements for which are presented for your approval. The draft financial statements were approved by the Board of Directors of Banca Popolare di Sondrio on 25 March 2014 and properly made available to the Board of Statutory Auditors, together with the Directors' report on operations and the other required accompanying documents.

In reporting on our activities with regard to the financial statements, you are reminded that they have been audited by KPMG spa, the appointed legal auditor of the accounts, and referred to the related auditors' report prepared pursuant to arts. 14 and 16 of Decree 39 dated 27 January 2010.

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

The financial statements for the year are summarised below:

Statement of financial position

Assets	€	30,462,715,333
Liabilities	€	28,688,948,035
Equity	€	1,724,935,626
Net profit for the year	€	**48,831,672**

Income statement

Profit on current operations before income taxes	€	98,078,462
Income taxes on current operations	€	49,246,790
Net profit for the year	€	**48,831,672**

Although the auditing firm is responsible for performing the accounting checks, the duty of this Board 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 this work, 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 2013 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. Except for the provisions of the new IFRS 13, these principles and methods are unchanged 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 the significant events and transactions that have taken place subsequent to year end.

In reporting on the supervisory activities performed by us during the year, we confirm that our constant objective was to check on compliance with the law and the articles of association. These activities included attendance at all meetings of the corporate bodies held during the year being, more specifically, the eight meetings of the Board of Directors, the ninety-one meetings of the Chairman's Committee and, of course, the Annual General Meeting held on 27 April 2013. This work enabled us to check that the decisions of the directors and the related decision-making processes were consistent with proper principles of administration. In particular, we can confirm that in 2013 the directors did not carry out any transactions unrelated to the corporate purpose, nor that were manifestly imprudent or excessively risky, such as to compromise the integrity of the Bank's capital, nor any atypical and/or unusual transactions, whether with third parties or with group companies or related parties, such as to have a significant impact on the financial position of the Bank.

With regard to related-party transactions, we confirm that the Bank has complied with the Regulation issued by Consob decision 17221/2010 and subsequent amendments, the Bank of Italy instructions on «Risk 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.

Among the most significant events involving the Bank during 2013, this Board considers it appropriate to refer to the audit carried out by the Bank of Italy between 8 January and 24 April. As you know, the purpose of this inspection was to check the adequacy of the impairment adjustments recorded in relation to non-performing, watchlist and restructured loans. Similar inspections were carried out at all large banks. Following the observations made by the Supervisory Authorities, the Bank updated its internal regulations on the measurement of impaired loans, with a view to adopting a more objective approach and, therefore, to achieving greater consistency among the functions concerned.

With regard to governance, in view of its special characteristics, the Bank has not yet adopted the Code of Conduct promoted by Borsa Italiana Spa. Nevertheless, the governance model approved by the Board of Directors establishes a framework of rules and procedures that ensure substantial consistency with the objectives embodied in the above Code.

The decision taken by the Board of Directors in December 2013 to establish a Controls and Risks Committee, in addition to the already established RPT Committee, Compensation Committee and Supervisory Body pursuant to Decree 231/2001, further refines the governance model adopted, aligning it even more with the instructions issued by the Supervisory Authorities, and provides effective support to the Board of Directors in the incisive performance of its duties regarding the management and control of risks. Furthermore, this decision is essentially consistent with the consultative document published by the Bank of Italy regarding new instructions for the organisation and governance of banks.

In the performance of our work, we maintained continuous contacts with the managers of the various central offices and departments and with those operating at branch level; having regard for their various roles and duties, we exchanged information, documents and work programmes with these persons.

The results of these activities are documented in the Register of Meetings and Resolutions of the Board of Statutory Auditors, together with our assessment of the results, which were obtained with support from teams working within the Internal Audit Department.

With regard to the interactions between this Board and the functions responsible for implementing second and third-level controls, we confirm that this work involved and involves the verification of compliance with the Bank's rules and procedures, and of the adequacy and effectiveness of the system of internal control, with particular reference to the management and control of risks. In order to achieve this objective, we worked with:

– the Compliance Unit, establishing constant dialogue regarding the examination and assessment of certain topics within the regulatory framework applicable to the Bank; this Unit provided us with reports prepared, to the extent of its responsibilities, on compliance by the Bank, with particular regard to the regulations governing investment services, transparency and privacy;
– the Risk Management Function, with which we assessed the matter of lending risks, having regard for the guidelines and indications that emerged from the Bank of Italy inspection, and monitored the functioning and effectiveness of the systems established for the management and mitigation of operational risks;

– the Internal Audit Department, which is responsible for checking the adequacy and effectiveness of the system of internal controls and the related processes. The activities carried out by this Board at branch level, in collaboration with this Department, are also worthy of mention. This work was performed to verify compliance with operating procedures, as well as to identify any organisational weaknesses at this level;
– the Anti-money laundering Function, which - via its reports on the work performed - made available detailed information about the level of compliance with current regulations, any anomalies encountered and the proposed corrective action considered necessary.

We also held discussions with the managers of the above functions 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.

Again on the subject of internal controls, we examined documents during the year in order to assess, in the current context, the effects of the additional instructions from the Bank of Italy (Circular 263 dated 27 December 2006 – 15th update of 2 July 2013). In this regard, we examined the self-assessment report (Gap Analysis) prepared by the Bank, identifying the consistency of the resulting organisational changes with the contents of that report.

With regard to the management, coordination and control activities carried out by the parent bank in relation to the subsidiary companies, we note that:
– with regard to Banca Popolare di Sondrio (SUISSE) SA (100%), active in Switzerland since 1995 and focused on serving retail customers, control is exercised by the parent bank via the Internal Audit Department, which works with the managers of the local IA department, whose activities comply with the instructions given by FINMA, as the Swiss supervisory authority for financial activities. Based on the results of the work performed by the parent bank's IA Department and the contents of the auditors' report on the annual financial statements issued by KPMG A.G., the independent auditors, this Board can confirm - considering also the information obtained from discussions with the directors and managers - that no matters worthy of mention have been identified with regard to the control of risks or compliance with the instructions given by the parent bank;
– with regard to Factorit spa (60.5%), we confirm that our monitoring activities were carried out via the presence on the board of statutory auditors of the subsidiary of two of the parent bank's serving statutory auditors, as well as via our interactions with the Internal Audit Department of the parent bank, which is also responsible for the internal audit of the subsidiary on an outsourcing basis;
– with regard to Factorit spa (60.5%), we confirm that our monitoring activities were carried out via the presence on the board of statutory auditors of the subsidiary of two of the parent bank's serving statutory auditors, as well as via our interactions with the Internal Audit Department of the parent bank,

which is also responsible for the internal audit of the subsidiary on an outsourcing basis,

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

  As required by CONSOB communication no. 1025564 of 6 April 2001 and subsequent amendments, we also confirm that during 2013:

– we received 4 complaints about investment services, all of which have now been settled. The low number, fewer than in prior years, their nature and the absence of legal action all confirm the propriety of the Bank's actions;
– no petitions under art. 2408 of the Civil Code were received;
– we did not issue any opinions apart from those required by law;
– in addition to its audit activities (separate financial statements, half-year reports and consolidated financial statements) with total fees of € 223,000 (excluding VAT and expenses), KPMG spa also performed work on the assessment and gap analysis relating to the application of IFRS 13, at a fee of € 58,000.= (excluding VAT and expenses). Furthermore, KPMG Advisory spa, a member of the same network as the independent auditors, was paid a fee of € 256,500.= (excluding VAT) for:
  – assessment and gap analysis relating to credit impairment policies;
  – assessment and gap analysis relating to compliance with Supervisory Circular 263;
  – assessment and gap analysis relating to adoption of the new IFRS 9 - 10 - 12,

With regard to the mutualistic criteria followed in the management of activities, in compliance with art. 2545 of the Italian Civil Code and arts. 1 and 2 of the Articles of Association, we confirm that the Bank kept faith with its mission as cooperative bank during 2013. Consistent with this mission, the Bank supported the economies of the territories in which it operates, demonstrating its commitment via lending and other activities to the households, businesses and public entities operating in those areas, even though the ongoing economic crisis has made the granting of credit a more challenging and delicate task. Support also continued during 2013 for initiatives in the fields of renewable energy and rural development, together with collaboration with INPS and Istituto Centrale delle Banche Popolari Italiane for the issue of work vouchers to casual workers. Funding activities focused on the safeguarding of savings, as reflected in the simplicity and transparency of the commercial range of products and services. Lastly, the mutualistic vocation of the Bank is clearly evidenced by the large number of members (181,217), following a rise over the year of 2.3%.

In confirming the completeness of the Report on operations, we have already noted that it properly describes the principal transactions carried out during the year, all in the interests of the Bank, as well as the significant events that have taken place subsequent to year end.

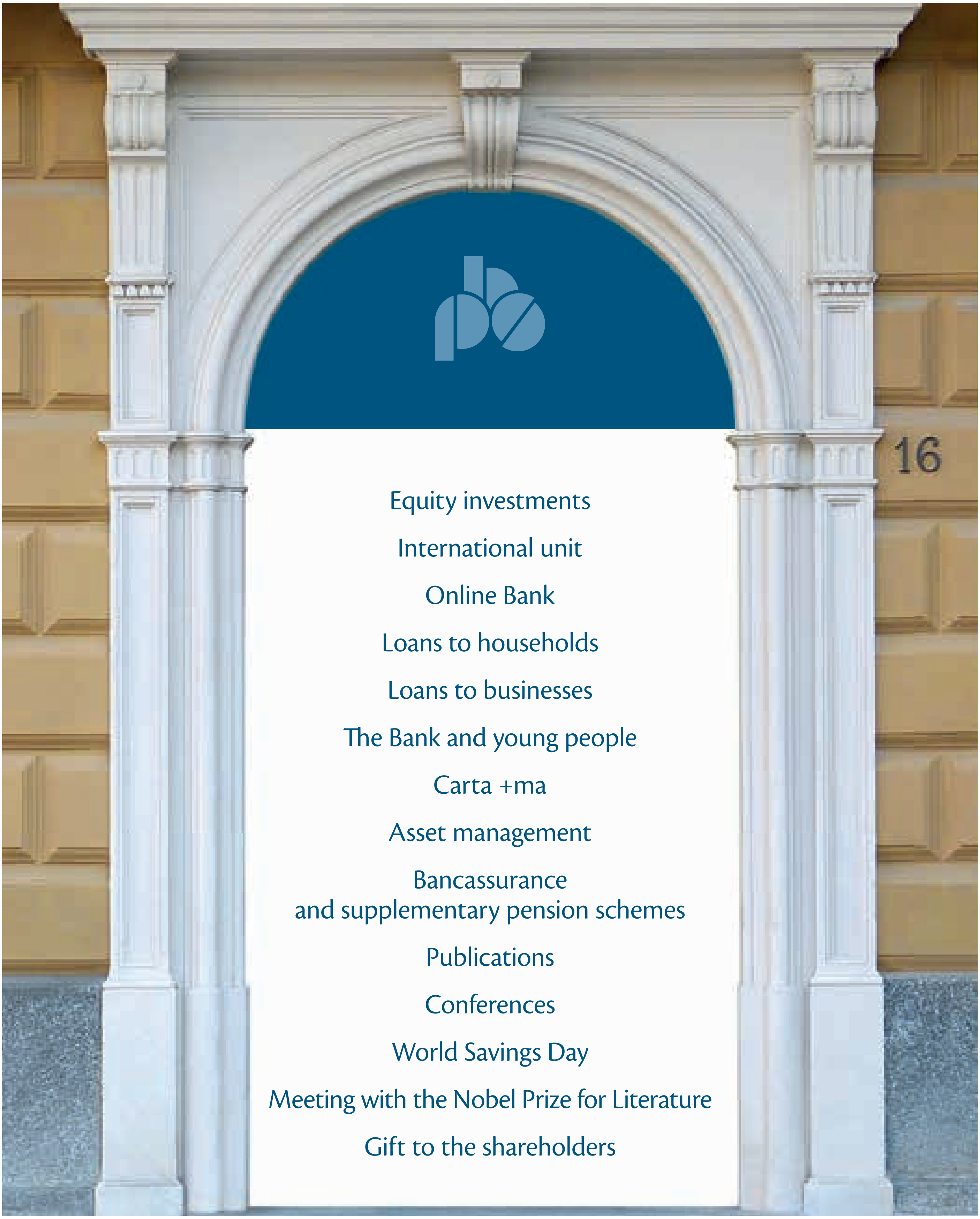
The completeness of the report on operations means that no further comment on the results is required.

With regard to the consolidated financial statements, which report a net profit of 53 million euro compared with 34.3 million in 2012, 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 regulations governing their preparation. 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.

To conclude, we would reiterate that our supervisory work did not reveal any reprehensible situations, omissions or irregularities that are worthy of note, so to the extent that it concerns us, we express our opinion in favour of you approving the 2013 financial statements and the proposed allocation of the net profit for the year.

Sondrio, 3 April 2014

THE BOARD OF STATUTORY AUDITORS
Piergiuseppe Forni, Chairman
Pio Bersani, Auditor
Mario Vitali, Auditor



Equity investments

International unit

Online Bank

Loans to households

Loans to businesses

The Bank and young people

Carta +ma

Asset management

Bancassurance
and supplementary pension schemes

Publications

Conferences

World Savings Day

Meeting with the Nobel Prize for Literature

Gift to the shareholders

EQUITY INVESTMENTS

As usual for the Bank, the equity investments held mainly consist of companies that supply products and services that complement our normal commercial activities. 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, preferably agreed with other cooperative banks.

SUBSIDIARIES

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FACTORIT SPA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL

RAJNA IMMOBILIARE SRL

ASSOCIATED COMPANIES

UNIONE FIDUCIARIA SPA

ALBA LEASING SPA

BANCA DELLA NUOVA TERRA SPA

ARCA VITA SPA

POLIS FONDI IMMOBILIARI DI BANCHE POPOLARI SGR PA

SERVIZI INTERNAZIONALI
E STRUTTURE INTEGRATE 2000 SRL

MINORITY INTERESTS HELD FOR OPERATIONAL PURPOSES

ARCA SGR SPA

ICBPI SPA

CARTASI SPA

ETICA SGR SPA

GROUP SRL

INTERNATIONAL UNIT

Our role as a cooperative bank, focused on the needs of the territory we serve, is entirely compatible with the attention we dedicate to relations with the rest of the world. The readiness and commitment of our people to start and build relationships with foreign counterparts at the highest level underpins our ability to provide businesses with suitable support in global markets. In this way, we are able to respond effectively to ever increasing demand from grassroots level, especially from those small and medium-sized firms that have always been the focus of our attention. We are able to guarantee these firms precise and professional support, since our personnel do not improvise solutions, but apply the skills patiently accumulated over the years. Founded on a dense network of relationships and agreements covering the globe, our services have been diversified and expanded in order to encourage firms to grasp the opportunities available in foreign markets, as well as to provide tailor-made responses, as far as possible, to the very diverse requests that we receive.

ONLINE BANK

The dynamism expressed by the Bank via the reasoned expansion of the branch network is fully reflected in the effectiveness of our commercial actions. The efficiency of the SCRIGNO channel is notable and the growth in its use confirms the approval expressed by individuals, businesses and entities. SCRIGNO*Internet Banking* includes a plurality of transaction and information services that allow customers to use the bank online 24 hours a day, 7 days a week. SCRIGNO*app* – available on the App Store and Google play – meets the mobility needs of its customers with dedicated services. In the meantime, we can anticipate that other important innovations will affect the world of SCRIGNO in the near future. Also in 2014, special attention will be given to the diffusion of systems for strong authentication of online transactions, as required by sector regulations, in order to give customers tools that are increasingly secure and responsive to a changing environment.

SCRIGNO *Internet Banking*

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

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

SCRIGNO *IdentiTel*

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

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

SCRIGNO *app*

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

- list of movements and current account balance
- balance of securities held in custody
- prepaid phone cards
- mobile phone top-ups
- bank transfers
- gestione Carta +ma

Disponibile su App Store | DISPONIBILE SU Google play

App Store is a registered service of Apple Inc. | Google Play is a trademark of Google Inc.

LOANS TO HOUSEHOLDS

Our day-to-day operations continue, in line with tradition, offering simple, transparent and competitive products and services aimed at meeting the needs of households. Thanks to mortgage loans with diversified structures in terms of interest rates – fixed, variable or mixed – and duration, we are able to offer various solutions to basic needs and with personal loans we finance the many other needs and opportunities for a more immediate impact (purchase of cars, furnishings, consumer electronics, etc.).

LOANS TO BUSINESSES

In the spirit of a co-operative bank linked to the territory in which it operates and attentive to the evolving needs of businesses, also in light of the current difficult economic situation, we have continued to support healthy entrepreneurial initiatives, assisting in phases of expansion as well as those of consolidation. From agriculture to crafts, from industry to services, even in the most technologically advanced and innovative sectors, we offer a series of simple but effective products for the support of our customers, both in the domestic market and in the "global" one.

THE BANK AND YOUNG PEOPLE

We are always attentive to young customers, the women and men of tomorrow: from savings deposit books to made-to-measure current accounts that will accompany youngsters as they grow, to simple and flexible investment plans for the management of savings and supplementary pensions. Of the most successful products, we would mention the *Conto 44 Gatti* for the youngest, which combines the advantages of a savings deposit book with the popular schemes that are exclusively for holders of the *Gattimatti* card. Our low-cost products, *1° Conto POPSOWeb* and *Conto Student POPSOWeb* continue to be much appreciated.

CARTA +MA

Carta +ma is an "advanced" prepaid payment card: each card is assigned a unique IBAN and an internet banking service, which makes it possible to enclose several features in the one instrument: receipt and payment of bank transfers; recharging mobile phones; direct debits for utilities; all payment transactions typical of credit and charge cards at all affiliated businesses; cash withdrawals from Italian and foreign ATMs. Banca Popolare di Sondrio, always attentive to new trends and customers' requirements, has added interesting new features to the Carta +ma, such as the MasterCard PayPass technology, which allows you to make contactless payments at enabled POS terminals. Carta +ma is also available for minors of 14 years old upwards.

ASSETS UNDER MANAGEMENT

The asset management sector performed well in 2013, supported by significant net inflows and positive performances on the part of financial markets.
Investors tended to prefer income-distribution funds and flexible products, while the growth of balanced lines and equity-based products was less dynamic.
In this renewed climate of confidence, the Bank operated with transparency and prudence, having regard for the risk profiles and investment objectives of savers.

BANCASSURANCE AND SUPPLEMENTARY PENSION SCHEMES

Professionalism and the competitive nature of the Arca Vita's products resulted in satisfactory net inflows during the year. The volume of business referred by the Bank was good, including with regard to the loss insurance activities of Arca Assicurazioni.

In the field of supplementary pensions, we work in collaboration with Arca SGR through its Arca Previdenza open-ended pension fund, which is geared for all those who want to create a supplementary pension, at the same time benefiting from the tax deductibility of payments to the fund. Employees in the private sector also have the possibility of joining a pension fund by contributing their severance indemnity as it accrues.

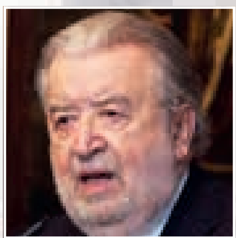
PUBLICATIONS

The ties between the Bank and its territories underpin our long-standing commitment to the promotion of the culture, art, history, traditions and natural wealth of the areas in which we operate. While this commitment represents a dutiful gift to those communities and places that saw us form and helped us to grow and develop, it also represents a way to understand even better the mould that formed our identity as a cooperative bank. With regard to publishing – represented in primis by our ever popular *Notiziario* – we gave the *Tourist Guide to the Province of Sondrio - 2nd Edition* to the members who attended our AGM in Bormio on 27 April 2013. This guide, originally prepared by the Bank, is the only complete *vademecum* covering Valtellina and Valchiavenna – inclusive of their historical, artistic and environmental background – that has been published to date. The new edition has been enriched by the notes of Claudio Magris, writer and Germanist. The book-diary *Fantasy and the days of 2014* represents a further publication edited by Gigliola Magrini.

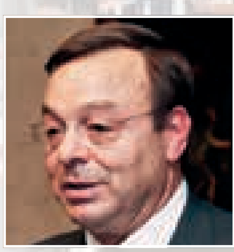
CONFERENCES

The annual programme of conferences was opened on 17 May 2013 by professor Alberto Quadrio Curzio, Valtellina-born and President of the Class of Moral, Historical and Philological Sciences and Vice President of Accademia Nazionale dei Lincei. His authoritative public lecture was entitled *Persistence of the crisis in Europe and in Italy*. This was followed, on 14 June 2013, by a meeting with film director, producer and writer Pupi Avati, on *The great invention - An autobiography*, which was inspired by his book with the same title. On 13 September 2013 we welcomed Marco Bonometti, chairman and managing director of OMR-Officine Meccaniche Rezzatesi srl, who addressed the highly topical subject of *Money and Work*. On 26 September 2013 professor Marco Vitale, business economist, and retired professor Vittorio Coda, formerly with Bocconi University, discussed *Business values in action*, from the title of their joint publication.

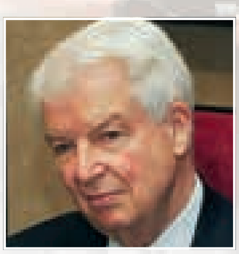
ALBERTO QUADRIO CURZIO
17 May 2013



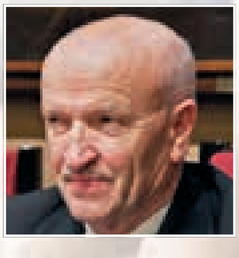
PUPI AVATI
14 June 2013



MARCO BONOMETTI
13 September 2013



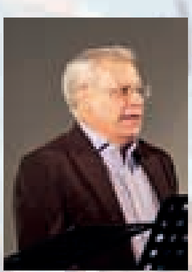
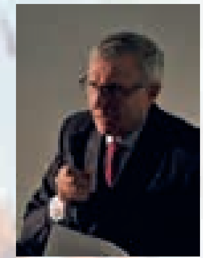
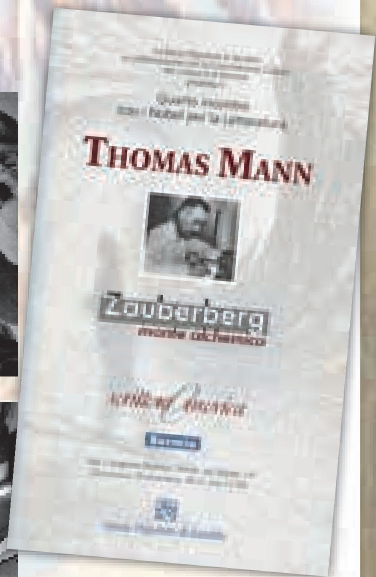
Professor VITTORIO CODA and Professor MARCO VITALE
26 September 2013

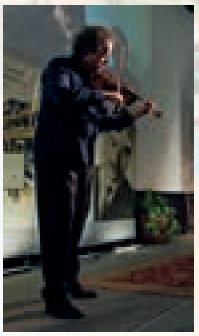


GIORGIO MERLETTI
31 October 2013

The conference held on 31 October 2013 by Giorgio Merletti, national chairman of the Confederation of Artisan Businesses, was entitled *The leading role of artisans in the economy; history, traditions and the future*. This was also an occasion to celebrate with the local chapter the 89th World Savings Day dedicated to *Working with skill with the hand and the mind*. The meeting was opened by Gionni Gritti, chairman of the local chapter of the Confederation of Artisan Businesses; following the speech given by Giorgio Merletti, Fabio Panzeri, managing director of Teleunica, coordinated and contributed to a discussion with a number of artisans.

MEETING WITH THE NOBEL PRIZE FOR LITERATURE


The fourth "Meet the Nobel Prize for Literature", a cultural event organised by the Bank in collaboration with the local Culture Commission was held on 29 December 2013 at the Congress Hall in Bormio Terme. The protagonist was Lubeck-born Thomas Mann (1875-1955), who was awarded the prestigious prize in 1929, and his novel *Der Zauberberg* (1924), *The Magic Mountain* in English, and known in Italian as *La montagna incantata*, translated Ervino Pocar. In 2010, following the approved European translations, Mondadori revived this masterpiece under the title *La montagna magica*, translated by Renata Colorni. The speaker at the conference entitled *Zauberberg. Alchemical Mountain*, was the academic Maria Franca Frola. The event, coordinated by Professor Leo Schena, was enlivened by readings of texts performed by actors Christian Poggioni and Lorenzo Lutteri, while the musicians Gabriele Baffero and Alessandro Ruggeri, respectively on violin and flute, played music by J. S. Bach.

101 LAKES OF THE VALTELLINA AND VALCHIAVENNA

To the shareholders attending the General Meeting of 26 April 2014 in Bormio, we donated *101 Lakes of Valtellina and Valchiavenna*, a volume of more than 200 pages full of large and small Alpine lakes which, like gems, adorn the many valleys of the province of Sondrio. Presented to the reader through bright and evocative photographs accompanied by detailed hiking notes that invite the reader to a "live" appreciation of these beauties, the volume bears witness to the attention that the Bank has always had for its land of origin, with a focus on providing information on its natural environment.

The book, which makes for a pleasant read, was written by Enrico Benedetti (aka "Beno"), Giorgio Orsucci, Roberto Moiola and various professional photographers from the ClickAlps agency.

FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2013

STATEMENT OF FINANCIAL POSITION

(in euro)

ASSET ITEMS			31-12-2013		31-12-2012
10.	CASH AND BALANCES WITH CENTRAL BANKS		**109,512,487**		**114,158,995**
20.	FINANCIAL ASSETS HELD FOR TRADING		**3,167,660,707**		**2,097,393,977**
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE		**79,226,036**		**104,224,290**
40.	FINANCIAL ASSETS AVAILABLE FOR SALE		**3,373,245,002**		**2,438,073,849**
50.	FINANCIAL ASSETS HELD TO MATURITY		**182,620,516**		**204,643,791**
60.	DUE FROM BANKS		**1,481,714,447**		**1,855,236,119**
70.	DUE FROM CUSTOMERS		**20,843,577,225**		**22,390,051,929**
100.	EQUITY INVESTMENTS		**411,739,750**		**398,636,818**
110.	PROPERTY. PLANT AND EQUIPMENT		**155,622,700**		**138,174,667**
120.	INTANGIBLE ASSETS		**11,676,361**		**11,143,274**
130.	TAX ASSETS		**300,623,482**		**157,295,367**
	a) current	28,625,878		–	
	b) deferred	271,997,604		157,295,367	
	of which as per Law 214/2011	243,011,732		126,943,333	
150.	OTHER ASSETS		**345,496,620**		**235,997,167**
	TOTAL ASSETS		**30,462,715,333**		**30,145,030,243**

THE CHAIRMAN
Piero Melazzini

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

	EQUITY AND LIABILITY ITEMS		31-12-2013		31-12-2012
10.	DUE TO BANKS		**3,692,634,209**		**3,828,808,395**
20.	DUE TO CUSTOMERS		**21,208,780,218**		**20,844,527,072**
30.	DEBT SECURITIES IN ISSUE		**2,850,637,840**		**2,817,454,497**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**60,308,903**		**86,893,319**
80.	TAX LIABILITIES		**27,955,834**		**97,939,143**
	a) current	–		77,249,544	
	b) deferred	27,955,834		20,689,599	
100.	OTHER LIABILITIES		**668,480,929**		**578,961,643**
110.	RESERVE FOR TERMINATION INDEMNITIES		**38,264,866**		**39,990,490**
120.	PROVISIONS FOR RISKS AND CHARGES:		**141,885,236**		**139,131,838**
	a) post-employment benefits	100,538,997		95,729,159	
	b) other provisions	41,346,239		43,402,679	
130.	VALUATION RESERVES		**15,357,661**		**(8,394,344)**
160.	RESERVES		**638,000,834**		**622,318,690**
170.	SHARE PREMIUM RESERVE		**171,449,522**		**171,449,522**
180.	SHARE CAPITAL		**924,443,955**		**924,443,955**
190.	TREASURY SHARES (-)		**(24,316,346)**		**(24,316,346)**
200.	NET PROFIT (LOSS) FOR THE YEAR (+/-)		**48,831,672**		**25,822,369**
	TOTAL LIABILITIES AND EQUITY		**30,462,715,333**		**30,145,030,243**

THE GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

INCOME STATEMENT

(in euro)

ITEMS			2013		2012
10.	INTEREST INCOME AND SIMILAR REVENUES		914,711,027		912,510,400
20.	INTEREST EXPENSE AND SIMILAR CHARGES		(426,561,240)		(451,055,350)
30.	**NET INTEREST INCOME**		**488,149,787**		**461,455,050**
40.	COMMISSION INCOME		240,711,245		239,599,970
50.	COMMISSION EXPENSE		(14,890,754)		(17,120,969)
60.	**NET COMMISSION INCOME**		**225,820,491**		**222,479,001**
70.	DIVIDENDS AND SIMILAR INCOME		20,252,957		5,549,285
80.	NET TRADING INCOME		102,437,364		152,487,807
100.	**GAINS/LOSSES ON DISPOSALS OR REPURCHASES OF:**		**52,719,360**		**9,573,204**
	b) financial assets available for sale	52,518,082		7,740,497	
	c) financial assets held to maturity	54,712		584,164	
	d) financial liabilities	146,566		1,248,543	
110.	NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE		5,387,128		6,273,265
120.	**INCOME FROM BANKING ACTIVITIES**		**894,767,087**		**857,817,612**
130.	NET IMPAIRMENT ADJUSTMENTS TO:		(472,765,909)		(457,781,737)
	a) loans	(446,093,551)		(450,956,950)	
	b) financial assets available for sale	(12,880,725)		(5,224,787)	
	d) other financial transactions	(13,791,633)		(1,600,000)	
140.	**BALANCE OF FINANCIAL MANAGEMENT**		**422,001,178**		**400,035,875**
150.	ADMINISTRATIVE EXPENSES:		(365,619,305)		(348,521,355)
	a) personnel expenses	(170,317,050)		(167,468,134)	
	b) other administrative expenses	(195,302,255)		(181,053,221)	
160.	NET PROVISIONS FOR RISKS AND CHARGES		2,556,469		(1,576,934)
170.	NET ADJUSTMENTS TO PROPERTY. PLANT AND EQUIPMENT		(12,562,065)		(12,246,083)
180.	NET ADJUSTMENTS TO INTANGIBLE ASSETS		(10,908,158)		(11,184,510)
190.	OTHER OPERATING INCOME/EXPENSE		69,174,944		57,716,875
200.	**OPERATING COSTS**		**(317,358,115)**		**(315,812,007)**
210.	SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS		(6,569,735)		(2,092,615)
240.	PROFIT/LOSS FROM DISPOSAL OF INVESTMENTS		5,134		280,170
250.	**PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES**		**98,078,462**		**82,411,423**
260.	INCOME TAXES ON CURRENT OPERATIONS		(49,246,790)		(56,589,054)
270.	**PROFIT (LOSS) ON CURRENT OPERATIONS AFTER INCOME TAXES**		**48,831,672**		**25,822,369**
290.	**NET PROFIT (LOSS) FOR THE YEAR**		**48,831,672**		**25,822,369**

STATEMENT OF COMPREHENSIVE INCOME

Items/Amounts		**2013**	**2012**
10.	**Net profit (loss) for the year**	**48,831,672**	**25,822,369**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	(1,688,742)	(14,238,238)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100.	Financial assets available for sale	25,440,747	50,436,636
130.	**Total other income items net of income taxes**	**23,752,005**	**36,198,398**
140.	**Comprehensive income (item 10+130)**	**72,583,677**	**62,020,767**

STATEMENT OF CHANGES IN EQUITY

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

A dividend from the results for 2012 of € 0.033 per share, totalling € 10.169 million, was paid from 9 May 2013. The directors have proposed a dividend of € 0.05 from the results for 2013. 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 8 May. The payout envisaged totals € 15.407 million.

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2011	Change in opening balances	Opening balance at 1.1.2012	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations
Share capital					
a) ordinary shares	924,443,955	–	924,443,955	–	–
b) other shares		–	–		–
Share premium reserve	**172,510,523**	**–**	**172,510,523**	**–**	**–**
Reserves:					
a) from earnings	593,773,311	–	593,773,311	28,545,379	–
b) other	–	–	–	–	–
Valuation reserves	**(44,592,742)**	**–**	**(44,592,742)**	**–**	**–**
Equity instruments					
Treasury shares	**(26,078,736)**	**–**	**(26,078,736)**	**–**	**–**
Net profit for the year	**56,416,388**	**–**	**56,416,388**	**(28,545,379)**	**(27,871,009)**
Equity	**1,676,472,699**	**–**	**1,676,472,699**	**–**	**(27,871,009)**

Changes during the year								
	Equity transactions							
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	**Equity at al 31.12.2013**
–	–	–	–	–	–	–	–	**924,443,955**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**171,449,522**
–	–	–	–	–	–	–	–	**638,000,834**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**23,752,005**	**15,357,661**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24,316,346)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**48,831,672**	**48,831,672**
–	**–**	**–**	**–**	**–**	**–**	**–**	**72,583,677**	**1,773,767,298**

Changes during the year								
	Equity transactions							
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	**Equity at al 31.12.2012**
–	–	–	–	–	–	–	–	**924,443,955**
–	–	–	–	–	–	–	–	–
–	**(1,061,001)**	**–**	**–**	**–**	**–**	**–**	**–**	**171,449,522**
–	–	–	–	–	–	–	–	**622,318,690**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**36,198,398**	**(8,394,344)**
–	**3,655,805**	**(1,893,415)**	**–**	**–**	**–**	**–**	**–**	**(24,316,346)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**25,822,369**	**25,822,369**
–	**2,594,804**	**(1,893,415)**	**–**	**–**	**–**	**–**	**62,020,767**	**1,711,323,846**

STATEMENT OF CASH FLOWS (Indirect method)

	31-12-2013	31-12-2012
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**559,352,789**	**590,420,202**
- net profit for the year (+/-)	48,831,672	25,822,369
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (+/-)	(46,097,693)	(70,596,553)
- net hedging gains (losses) (-/+)	–	–
- net impairment adjustments (+/-)	480,471,925	475,396,674
- net adjustments to property, plant and equipment and intangible assets (+/-)	23,470,223	23,430,592
- provisions for risks and charges and other costs/revenues (+/-)	21,814,221	26,337,370
- unpaid taxes and duties (+)	49,246,790	56,589,054
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	(18,384,349)	53,440,696
2. **Cash generated/absorbed by financial assets**	**(546,333,552)**	**(3,359,469,498)**
- financial assets held for trading	(1,007,020,534)	155,763,212
- financial assets carried at fair value	28,794,355	(16,316,323)
- financial assets available for sale	(927,210,103)	(1,680,069,268)
- due from banks: sight	166,019,865	(49,928,571)
- due from banks: other receivables	207,412,196	393,304,640
- due from customers	1,093,440,474	(2,257,017,699)
- other assets	(107,769,805)	94,794,511
3. **Cash generated/absorbed by financial liabilities**	**11,134,040**	**2,893,335,458**
- due to banks: sight	(177,743,416)	(36,716,042)
- due to banks: other payables	33,364,481	162,360,938
- due to customers	378,438,025	2,824,899,865
- debt securities in issue	34,507,208	231,463,167
- financial liabilities held for trading	(51,072,800)	(61,912,395)
- financial liabilities carried at fair value	–	–
- other liabilities	(206,359,458)	(226,760,075)
Net cash generated/absorbed by operating activities	**24,153,277**	**124,286,162**

	31-12-2013	31-12-2012
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**51,985,360**	**29,600,671**
- sales of equity investments	–	–
- dividends collected from equity investments	17,726,425	2,636,568
- sales of financial assets held to maturity	34,250,000	26,628,000
- sale of property, plant and equipment	8,935	336,103
- sale of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(70,596,358)**	**(94,580,527)**
- purchases of equity investments	(16,951,848)	(52,265,455)
- purchases of financial assets held to maturity	(12,179,168)	(13,241,682)
- purchases of property, plant and equipment	(30,024,097)	(16,925,949)
- purchases of intangible assets	(11,441,245)	(12,147,441)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(18,610,998)**	**(64,979,856)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	–	701,390
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(10,040,225)	(27,471,008)
Net cash generated/absorbed by financing activities	**(10,040,225)**	**(26,769,618)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**(4,497,946)**	**32,536,688**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	31-12-2013	31-12-2012
Cash and balances with central banks at beginning of year	114,158,995	81,545,810
Total net cash generated/absorbed in the year	(4,497,946)	32,536,688
Cash and balances with central banks: effect of change in exchange rates	(148,562)	76,497
Cash and balances with central banks at end of year	**109,512,487**	**114,158,995**

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 2013 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

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

The format of the financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by D.Lgs 38/2005 and subsequent updates.

Section 2 *Basis of preparation*

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

1) Going concern. The financial statements have been prepared on a going concern basis and, accordingly, assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations.
   Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Bank monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Bank's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and

the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

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

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

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

Section 3 ***Subsequent events***

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 25/3/2014 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 unchanged with respect to those adopted in the previous year, with the sole exception of the entry into force of IFRS 13, endorsed by Regulation (EU) 1255/2012. This new standard provides a new definition of fair value, presents in one IFRS a reference framework for the measurement of fair value, and requires disclosures about the measurements made. IFRS 13 does not expand the application of measurement at fair value, but presents a series of requirements to be met when measuring financial instruments and non-financial assets and liabilities at fair value, as required or allowed by other accounting standards. The most significant aspect is the need to consider counterparty risk when determining the fair value of OTC derivatives. To do this, the related calculation model has been changed to take account of the credit rating of the counterpart (Credit Value Adjustment – CVA) and our own credit rating (Debit Value Adjustment - DVA). The adoption of the new calculation criteria has not had any particular effect on the income statement.

The financial statements, accompanied by the directors' report on operations, consist of the statement of financial position, income statement, statement of changes in equity, statement of cash flows 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 statement of financial position 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 consolidated financial statements at 31 December 2013, 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 2013.

It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a lack of growth and high levels of uncertainty about the prospects for recovery, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the particularly uncertain 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 2013.

The following amendments to international accounting standards were made in 2012:

- Regulation (EU) 475/2012 of 5/6/2012 amended IAS 1 Presentation of Financial Statements - Presentation of items of other comprehensive income and IAS 19 Employee Benefits. The amendments apply from 1 January 2013 (first financial year commencing on or after 1/1/2013).
- Regulation (EU) 1254/2012 of 11/12/2012 relating to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as to amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments apply from 1 January 2014 (first financial year commencing on or after 1/1/2014).
- Regulation (EU) 1255/2012 of 11/12/2012: IFRS 1 First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, IFRS 13 Fair Value Measurement, IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. The amendments apply from 1 January 2013 (first financial year commencing on or after 1/1/2013).
- Regulation (EU) 1256/2012 of 13/12/2012: Amendments to IFRS 7 Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities and to IAS 32 Financial instruments: Presentation - Offsetting Financial Assets and Financial Liabilities. The amendments apply from 1 January 2013 (first financial year commencing on or after 1/1/2013 for the amendments to IFRS 7) and from 1 January 2014 (first financial year commencing on or after 1/1/2014) for IAS 32).

In the 2nd update to Circular 262 of 21 January 2014, the Bank of Italy adopted the disclosure requirements specified by certain accounting standards that came into force from 2013.

The EU also endorsed various amendments to international accounting standards during 2013, by adopting the following regulations:

- Regulation (EU) 183/2013 of 4 March 2013 which adopted the amendments to IFRS 1 «First-time Adoption of International Financial Reporting Standards» - Government Loans. These amendments to IFRS 1 relate to government loans with below-market rates of interest and their purpose is to exempt first-time adopters from full retrospective application of the requirements at the time of adopting the IFRS. The amendments apply from 1 January 2013.

- Regulation (EU) 301/2013 of 27 March 2013 which adopted the «Annual Improvements to International Financial Reporting Standards – 2009-2011 Cycle». The purpose of these improvements is to deal with inconsistencies found in the IFRS or to clarify terminology, with regard to non-urgent matters discussed by the IASB during the cycle that began in 2009. The amendments apply from 1 January 2013.
- Regulation (EU) 313/2013 of 4 April 2013 which adopted the «Transition Guidance (amendments to IFRS 10, 11 and 12)». The purpose of these amendments is to clarify the intentions of the IASB when the transition guidance for IFRS 10 was first published. The amendments further reduce the comparative information required on transition to IFRS 10, IFRS 11 and IFRS 12. They apply from 1 January 2014.
- Regulation (EU) 1174/2013 of 20 November 2013 which adopted «Investment entities» (Amendments to IFRS 10, 12 and IAS 27). IFRS 10 Consolidated Financial Statements has been amended to require investment entities to measure subsidiaries at fair value through profit or loss, rather than consolidate them, in order to reflect better their business model. IFRS 12 Disclosure of Interests in Other Entities has been amended to require the disclosure of specific information about the subsidiaries of investment entities. The amendments to IAS 27 have eliminated the ability of investment entities to choose between measuring subsidiaries at cost or at fair value in their separate financial statements. The amendments to IFRS 10 and 12 and to IAS 27 also affect IFRS 1, 3 and 7 and IAS 7, 12, 24, 32, 34 and 39. In force from 1/1/2014.
- Regulation (EU) 1374/2013 of 19 December 2013 which adopted «Recoverable amount disclosures for non-financial assets» (amendment to IAS 36). The amendments clarify that the information to be disclosed about the recoverable amount of assets, when that amount is based on fair value net of disposal costs, only relates to those assets whose value has been impaired. They apply from 1 January 2014.
- Regulation (EU) 1375/2013 of 19 December 2013 which adopted «Novation of derivatives and continuation of hedge accounting» (amendment to IAS 39). The amendments govern situations in which a derivative designated as a hedging instrument is subject to novation from a counterparty to a central counterparty, as a result of regulatory requirements. They apply from 1 January 2014.

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

A.2 PART 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 measure 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 income and similar revenues» and «Dividends and similar income» respectively.

Derecognition

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

2. Financial assets available for sale

Classification

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

Recognition

The assets classified in this caption are recorded on the settlement date. Available-for-sale securities are initially recognised at their fair value, which is usually represented by the fair value of the consideration paid to acquire them.

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

Accounting policies

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

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

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

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

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

Recognition of components affecting the income statement

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

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

Dividends are shown under «dividends and similar income».

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

Derecognition

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

3. Financial assets held to maturity

Classification

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

Recognition

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

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

Accounting policies

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

Recognition of components affecting the income statement

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

Derecognition

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

4. Receivables

4.1 Cash loans and deposits

Classification

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

Recognition

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently.

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 Impairedon in the solvency of borrowers.

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

Impaired loans comprise:

a) non-performing loans

b) watchlist loans

c) restructured loans

d) past due loans

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

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

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

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

Loans may be measured on a detailed or an overall basis. Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

a) value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;

b) expected timing of recoveries, considering the progress made by recovery procedures;
c) internal rate of return.

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

Subjective watchlist loans are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:
a) recoveries forecast by the offices concerned;
b) expected timing of recoveries based on historical-statistical data;
c) original discounting rates represented by the actual contractual rates applying at the time the loans were added to the watchlist.

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

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

Restructured loans are assessed on a detailed basis with reference to the following parameters:
a) plans for the recovery and/or restructuring of the loans, considering the assessment made by the offices concerned;
b) discounting rates represented by the actual or contractual interest rates applying prior to reaching agreement with the borrowers.

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

Performing loans that do not show any objective signs of impairment are valued on a collective basis. Such loans aggregated in homogeneous classes with similar characteristics have applied to them impairment coefficients that are estimated on the basis of statistical data and expressed as the probability of default (PD) by the customer and the extent of the loss given default (LGD). The expected loss on these loans (nominal amount of the loan multiplied by the PD and the LGD) is adjusted by the LCP (Loss Confirmation Period), which reflects for the various homogenous classes of loan the delay between the deterioration in the financial situation of the customer and the recognition of that situation by the Bank.

Recognition of components affecting the income statement

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

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

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

Derecognition

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

4.2 Endorsement loans

Classification

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

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form 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 adjustments to other financial assets» with the contra-entry to other liabilities.

5. Financial assets carried at fair value

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

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

6. Hedging transactions

Classification and recognition

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

The hedging of market risks can take two different forms:

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

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

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

Measurement and recognition of components affecting the income statement

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

1) hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;
2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement.

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

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

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

Derecognition

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

7. Equity investments

Classification

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

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

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

Recognition

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

Accounting policies

Equity investments are subsequently valued at cost. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

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

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

Derecognition

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

8. Property, plant and equipment

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. As required by IAS 17, assets held under finance leases are also classified in this caption.

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

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

Derecognition

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

9. Intangible assets

Classification

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

Recognition

Intangible assets are recorded at purchase cost 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 asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «net adjustments to intangible assets» caption of the income statement. It is not permitted to book any subsequent recoveries in value.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

10. Non-current assets held for sale and discontinued operations

Non-current assets are only included in this item when it is considered very probable that they will be sold.

They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to equity; in this case, the matching entries are also recorded within equity.

12. Provisions for risks and charges

This caption comprises the following provisions:

a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of the reserve for termination indemnities; once again, the actuarial gains and losses deriving from actuarial estimates are 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) Post-employment benefits. 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 debt securities in issue

Classification

Amounts due to customers and banks and debt securities in issue comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions 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 expense and similar charges».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses on disposals or repurchases of financial liabilities».

Derecognition,

Financial liabilities are derecognised when they expire or are settled.

Funding liabilities that are subsequently repurchased by the bank are eliminated from the financial statements.

14. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

15. Financial liabilities at fair value

The financial statements do not include any financial liabilities at fair value.

16. Currency transactions

Classification

They include all assets and liabilities denominated in currencies other than Euro.

Recognition

Assets and liabilities denominated in currencies other than the euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

Exchange differences on assets defined as available for sale are recorded under valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

17. Termination indemnities

Termination indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out each year by an independent actuary.

As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

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

18. Other information

The Bank has not established any stock option plans.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection.

Dividends are recorded upon collection.

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

Securitisations

In 2012, the Bank carried out a securitisation of performing residential mortgage loans. These loans were sold without recourse to a vehicle company and its senior and junior securities were purchased by the Bank. Given that the Bank maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet. The economic effects were recognised consistently, giving prevalence to substance over form.

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 31.12.2013 (4)	Fair value at of 31.12.2013 (5)	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation (6)	Others (7)	Valuation (8)	Others (9)
A. Fixed-yield securities	HFT	HTM	107,851	102,050	1,235	911	1,083	911

Income items include securities service employees' post-employment benefits.

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those 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 Governmentsng the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change the concept of fair value, but provides new application guidelines and envisages additional disclosures.

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

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

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

A.4.2 Processes and sensitivity of the measurements

The Bank uses various methodologies to determine the fair value of assets and liabilities.

Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options.

The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

For changes of +/- 1 basis point in the credit spread or changes in the other input parameters (e.g. for convertible bonds, 1% volatility for the calculation of the related options), the fair value of the financial instruments changes by about euro 69 thousand.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets - according the definition of IAS 39 – for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank. Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used. Following the entry into force of IFRS 13, which strengthened the guidelines underlying the classification of financial instruments, the Bank revised such classifications during the year and transferred its financial instruments to the most appropriate fair value level.

A.4.4 Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

	31/12/2013			31/12/2012		
Financial assets/liabilities carried at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	3,041,728	67,878	58,055	1,683,263	411,977	2,154
2. Financial assets carried at fair value	79,226	–	–	30,676	73,548	–
3. Financial assets available for sale	3,257,770		115,475	2,221,907	204,912	11,255
4. Hedging derivatives	–	–	–	–	–	–
5. Property, plant and equipment	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**6,378,724**	**67,878**	**173,530**	**3,935,846**	**690,437**	**13,409**
1. Financial assets held for trading	29	60,280	–	687	86,206	–
2. Financial liabilities carried at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	–	–	–	–	–
Total	**29**	**60,280**	**–**	**687**	**86,206**	**–**

Based on the guiding principles for the classification of financial instruments established in IFRS 13, a number of transfers of fair value from Level 2 to Level 1 were recorded during the year. These transferred comprises € 38 million of HFT financial assets, € 76 million of FVTPL financial assets and € 75 million of AFS financial assets.

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

	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
A. **Opening balance**	**2,154**	**–**	**11,255**	**–**	**–**	**–**
2. **Increases**	**58,063**	**–**	**111,036**	**–**	**–**	**–**
2.1. Purchases	–	–	16,560	–	–	–
2.2. Income booked to:						
2.2.1. Income statement	–	–	–	–	–	–
- of which realized gains	–	–	–	–	–	–
2.2.2. Equity	–	–	265	–	–	–
2.3. Transfers from other levels	58,055	–	92,089	–	–	–
2.4. Other increases	8	–	2,122	–	–	–
3. **Decreases**	**2,162**	**–**	**6,816**	**–**	**–**	**–**
3.1. Sales	–	–	2,027	–	–	–
3.2. Reimbursements	2,125	–	–	–	–	–
3.3. Losses booked to:						
3.3.1. Income statement	–	–	1,462	–	–	–
- of which losses	–	–	1,462	–	–	–
3.3.2. Equity	–	–	1,618	–	–	–
3.4. Transfers to other levels	–	–	–	–	–	–
3.5. Other decreases	37	–	1,709	–	–	–
4. **Closing balance**	**58,055**	**–**	**115,475**	**–**	**–**	**–**

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	31/12/2013				31/12/2012			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets held to maturity	182,621	156,305	-	25,358	204,644	14,470	187,086	-
2. Due from banks	1,481,715	-	-	1,481,715	1,855,236	-	-	1,855,236
3. Loans to customers	20,843,578	-	-	21,180,146	22,390,051	-	-	22,696,745
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**22,507,914**	**156,305**	**-**	**22,687,219**	**24,449,931**	**14,470**	**187,086**	**24,551,981**
1. Due to banks	3,692,634	-	-	3,692,634	3,828,808	-	-	3,828,808
2. Customer deposits	21,208,780	-	-	21,208,780	20,844,527	-	-	20,844,527
3. Debt securities in issue	2,850,638	-	2,870,957	-	2,817,454	-	2,814,748	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**27,752,052**	**-**	**2,870,957**	**24,901,414**	**27,490,789**	**-**	**2,814,748**	**24,673,335**

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

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IAS 39 para. AG. 76 derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B Information on the statement of financial position

Assets

Section 1 Cash and cash equivalents - line item 10

1.1 Cash and balances with central banks: analysis

	31/12/2013	31/12/2012
a) Cash	109,512	114,159
b) Unrestricted deposits with central banks	–	–
Total	**109,512**	**114,159**

Section 2 Financial assets held for trading - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2013			31/12/2012		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	2,976,300	–	58,055	1,637,103	310,533	2,154
1.1 Structured securities	116,639	–	9,035	36,299	12,181	–
1.2 Other fixed-yield securities	2,859,661	–	49,020	1,600,804	298,352	2,154
2. Variable-yield securities	41,990	–	–	38,593	1,819	–
3. Mutual funds	22,561	–	–	6,939	6,012	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**3,040,851**	**–**	**58,055**	**1,682,635**	**318,364**	**2,154**
B. **Derivatives**						
1. Financial derivatives:	877	67,878	–	628	93,613	–
1.1 for trading	877	67,878	–	628	93,613	–
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	**877**	**67,878**	**–**	**628**	**93,613**	**–**
Total (A+B)	**3,041,728**	**67,878**	**58,055**	**1,683,263**	**411,977**	**2,154**

The other fixed-yield securities included in Level 3 principally comprise capital accumulation certificates, carried at cost, and bonds deriving from the securitisation of loans, measured using price information received from external infoproviders and for which the market cannot be considered active.

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

Items/Amounts	31/12/2013	31/12/2012
A. **Cash assets**		
1. Fixed-yield securities	3,034,355	1,949,790
a) Governments and central banks	2,828,241	1,636,608
b) Other public entities	22	26
c) Banks	153,291	253,374
d) Other issuers	52,801	59,782
2. Variable-yield securities	41,990	40,412
a) Banks	13,570	15,166
b) Other issuers:	28,420	25,246
- insurance companies	977	1,576
- financial companies	2,544	859
- non-financial companies	24,899	22,811
- other	–	–
3. Mutual funds	22,561	12,951
4. Loans	–	–
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**3,098,906**	**2,003,153**
B. **Derivatives**		
a) Banks	40,550	56,963
b) Customers	28,205	37,278
Total B	**68,755**	**94,241**
Total (A+B)	**3,167,661**	**2,097,394**

Mutual funds are made up of: funds and sicavs for € 22.120 million and real estate funds for € 0.441 million.

2.3 Cash financial assets held for trading: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
A. **Opening balance**	**1,949,790**	**40,412**	**12,951**	**–**	**2,003,153**
B. **Increases**	**8,564,118**	**195,922**	**116,195**	**–**	**8,876,235**
B.1 Purchases	8,444,804	188,733	112,883	–	8,746,420
B.2 Positive change in fair value	43,267	1,468	1,770	–	46,505
B.3 Other changes	76,047	5,721	1,542	–	83,310
C. **Decreases**	**7,479,553**	**194,344**	**106,585**	**–**	**7,780,482**
C.1 Disposals	7,133,862	192,319	105,908	–	7,432,089
C.2 Reimbursements	307,791	–	–	–	307,791
C.3 Negative changes in fair value	879	1,918	667	–	3,464
C.4 Transfer to other portfolios	–	–	–	–	–
C.5 Other changes	37,021	107	10	–	37,138
D. **Closing balance**	**3,034,355**	**41,990**	**22,561**	**–**	**3,098,906**

Other increases consist of net trading income and accrued interest coupons and premiums. Other decreases consist of net trading losses and the amount of coupons collected.

Section 3 Financial assets carried at fair value - line item 30

3.1 Financial assets carried at fair value: breakdown by sector

	31/12/2013			31/12/2012		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**493**	**–**	**–**	**29,768**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	493	–	–	29,768	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**78,733**	**–**	**–**	**908**	**73,548**	**–**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–
4.2 other	–	–	–	–	–	–
Total	**79,226**	**–**	**–**	**30,676**	**73,548**	**–**
Cost	**74,438**	**–**	**–**	**28,284**	**69,036**	**–**

This portfolio includes all securities, other than those booked to the trading portfolio, which the bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

3.2 Financial assets carried at fair value: breakdown by debtor/issuer

Items/Amounts	**31/12/2013**	**31/12/2012**
1. **Fixed-yield securities**	**493**	**29,768**
a) Governments and central banks	493	29,768
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**	**78,733**	**74,456**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**79,226**	**104,224**

Mutual funds are made up of: bond funds and sicavs for € 38.720 million, funds and sicavs for € 33.613 million, real estate funds for € 1.103 million and flexible funds for € 5.297 million.

3.3 Financial assets carried at fair value: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	**Total**
A. **Opening balance**	**29,768**	**–**	**74,456**	**–**	**104,224**
B. **Increases**	**1,544**	**–**	**5,168**	**–**	**6,712**
B.1 Purchases	–	–	–	–	–
B.2 Positive changes in fair value	15	–	5,168	–	5,183
B.3 Other changes	1,529	–	–	–	1,529
C. **Decreases**	**30,819**	**–**	**891**	**–**	**31,710**
C.1 Disposals	30,124	–	–	–	30,124
C.2 Reimbursements	–	–	–	–	–
C.3 Negative changes in fair value	–	–	891	–	891
C.4 Other changes	695	–	–	–	695
D. **Closing balance**	**493**	**–**	**78,733**	**–**	**79,226**

«Other changes» include net trading income and accrued interest coupons and premiums (as an increase) and coupons collected (as a decrease).

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

4.1 Financial assets available for sale: breakdown by sector

	31/12/2013			31/12/2012		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**3,181,707**	**–**	**53,229**	**2,208,373**	**77,415**	**–**
1.1 Structured securities	303,187	–	3,000	41,447	–	–
1.2 Other fixed-yield securities	2,878,520	–	50,229	2,166,926	77,415	–
2. **Variable-yield securities**	**13,862**	**–**	**51,185**	**13,534**	**65,864**	**–**
2.1 Carried at fair value	13,862	–	–	13,534	2,574	–
2.2 Carried at cost	–	–	51,185	–	63,290	–
3. **Mutual funds**	**62,201**	**–**	**11,061**	**–**	**61,633**	**11,255**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**3,257,770**	**–**	**115,475**	**2,221,907**	**204,912**	**11,255**

Unlisted equities remain at cost, adjusted if necessary for impairment, because of the problems involved in establishing their fair value at the year end.

A comparison between the cost and net equity of these unlisted equities based on the latest available financial statements only identified impairment losses in relation to Release spa.

Variable-yield securities include € 2.020 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 € 9.192 million, an open-end bond fund for € 62.201 million and a real estate fund for € 1.869 million. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	**31/12/2013**	**31/12/2012**
1. **Fixed-yield securities**	**3,234,936**	**2,285,788**
a) Governments and central banks	3,171,722	2,208,373
b) Other public entities	1,307	1,307
c) Banks	40,609	65,628
d) Other issuers	21,298	10,480
2. **Variable-yield securities**	**65,047**	**79,398**
a) Banks	15,826	16,468
b) Other issuers:	49,221	62,930
- insurance companies	1,937	1,556
- financial companies	33,692	48,363
- non-financial companies	13,592	13,011
- other	–	–
3. **Mutual funds**	**73,262**	**72,888**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**3,373,245**	**2,438,074**

4.4 Financial assets available for sale: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	**Total**
A. **Opening balance**	**2,285,788**	**79,398**	**72,888**	**–**	**2,438,074**
B. **Increases**	**3,540,818**	**12,129**	**66,931**	**–**	**3,619,878**
B.1 Purchases	3,357,522	1,822	64,642	–	3,423,986
B.2 Positive changes in fair value	58,835	1,886	304	–	61,025
B.3 Write-backs	–	–	–	–	–
- booked to income statement	–	–	–	–	–
- booked to to equity	–	–	–	–	–
B.4 Transfers from other portfolios	–	–	–	–	–
B.5 Other changes	124,461	8,421	1,985	–	134,867
C. **Decreases**	**2,591,670**	**26,480**	**66,557**	**–**	**2,684,707**
C.1 Disposals	2,293,430	6,193	61,911	–	2,361,534
C.2 Reimbursements	225,000	–	–	–	225,000
C.3 Negative changes in fair value	1,813	115	93	–	2,021
C.4 Writedowns - from impairment	–	11,418	1,462	–	12,880
- booked to income statement	–	11,418	1,462	–	12,880
booked to equity	–	–	–	–	–
C.5 Transfer to other portfolios	–	3,840	–	–	3,840
C.6 Other changes	71,427	4,914	3,091	–	79,432
D. **Closing balance**	**3,234,936**	**65,047**	**73,262**	**–**	**3,373,245**

This item passes from € 2,438.074 million to € 3,373.245 million.

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

The principal increases include the purchase di fixed-yield securities for € 3,357.522 million, additional holdings in Unione Fiduciaria spa, € 1.119 million, Campus Bio Medico, € 0.393 million, and Banca Popolare dell'Etruria, € 0.310 million, and the purchase of mutual funds for € 64.642 million; positive changes in fair value of € 61.025 million, while the other increases of € 134.867 million derive mainly from various items of accrued interest that have been accounted for. The decreases include sales of fixed-yield securities of € 2,293.430 million and variable-yield securities of € 6.193 million, repayment of fixed-yield securities of € 225 million, negative changes in fair value of € 2.021 million, while writedowns for impairment of variable-yield securities and mutual funds amounted to € 12.880 million. Lastly, other decreases total € 79.432 million and reflect the collection of coupons € 49.097 million, reclassifications from equity on disposals, € 20.227 million, and from amortised cost, € 2.103 million, the elimination of profit-sharing agreements, € 2.630 million, reclassifications from equity and other operations, € 2.284 million, redemption of mutual funds and other operations, € 1.223 million, and other reclassifications from equity, € 1.868 million.

Section 5 *Financial assets held to maturity - line item 50*

5.1 Financial assets held to maturity: breakdown by sector

	31/12/2013				31/12/2012			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**182,621**	**156,305**	**–**	**25,358**	**204,644**	**14,470**	**187,086**	**–**
- structured	16,795	–	–	16,104	16,696	–	15,739	–
- other	165,826	156,305	–	9,254	187,948	14,470	171,347	–
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 € 109.372 million at par, had been measured at fair value at the date of the financial statements, they would have been worth € 107.851 million with a loss of € 5.801 million.

5.2 Financial assets held to maturity: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2013	31/12/2012
1. **Fixed-yield securities**	**182,621**	**204,644**
a) Governments and central banks	22,366	14,240
b) Other public entities	–	–
c) Banks	68,390	76,848
d) Other issuers	91,865	113,556
2. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**182,621**	**204,644**
Total fair value	**181,663**	**201,556**

5.4 Financial assets held to maturity: variazioni annue

	Fixed-yield securities	Loans	Total
A. **Opening balance**	**204,644**	**–**	**204,644**
B. **Increases**	**17,905**	**–**	**17,905**
B.1 Purchases	12,179	–	12,179
B.2 Write-backs	–	–	–
B.3 Transfers from other asset portfolios	–	–	–
B.4 Other changes	5,726	–	5,726
C. **Decreases**	**39,928**	**–**	**39,928**
C.1 Disposals	–	–	–
C.2 Reimbursements	34,250	–	34,250
C.3 Write-downs	–	–	–
C.4 Transfer to other asset portfolios	–	–	–
C.5 Other changes	5,678	–	5,678
D. **Closing balance**	**182,621**	**–**	**182,621**

Other increases concern interest coupons and premiums and the positive element of amortised cost.

Other decreases consist of collected coupons and the negative element of amortised cost.

Item C2. relates to the repayment of securities expired.

Section 6 Due from banks - line item 60

6.1 Due from banks: breakdown by sector

	31/12/2013				**31/12/2012**			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**105,504**	**–**	**–**	**105,504**	**259,560**	**–**	**–**	**259,560**
1. Time deposits	–	–	–	–	–	–	–	–
2. Compulsory reserve	105,504	–	–	–	259,560	–	–	–
3. Repurchase agreements	–	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–	–
B. **Due from banks**	**1,376,211**	**–**	**–**	**1,376,211**	**1,595,676**	**–**	**–**	**1,595,676**
1. Loans	1,376,211	–	–	1,376,211	1,595,676	–	–	1,595,676
1.1 Current accounts and sight deposits	194,025	–	–	–	360,045	–	–	–
1.2 Time deposits	1,155,920				1,205,938			
1.3 Other Loans:	26,266	–	–	–	29,693			
- Repurchase agreements	–	–	–	–	10,427	–	–	–
- Financial leases	–	–	–	–	–	–	–	–
- Other	26,266	–	–	–	19,266	–	–	–
2. Fixed-yield securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–
2.2 Other Fixed-yield securities	–	–	–	–	–	–	–	–
Total	**1,481,715**	**–**	**–**	**1,481,715**	**1,855,236**	**–**	**–**	**1,855,236**

These receivables are not specifically hedged.

Their fair value is equal to their book value as they are short-term loans repayable on demand.

Section 7 *Due from customers - line item 70*

7.1 Due from customers: breakdown by sector

Typer of transaction/ Amounts	31/12/2013 Book value Performing	Impaired Purchased	Impaired Other	Fair Value L1	L2	L3	31/12/2012 Book value Performing	Impaired Purchased	Impaired Other	Fair Value L1	L2	L3
Loans	**19,080,666**	**-**	**1,762,912**	**-**	**-**	**21,180,146**	**21,160,328**	**-**	**1,229,724**	**-**	**-**	**22,696,745**
1. Current accounts	5,865,311	-	851,584	-	-	-	7,559,397	-	554,019	-	-	-
2. Repurchase agreements	49,412	-	-	-	-	-	485,863	-	-	-	-	-
3. Mortgage loans	8,631,873	-	758,015	-	-	-	8,802,074	-	550,359	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	163,229	-	11,112	-	-	-	143,130	-	9,101	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other Loans	4,370,841	-	142,201	-	-	-	4,169,864	-	116,245	-	-	-
Fixed-yield securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
8.2 Other Fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**19,080,666**	**-**	**1,762,912**	**-**	**-**	**21,180,146**	**21,160,328**	**-**	**1,229,724**	**-**	**-**	**22,696,745**

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 € 1.326 million of residential mortgages, which were the subject of a securitisation carried out by the Bank. This transaction involved the sale without recourse of mortgage loans to the SPV Centro delle Alpi RMBS S.r.l., whose senior and junior securities issued in connection with this operation were purchased by the Bank. Given that the Bank maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2013 Performing	31/12/2013 Impaired Purchased	31/12/2013 Impaired Other	31/12/2012 Performing	31/12/2012 Impaired Purchased	31/12/2012 Impaired Other
1. **Fixed-yield securities**						
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	–	–	–	–	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	–	–	–	–	–	–
- insurance companies	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. **Loans to:**						
a) Governments	78	–	–	19,878	–	–
b) Other public entities	85,817	–	–	91,138	–	–
c) Other parties	18,994,771	–	1,762,912	21,049,312	–	1,229,724
- non-financial companies	12,349,916	–	1,391,934	13,685,191	–	923,174
- financial companies	2,836,335	–	32,125	3,620,366	–	15,827
- insurance companies	3,051	–	–	2,637	–	–
- other	3,805,469	–	338,853	3,741,118	–	290,723
Total	**19,080,666**	**–**	**1,762,912**	**21,160,328**	**–**	**1,229,724**

Section 10 Equity investments - line item 100

10.1 Investments in subsidiary companies, companies under joint control and companies subject to significant influence: disclosures

Name	Location	% holding	% of votes
A. **Investments in wholly-owned subsidiaries**			
1. BANCA POPOLARE DI SONDRIO SUISSE SA	Lugano	100.000	100.000
2. FACTORIT S.p.a.	Milano	60.500	60.500
3. SINERGIA SECONDA S.r.l.	Milano	100.000	100.000
4. PIROVANO STELVIO S.p.a.	Sondrio	100.000	100.000
B. **Investments in companies under joint control**			
1. RAJNA IMFurnitureARE S.r.l.	Sondrio	50.000	50.000
C. **Associated companies (subject to significant influence)**			
1. ALBA Leasing S.p.a.	Milano	20.950	20.950
2. ARCA VITA S.p.a.	Verona	14.837	14.837
3. BANCA DELLA NUOVA TERRA S.p.a.	Milano	19.609	19.609
4. UNIONE FIDUCIARIA S.p.a.	Milano	24.000	24.000
5. POLIS FONDI SGR PA	Milano	19.600	19.600
6. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	Milano	33.333	33.333

10.2 Investments in subsidiary companies, companies under joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Equity	Book value	Fair value
A. **Investments in wholly-owned subsidiaries**						
1. BANCA POPOLARE DI SONDRIO SUISSE S.A.	3,787,720	111,175	2,005	225,301	109,341	–
2. FACTORIT S.p.A.	1,825,656	95,959	19,352	190,983	102,850	–
3. SINERGIA SECONDA S.r.l.	76,830	3,424	309	67,360	60,129	–
4. PIROVANO STELVIO S.p.A.	3,717	1,411	(466)	2,029	2,029	–
B. **Investments in companies under joint control**						
1. RAJNA IMFurnitureARE S.r.l.	911	137	52	896	265	–
C. **Associated companies (subject to significant influence)**						
1. ALBA LEASING S.p.A.	4,522,259	98,886	(13,954)	366,869	76,859	–
2. ARCA VITA S.p.A.	5,080,722	1,018,843	39,380	400,732	44,821	–
3. BANCA DELLA NUOVA TERRA S.p.A.	438,240	16,657	(8,591)	46,305	8,442	–
4. UNIONE FIDUCIARIA S.p.A.	62,487	31,407	920	31,931	4,565	–
5. POLIS FONDI SGR PA	12,112	5,730	1,035	9,574	2,407	–
6. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	825	771	21	478	32	–
	15,811,479	**1,384,400**	**40,063**	**1,342,458**	**411,740**	**–**

Equity investments are shown in the financial statements at cost in accordance with IAS 27, 28 and 31. This amount is adjusted in the event of permanent impairment.

The figures shown in the table are taken from the financial statements at 31.12.2013, reclassified according to IAS/IFRS, except for Alba Leasing Spa and Polis Fondi SGRpa, for which the figures come from their financial statements at 30 September 2013 (the latest approved).

For affiliates that prepare financial statements or consolidated financial statements, the figures shown in these documents are used.

During the year, we received dividends of € 13.906 million from Arca Vita spa, € 3.600 million from Factorit spa and € 0.065 million from Polis Fondi SGRpa.

The fair value is not shown for companies that are not listed on active markets.

10.3 Equity investments: changes during the year

	31/12/2013	31/12/2012
A. **Opening balance**	**398,637**	**348,465**
B. **Increases**	**19,673**	**52,265**
B.1 Purchases	15,390	51,925
B.2 Write-backs	–	–
B.3 Revaluations	–	–
B.4 Other changes	4,283	340
C. **Decreases**	**6,570**	**2,093**
C.1 Disposals	–	–
C.2 Adjustments	6,570	2,093
C.3 Other changes	–	–
D. **Closing balance**	**411,740**	**398,637**
E. **Total revaluations**	**–**	**–**
F. **Total writedowns**	**(30,278)**	**(23,707)**

This item passes from € 398.637 million to € 411.740 million.

The increases refer to:

- an increase of € 14.665 million for the increase in capital of Alba Leasing spa;
- an increase of € 0.725 million on the purchase of shares in Unione Fiduciaria spa;
- an increase of € 3.840 million on the reclassification of shares in Unione Fiduciaria from the AFS line item;
- coverage of loss of Pirovano Stelvio spa of € 0.443 million.

The decreases refer to:

- the write-down of Alba Leasing spa for € 3.272 million. This company was set up in 2010, but has still not managed to comply with the deadlines set to achieve a profit;
- the write-down of Banca Nuova Terra spa for € 2.832 million;
- the write-down of Pirovano Stelvio spa for € 0.465 million.

10.4 - 10.5 - 10.6 Commitments relating to investments in subsidiaries, companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Bank has made a specific risk provision.

Section 11 *Property, plant and equipment - line item 110*

11.1 Property, plant and equipment: analysis of assets valued at cost

Assets/Values	31/12/2013	31/12/2012
1. **owned**	**125,744**	**107,336**
a) land	44,364	37,315
b) buildings	63,531	51,483
c) furniture	6,810	7,299
d) IT equipment	1,500	1,764
e) other	9,539	9,475
2. **purchased under finance leases**	**29,879**	**30,839**
a) land	6,803	6,803
b) buildings	23,076	24,036
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**155,623**	**138,175**

Property, plant and equipment are valued at cost. Buildings have a fair value of € 286.960 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 131.598 million.

Property, plant and equipment are free from restrictions and commitments guaranteeing liabilities.

Assets purchased under finance leases are represented by buildings used as bank branches.

11.5 Property, plant and equipment used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Other	**Total**
A. **Opening gross amount**	**44,118**	**141,229**	**21,005**	**12,769**	**40,656**	**259,777**
A.1 Total net reductions in value	–	(65,710)	(13,706)	(11,005)	(31,181)	(121,602)
A.2 Opening net amount	44,118	75,519	7,299	1,764	9,475	138,175
B. **Additions**	**7,049**	**15,504**	**1,465**	**951**	**5,055**	**30,024**
B.1 Purchases	7,049	13,493	1,465	951	5,055	28,014
B.2 Capitalised improvement expenditure	–	2,011	–	–	–	2,011
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**4,416**	**1,954**	**1,215**	**4,991**	**12,576**
C.1 Disposals	–	–	–	–	14	14
C.2 Depreciation	–	4,416	1,954	1,215	4,977	12,562
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**	**51,167**	**86,607**	**6,810**	**1,500**	**9,539**	**155,623**
D.1 Total net reductions in value	–	(70,026)	(15,660)	(12,253)	(36,017)	(133,956)
D.2 Closing gross amount	51,167	156,633	22,470	13,753	45,556	289,579
E. **Valuation at cost**	**51,167**	**86,607**	**6,810**	**1,500**	**9,539**	**155,623**

This item totals € 155.623 million, an increase of € 17.448 million, + 12.63%.

The principal changes relate to:

- owned buildings:
  purchase of Palazzo Lambertenghi in Sondrio and buildings in Domaso, Sesto Calende, Melegnano, Trescore Balneario and Abbiategrasso to be fitted out as branches;
  restructuring of the international unit offices in Sondrio, Lungo Mallero Cadorna;
  purchase of land rights in Sondrio (La Garberia);
  restructuring work at Berbenno di Valtellina (Service Centre), S. Pietro Berbenno, Mazzo di Valtellina, Aprica, Dongo, Gravedona, Domaso, Bergamo and Turin;
- furniture, installations and other:
  increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

Property, plant and equipment	depreciation period (years)
buildings	33
furniture and fittings	7
IT equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
photovoltaic plant	12
safes	8

In accordance with article 10 of Law 72 of 19 March 1983, an appendix to this report provides information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

11.7 Commitments for the purchase of property, plant and equipment

Contractual commitments for the purchase of property, plant and equipment amount to € 5.032 million, compared with € 11.044 million the previous year.

Section 12 Intangible assets - voce 120

12.1 Intangible assets: breakdown by type

	31/12/2013		31/12/2012	
Assets/Values	Specified duration	Unspecified duration	Specified duration	Unspecified duration
A.1 **Goodwill**	**–**	**–**	**–**	**–**
A.2 **Other Intangible assets**	**11,676**	**–**	**11,143**	**–**
A.2.1 Carried at cost:	11,676	–	11,143	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	11,676	–	11,143	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**11,676**	**–**	**11,143**	**–**

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:

	31/12/2013	31/12/2012
recorded in 2010	–	1
recorded in 2011	1	3,044
recorded in 2012	4,049	8,098
recorded in 2013	7,626	–
Total	**11,676**	**11,143**

12.2 Intangible assets: changes during the year

	Goodwill	Other Intangible assets: generated internally - Specified	Other Intangible assets: generated internally - Unspecified	Other intangible assets: other - Specified	Other intangible assets: other - Unspecified	Total 31/12/2013
A. **Opening gross amount**	**–**	**–**	**–**	**72,825**	**–**	**72,825**
A.1 Total net reductions in value	–	–	–	61,682	–	61,682
A.2 Opening net amount	–	–	–	11,143	–	11,143
B. **Additions**	**–**	**–**	**–**	**11,441**	**–**	**11,441**
B.1 Purchases	–	–	–	11,441	–	11,441
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**	**–**	**–**	**–**	**10,908**	**–**	**10,908**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	10,908	–	10,908
- Amortisation	–	–	–	10,908	–	10,908
- Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
C.4 Transfers to discontinued operations due for disposal	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**–**	**–**	**–**	**11,676**	**–**	**11,676**
D.1 Total net reductions in value	–	–	–	72,590	–	72,590
E. **Closing gross amount**	**–**	**–**	**–**	**84,266**	**–**	**84,266**
F. **Valuation at cost**	**–**	**–**	**–**	**11,676**	**–**	**11,676**

Key:
Specified: specified duration
Unspecified: unspecified duration

12.3 Other information

Contractual commitments to purchase software user rights amount to € 6.804 million, compared with € 11.181 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

	31/12/2013	31/12/2012
Loan writedowns	243,012	126,943
Provisions for risks and charges	17,125	13,828
Deferred charges	2,856	3,032
Securities and equity investments	2,193	6,575
Administrative expenses	5,367	5,596
Amortisation and depreciation	1,445	1,321
Total	**271,998**	**157,295**

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, the provision for personnel charges and the provision to cover the Bank's share of the support to be given by the Interbank Deposit Protection Fund in favour of Banca Tercas, which is in Special Receivership. Deferred tax assets have been recognised in relation to all deductible timing differences.

13.2 Deferred tax liabilities: breakdown

	31/12/2013	31/12/2012
Owned buildings	5,718	5,718
Accelerated depreciation	2,175	2,269
Leased buildings	1,886	1,937
Revaluation of securities and gains	17,228	9,219
Administrative expenses	949	1,547
Loans	–	–
Total	**27,956**	**20,690**

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)

	31/12/2013	31/12/2012
1. **Opening balance**	**145,419**	**57,629**
2. **Increases**	**163,893**	**95,261**
2.1 Deferred tax assets arising during the year	163,848	95,240
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	163,848	95,240
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	45	21
3. **Decreases**	**44,627**	**7,471**
3.1 Deferred tax assets eliminated during the year	44,625	7,471
a) reversals	44,625	7,471
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	2	–
a) transformation into tax credits as per Law 214/2011	–	–
b) other	2	–
4. **Closing balance**	**264,685**	**145,419**

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)

	31/12/2013	31/12/2012
1. **Opening balance**	**126,943**	**41,172**
2. **Increases**	**154,283**	**88,227**
3. **Decreases**	**38,214**	**2,456**
3.1 Reversals	38,214	2,456
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**243,012**	**126,943**

Deferred tax assets have not been converted into tax credits in accordance with Law 214/2011 as the conditions for doing so do not exist.

13.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2013	31/12/2012
1. **Opening balance**	**11,797**	**12,496**
2. **Increases**	**4**	**80**
2.1 Deferred tax liabilities arising during the year	4	66
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	4	66
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	14
3. **Decreases**	**1,490**	**779**
3.1 Deferred tax liabilities eliminated during the year	450	295
a) reversals	450	295
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	1,040	484
4. **Closing balance**	**10,311**	**11,797**

13.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2013	31/12/2012
1. **Opening balance**	**11,877**	**21,955**
2. **Increases**	**1,453**	**5,489**
2.1 Deferred tax assets arising during the year	1,453	5,489
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,453	5,489
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
- of which: business combinations	–	–
3. **Decreases**	**6,018**	**15,567**
3.1 Deferred tax assets eliminated during the year	4,978	15,567
a) reversals	4,978	15,567
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	1,040	–
4. **Closing balance**	**7,312**	**11,877**

This amount relates for € 2.150 million to losses on securities available for sale booked to equity, and for € 5.162 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.

13.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2013	31/12/2012
1. **Opening balance**	**8,892**	**528**
2. **Increases**	**9,695**	**8,520**
2.1 Deferred tax liabilities arising during the year	9,695	8,520
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	9,695	8,520
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**942**	**156**
3.1 Deferred tax liabilities eliminated during the year	942	156
a) reversals	942	156
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**17,645**	**8,892**

This amount mainly relates to the tax effect of recognising in equity the unrealised gains on AFS securities.

Section 15 Other assets - line item 150

15.1 Other assets: breakdown

	31/12/2013	31/12/2012
Advances paid to tax authorities	31,184	19,601
Withholdings on interest due to customers	6,360	8,889
Tax credits and related interest	15,333	7,467
Current account cheques drawn on third parties	26,208	40,684
Current account cheques drawn on Group banks	14,051	17,964
Transactions in customers' securities	1,488	7,499
Inventories	746	878
Costs pertaining to the subsequent year	1,559	1,150
Advances to suppliers	533	64
Advances to customers awaiting collections	17,371	15,618
Miscellaneous debits in transit	29,697	31,478
Liquid assets serving post-employment benefits	16,924	19,415
Accrued income not allocated	26,335	24,622
Prepayments not allocated	3,498	3,503
Guarantee deposits for the purchase of property	–	11,054
Residual items	154,210	26,111
Total	**345,497**	**235,997**

Liabilities and equity

Section 1 Due to banks - line item 10

1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2013	31/12/2012
1. **Due to central banks**	**1,851,122**	**1,838,354**
2. **Due to banks**	**1,841,512**	**1,990,454**
2.1 Current accounts and sight deposits	317,042	494,786
2.2 Time deposits	1,344,057	1,280,369
2.3 Loans	180,399	215,240
2.3.1 Repurchase agreements	–	–
2.3.2 Other	180,399	215,240
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	14	59
Total	**3,692,634**	**3,828,808**
***Fair value* - Level 1**	**–**	**–**
***Fair value* - Level 2**	**–**	**–**
***Fair value* - Level 3**	**3,692,634**	**3,828,808**
Total *Fair value*	**3,692,634**	**3,828,808**

These payables are not specifically hedged. Amounts due to central banks include two loans of € 1,800 million from the ECB as part of 36-month Long-Term Refinancing Operations (LTRO) carried out between December 2011 and February 2012. These loans are secured by bonds, mainly Government bonds, securities issued in connection with the securitisation carried out by the Bank, and loans.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.5 Payables for finance leases

	31/12/2013	31/12/2012
Payables for finance leases	1,977	4,047

Payables for finance leases at floating rates amount to € 5.701 million, of which € 1.977 million relating to banks and € 3.724 million relating to customers against a total of € 8.269 million in the previous year, -31.06%; they relate to buildings used as banking branches.

Total outstanding lease commitments, including interest, amount to € 5.819 million. These payables fall due as follows:

within 1 months	1,481	2,748
1 to 5 years	4,077	5,502
over 5 years	261	330

Section 2 *Customer deposits - line item 20*

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2013	31/12/2012
1. **Current accounts and sight deposits**	**16,846,143**	**15,471,097**
2. **Time deposits**	**4,035,963**	**4,782,097**
3. **Loans**	**283,142**	**551,483**
3.1 Repurchase agreements	210,968	533,811
3.2 Other	72,174	17,672
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**
5. **Other payables**	**43,532**	**39,850**
Total	**21,208,780**	**20,844,527**
***Fair value* - Level 1**	**–**	**–**
***Fair value* - Level 2**	**–**	**–**
***Fair value* - Level 3**	**21,208,780**	**20,844,527**
Total *Fair value*	**21,208,780**	**20,844,527**

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

	31/12/2013	31/12/2012
Payables for finance leases	3,724	4,222

Section 3 *Securities issued - line item 30*

3.1 Securities issued: breakdown by sector

	31/12/2013				31/12/2012			
	Book	*Fair Value*			Book	*Fair Value*		
Type of security/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	2,766,991	–	2,787,310	–	2,712,866	–	2,710,160	–
1.1 structured	–	–	–	–	–	–	–	–
1.2 other	2,766,991	–	2,787,310	–	2,712,866	–	2,710,160	–
2. other securities	83,647	–	83,647	–	104,588	–	104,588	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 Other	83,647	–	83,647	–	104,588	–	104,588	–
Total	**2,850,638**	**–**	**2,870,957**	**–**	**2,817,454**	**–**	**2,814,748**	**–**

The fair value of the sub-item other securities is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

3.2 Details of line item 30 «Debt securities in issue»: subordinated securities

Subordinated securities amount to € 694.235 million and are made up of the two loans indicated below:

- loan of € 290.893 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 4.25%.
- loan of € 403.342 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%.

They belong to the Lower Tier II category of bonds, i.e. those that according to the regulations can be included in capital for supervisory purposes.

Section 4 *Financial liabilities held for trading - line item 40*

4.1 Financial liabilities held for trading: breakdown by sector

	31/12/2013					31/12/2012				
		Fair Value					Fair Value			
Type of transaction/Amounts	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Customer deposits	–	–	–	–	–	–	–	–	–	–
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	–	29	60,280	–	–	–	687	86,206	–	–
1.1 For trading	–	29	60,280	–	–	–	687	86,206	–	–
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	**–**	**29**	**60,280**	**–**	**–**	**–**	**687**	**86,206**	**–**	**–**
Total A+B	**–**	**29**	**60,280**	**–**	**–**	**–**	**687**	**86,206**	**–**	**–**

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 € 27.956 million relates entirely to deferred taxation. There is no current taxation due to the considerable increase in advances paid pursuant to the changes introduced by Decree 133 of 30 November 2013, which resulted in the excess payments reported in asset line item 130.

As regards the composition and amount of deferred taxes, please read Assets Section 14 of these notes.

The bank's tax years up to 2005 have been closed. For 2006, 2007 and 2008 the Bank received notices of assessment from the Tax Authorities relating to IRES and IRAP concerning the deductibility of interest paid to customers and banks resident in countries that are considered tax havens. They have assessed higher IRES of € 0.544 million for 2006, € 0.855 million for 2007 and € 0.978 million for 2008 and higher IRAP of € 0.086 million, € 0.136 million and € 0.171 million respectively, plus penalties and interest. The appeals relating to the assessments regarding the 2006 and 2007 tax years are currently pending before the Milan Provincial Tax Commission, while lawyers have been appointed in relation to the 2008 assessment. For the same years, the Bank received notices of assessment for VAT purposes for not applying VAT on the commissions received as a custodian bank. The dispute involves € 0.624 million for 2006, € 0.625 million for 2007 and € 0.153 million for 2008. Penalties and interest have been requested in relation to 2006 and 2007 assessments, while there are none in relation to 2008, as explained below. This last type of dispute is considered complex and open to numerous doubts about the interpretation of the law. In particular, the dispute raised with all financial intermediaries providing custodian bank services represents a radical change with respect to long-established practice in the sector; accordingly, by Resolution 97/E of 17 December 2013, the Tax Authorities have formalised a compromise that envisages the partial, flat-rate taxation of such commissions for VAT purposes, without the application of penalties in relation to the prior years subject to assessment. The 2008 assessment reflects the content of this resolution. After considering carefully the above resolution, the Bank will settle the 2008 VAT assessment by paying the amount requested, and will arrange to settle the related 2006 and 2007 disputes in the light of this resolution, without the payment of penalties and with a reduction in the amount requested. Assessments were received during the year in relation to the flat-rate taxation of syndicated medium/long-term loans, the contracts for which were signed abroad. By contrast with previous guidance, the Tax Authorities now state that such contracts were prepared in Italy, even if signed abroad, and are therefore subject to flat-rate taxation. In almost all cases, such contracts envisage recharge of the additional taxation to the financed counterparties. The Bank has appointed lawyers to file the related appeals, following consultation with the other banks in the syndicate and the beneficiaries of the loans.

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2013	31/12/2012
Amounts at the disposal of third parties	309,605	100,381
Taxes to be paid on behalf of third parties	46,855	52,449
Taxes to be paid	9,268	8,621
Employee salaries and contributions	13,847	28,074
Suppliers	10,082	7,888
Transit accounts for sundry entities	10,663	683
Invoices to be received	9,082	7,162
Credits in transit for financial transactions	132	335
Value date differentials on portfolio transactions	135,442	136,082
Directors' and statutory auditors' emoluments	976	934
Loans disbursed to customers to be finalised	9,705	12,248
Miscellaneous credit items being settled	49,594	159,450
Accrued expenses not allocated	1,904	1,258
Deferred income not allocated	14,810	13,522
Allowance for risks on guarantees and commitments	18,000	8,100
Residual items	28,516	41,775
Total	**668,481**	**578,962**

The 15.46% rise in this line item mainly reflects the increases in «amounts at the disposal of third parties», «transit accounts for sundry entities» and «allowance for risks on guarantees and commitments», as partially offset by the reduction in «miscellaneous credit items being settled».

Section 11 *Termination indemnities - line item 110*

11.1 Termination indemnities: change in the year

	2013	2012
A. **Opening balance**	**39,990**	**36,000**
B. **Increases**	**7,450**	**11,889**
B.1 Provisions	7,389	8,090
B.2 Other changes	61	3,799
C. **Decreases**	**9,175**	**7,899**
C.1 Payments made	778	1,465
C.2 Other changes	8,397	6,434
D. **Closing balance**	**38,265**	**39,990**

11.2 Other information

The increases relate to deferred remuneration.

Other decreases relate to payments to the Arca Previdenza Fund of € 4.304 million, compared with € 4.222 million in the previous year, payments to INPS of € 1.945 million, the actuarial valuation of the liability of € 2.017 million and tax on the annual revaluation of € 0.132 million, compared with € 0.228 million in the previous year. When deciding on the discount rate, we took into account the recommendation made by ESMA in its document 725/2012 of 12 November 2012. High-quality corporate securities with an AA rating have been taken as a point of reference. We also used a yield curve that takes into account the expected average life of the Bank's obligation.

The provision for termination indemnities required under Italian regulations amounts to € 40.709 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:

	31/12/2013	31/12/2012
Discount rate	3.00%	2.70%
Rate of inflation	1.50%	2.00%
Annual rate of increase in termination indemnities	2.65%	3.00%

The discount rate has been chosen according to the I-Boxx Corporates Eurozone AA index at the measurement date 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	31/12/2013	31/12/2012
1. **Post-employment benefits**	**100,539**	**95,729**
2. **Other Provisions for risks and charges**	**41,346**	**43,403**
2.1 legal disputes	26,436	28,992
2.2 personnel expenses	13,943	13,355
2.3 other	967	1,056
Total	**141,885**	**139,132**

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

	Post-employment benefits	Other provisions	Total
A. **Opening balance**	**95,729**	**43,403**	**139,132**
B. **Increases**	**11,201**	**15,571**	**26,772**
B.1 Provisions	2,323	14,201	16,524
B.2 Changes due to the passage of time	–	88	88
B.3 Changes due to variations in the discount rate	2,990	–	2,990
B.4 Other changes	5,888	1,282	7,170
C. **Decreases**	**6,391**	**17,628**	**24,019**
C.1 Utilisations during the year	3,522	15,187	18,709
C.2 Changes due to variations in the discount rate	–	46	46
C.3 Other changes	2,869	2,395	5,264
D. **Closing balance**	**100,539**	**41,346**	**141,885**

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 428 employees and 236 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. 2,019 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

	2013	2012
At 1 January	95,729	77,831
service cost	1,984	1,855
interest cost	3,358	3,697
actuarial gains/losses	2,990	15,858
payments	(3,522)	(3,512)
At 31 December	**100,539**	**95,729**

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the pension plan are summarised in the following table:

	31/12/2013	31/12/2012
Fixed-yield securities	74,769	68,834
Variable-yield securities	515	1,106
Mutual funds invested in shares	7,890	6,011
Mutual funds invested in property	441	363
Other assets	16,924	19,415
Total	**100,539**	**95,729**

The amount of the fund increases by € 4.810 million, +5.02%.

Payments of benefits amount to € 3.522 million compared with € 3.512 million. The contributions paid by the employees totalled € 0.231 million (€ 0.249 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:

	31/12/2013	31/12/2012
Discount rate	3.00%	3.50%
Expected increase in salaries	2.00%	2.00%
Rate of inflation	1.50%	1.50%
Underlying rate of pension increases	1.50%	1.50%

The average discount rate was determined with reference to the I-Boxx Corporates Eurozone AA index with a duration in excess of 10 years at the measurement date.

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

+0.50% change in the discount rate, liability of € 93.086 million;

–0.50% change in the discount rate, liability of € 107.933 million.

In addition, the liability in the coming years was also analysed; in substance, utilisations in the coming years were estimated, as shown in the following table:

Future payments

Year	0-1	1-2	2-3	3-4	4-5
Cash flow	3,479	3,367	3,481	3,357	3,255

12.4 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2013	31/12/2012
Provision for legal disputes	26,436	28,992
Provision for personnel expenses	13,943	13,355
Provision for charitable donations	967	1,056
Total	**41,346**	**43,403**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The bank makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2013 as the discount rate.

They decrease by € 2.556 million for the difference between the provisions for the year of € 2.869 million and the release of prior year provisions of € 5.426 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 € 0.588 million, + 4.40%.

The provision for charitable donations comprises an allocation from net profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2012 net profit, while the reduction of € 0.189 million was a consequence of payments made during the year.

Section 14 *Equity - items 130, 140, 150, 160, 170, 180, 190 and 200*

14.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 308,147,985 issued and fully-paid ordinary shares, par value € 3 each, totalling € 924.444 million. Shares in circulation have dividend and voting rights from 1/1/2013. At the year-end, the Bank held treasury shares with a carrying value of € 24.316 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**	**308,147,985**	**–**
- fully paid	308,147,985	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,020,000)	–
A.2 **Shares in circulation: opening balance**	**305,127,985**	**–**
B. **Increases**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- others	–	–
- free of charge	–	–
- to employees	–	–
- to directors	–	–
- others	–	–
B.2 Sales of treasury shares	–	–
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**	**305,127,985**	**–**
D.1 Treasury shares (+)	(3,020,000)	–
D.2 Shares in existence at the end of the year	308,147,985	–
- fully paid	308,147,985	–
- not fully paid	–	–

14.3 Share capital: Other information

Share premium reserve

This caption amounts to € 171.450 million, unchanged with respect to the prior 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 € 638.001 million, + 2.52% 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 € 142.886 million, +5,78%, following the allocation of € 7.807 million from 2012 net profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to € 377.395 million (+2.13%), following the allocation of € 7.747 million out of the 2012 net profit, dividends on treasury shares of € 0.100 million and dividends in prescription of €0.029 million.

Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares.

This reserve amounts to € 93 million (it has been used for € 24.316 million), unchanged compared with the previous year.

Reserve pursuant to art. 13 of Decree 124/93, € 0.142 million.

Other reserves for € 24.578 million, unchanged compared with the previous year.

We inform you that the individual equity items are freely available and distributable, except for the valuation reserves which are only distributable under the circumstances laid down in art. 6 of Decree 38/2005, the portion of the «share premium reserve» that can only be distributed in its entirety if the legal reserve has reached one-fifth of the share capital (art. 2431 of the Civil Code) and the legal reserve, which is lower than 20% of the share capital.

14.5 Equity instruments: breakdown and change in the year

No equity instruments have been issued.

Other information

1. Guarantees given and commitments

Operations	31/12/2013	31/12/2012
1) **Financial guarantees:**	**801,689**	**841,703**
a) Banks	245,838	229,540
b) Customers	555,851	612,163
2) **Commercial guarantees:**	**3,507,231**	**3,346,048**
a) Banks	79,039	51,870
b) Customers	3,428,192	3,294,178
3) **Irrevocable commitments to make loans**	**818,943**	**966,089**
a) Banks	46,583	39,412
i) certain to be called on	34,523	28,180
ii) not certain to be called on	12,060	11,232
b) Customers	772,360	926,677
i) certain to be called on	204,873	243,344
ii) not certain to be called on	567,487	683,333
4) **Commitments underlying credit derivatives: protection sold**	**–**	**–**
5) **Assets lodged to guarantee the commitments of third parties**	**45,195**	**38,638**
6) **Other commitments**	**4,296**	**6,351**
Total	**5,177,354**	**5,198,829**

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2013	31/12/2012
1. Financial assets held for trading	1,110,277	1,114,645
2. Financial assets carried at fair value	–	29,289
3. Financial assets available for sale	1,139,554	917,880
4. Financial assets held to maturity	12,833	27,131
5. Due from banks	–	–
6. Due from customers	432,798	–
7. Property, plant and equipment	–	–

Assets held for trading mainly comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances; financial assets carried at fair value comprise the guarantee deposit paid in relation to the issue of bankers' drafts.

Assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances. These securities are not subject to structured repurchase agreements.

The financial assets held to maturity are to guarantee the advances received from the Bank of Italy.

In addition, securities (senior tranche) of € 1,385.4 million deriving from the securitisation of residential mortgage loans sold to Centro delle Alpi RMBS srl, the vehicle company, have also been given in guarantee.

The amount due from customers comprises the residential mortgages used to guarantee the loans obtained from the ECB.

4. Management and intermediation for third parties

Type of service	31/12/2013
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	1,357,810
b) Collective	–
3. **Custody and administration of securities**	**–**
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	654,981
1. securities issued by the reporting bank	–
2. other securities	654,981
b) other third-party securities on deposit (excluding portfolio management): other	18,074,677
1. securities issued by the reporting bank	3,351,997
2. other securities	14,722,680
c) Third-party securities on deposit with third parties	18,088,801
d) Own securities on deposit with third parties	6,841,002
4. **Other transactions**	**–**

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at 31/12/2013 (f = c-d-e)**	**Net amount at 31/12/2012**
1. Derivatives	7,414	–	7,414	–	53	7,361	–
2. Repurchase agreements	–	–	–	–	–	–	–
3. Loan of securities	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/13	**7,414**	**–**	**7,414**	**–**	**53**	**7,361**	**–**
Total 31/12/12	**–**	**–**	**–**	**–**	**–**	**–**	**–**

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 31/12/2013 that is not correlated with deposits received in guarantee amounts to € 7.361 million. This amount principally derives from the fact that the margin calls on deposits given in guarantee are made weekly.

Given that fair value changes daily, there may be situations intraweek in which fair value is not fully covered or in which the deposits given in guarantee exceed the value of the related derivatives.

When the «third pillar» of the EMIR regulation (obligatory collateralisation of the Mark-to-Market adjustment of derivative products via a Central Counterparty) becomes operational (the exact date is not yet known), the amount of these differences will diminish considerably, tending to zero, since the CSA margin calls will made daily.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

Comparative information is not provided since this is optional.

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

	Gross amount of financial assets (a)	Amount of financial assets netted in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet		**Net amount at 31/12/2013 (f = c-d-e)**	**Net amount at 31/12/2012**
				Financial instruments (d)	Cash deposits given in guarantee (e)		
1. Derivatives	47,928	–	47,928	–	44,064	3,864	–
2. Repurchase agreements	–	–	–	–	–	–	–
3. Loan of securities	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–
Total 31/12/13	**47,928**	**–**	**47,928**	**–**	**44,064**	**3,864**	**–**
Total 31/12/12	**–**	**–**	**–**	**–**	**–**	**–**	**–**

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 Operations	**Total 31/12/2013**	**Total 31/12/2012**
1. Financial assets held for trading	42,263	–	–	42,263	52,460
2. Financial assets available for sale	71,570	–	–	71,570	49,002
3. Financial assets held to maturity	2,017	–	–	2,017	3,023
4. Due from banks	–	8,108	–	8,108	14,190
5. Due from customers	–	790,319	–	790,319	792,684
6. Financial assets measured at fair value	434	–	–	434	1,151
7. Hedging derivatives	–	–	–	–	–
8. Other assets	–	–	–	–	–
Total	**116,284**	**798,427**	**–**	**914,711**	**912,510**

1.3 Interest income and similar revenues: other information

Interest income has not changed significantly, rising from € 912.510 million to € 914.711 million, +0.24%. The effect of the reduction in amounts due from customers and banks was offset by the considerable increase in the securities portfolio, despite the falling yields.

1.3.1 Interest income and similar revenue on foreign currency assets

	31/12/2013	**31/12/2012**
Interest income and similar revenue on foreign currency assets	41,373	46,389

1.4 Interest expense and similar charges: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2013**	**Total 31/12/2012**
1. Due to central banks	(10,270)	–	–	(10,270)	(16,418)
2. Due to banks	(11,007)	–	–	(11,007)	(20,199)
3. Customer deposits	(316,907)	–	–	(316,907)	(329,449)
4. Securities issued	–	(88,377)	–	(88,377)	(84,989)
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–
Total	**(338,184)**	**(88,377)**	**–**	**(426,561)**	**(451,055)**

1.6 Interest expense and similar charges: other information

Interest expense has decreased from € 451.055 million to € 426.561 million, – 5.43%. The reduction of € 24.494 million reflects the lower cost of funding from customers and in the interbank market.

1.6.1 Interest expense and similar charges on foreign currency liabilities

	31/12/2013	**31/12/2012**
Interest expense and similar charges on foreign currency liabilities	(4,995)	(9,608)

1.6.2 Interest expense on finance lease transactions

	31/12/2013	**31/12/2012**
Interest expense on finance lease transactions	(60)	(148)

Section 2 *Commissions - line items 40 and 50*

2.1 Commission income: breakdown

Type of service/Amounts	31/12/2013	31/12/2012
a) **guarantees given**	**27,181**	**21,860**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**56,646**	**56,129**
1. trading in financial instruments	–	–
2. trading in foreign currencies	8,242	7,260
3. portfolio management	5,767	5,635
3.1. individual	5,767	5,635
3.2. collective	–	–
4. custody and administration of securities	1,788	1,983
5. custodian bank	1,137	3,864
6. placement of securities	14,553	13,836
7. order receipt and transmission	12,114	11,416
8. consultancy	65	49
8.1 investments	–	–
8.2 corporate finance	65	49
9. distribution of third party services	12,980	12,086
9.1 portfolio management	–	–
9.1.1. Individual	–	–
9.1.2. Collective	–	–
9.2 insurance products	8,164	6,857
9.3 Other products	4,816	5,229
d) **collection and payment services**	**61,279**	**57,803**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**–**	**–**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**30,697**	**30,785**
j) **other services**	**64,908**	**73,023**
Total	**240,711**	**239,600**

«Other services» mainly consist of loan commissions of € 56.998 million and international/foreign exchange fees of € 5.381 million.

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2013	31/12/2012
a) **bank branches**		
1. Asset management	5,767	5,635
2. Placement of securities	14,553	13,836
3. Third-party products and services	12,980	12,086
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 Commission expense: breakdown

Services/Amounts	31/12/2013	31/12/2012
a) **guarantees received**	**(255)**	**(3,142)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(1,272)**	**(1,574)**
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	(1,272)	(1,574)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,255)**	**(9,044)**
e) **other services**	**(4,109)**	**(3,361)**
Total	**(14,891)**	**(17,121)**

«Other services» mainly include commissions on security and lending transactions.

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2013		31/12/2012	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,102	122	1,041	175
B. Financial assets available for sale	1,303	–	1,469	228
C. Financial assets carried at fair value	–	–	–	–
D. Equity investments	17,726	–	2,637	–
Total	**20,131**	**122**	**5,147**	**403**

This increase principally reflects the extraordinary dividend declared by Arca Vita Spa.

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)] **31/12/2013**
1. **Financial assets held for trading**	**45,779**	**54,756**	**(4,386)**	**(741)**	**95,408**
1.1 Fixed-yield securities	43,267	33,785	(879)	(683)	75,490
1.2 Variable-yield securities	1,456	5,415	(1,892)	(58)	4,921
1.3 Mutual funds	171	1,454	(636)	–	989
1.4 Loans	–	–	–	–	–
1.5 Other	885	14,102	(979)	–	14,008
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**	**–**	**–**	**–**	**–**	**(28)**
4. **Derivatives**	**24,890**	**29,937**	**(24,489)**	**(23,320)**	**7,057**
4.1 Financial derivatives:	24,890	29,937	(24,489)	(23,320)	7,057
- On debt securities and interest rates	23,655	23,554	(24,163)	(21,518)	1,528
- On equities and equity indices	945	5,303	(30)	(799)	5,419
- On currency and gold	–	–	–	–	39
- Other	290	1,080	(296)	(1,003)	71
4.2 Credit derivatives	–	–	–	–	–
Total	**70,669**	**84,693**	**(28,875)**	**(24,061)**	**102,437**

Net trading income amounted to € 102.437 million compared with € 152.488 million, – 32.82%. The level of realised and unrealised gains on securities was good, due to continuation of the recovery in the financial markets, albeit less than in the prior year, which followed a year in which considerable unrealised losses were recognised. Trading income on other financial assets of € 14.008 million is made up of exchange gains.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.

Section 6 *Gains (losses) on disposals/repurchases - line item 100*

6.1 Gains (losses) on disposals/repurchases - breakdown

Items/income items	31/12/2013 Profits	31/12/2013 Losses	31/12/2013 Net result	31/12/2012 Profits	31/12/2012 Losses	31/12/2012 Net result
Financial assets						
1. **Due from banks**	–	–	–	–	–	–
2. **Due from customers**	–	–	–	–	–	–
3. **Financial assets available for sale**	**52,747**	**(229)**	**52,518**	**7,813**	**(73)**	**7,740**
3.1 Fixed-yield securities	48,152	–	48,152	7,798	(73)	7,725
3.2 Variable-yield securities	2,684	(87)	2,597	15	–	15
3.3 Mutual funds	1,911	(142)	1,769	–	–	–
3.4 Loans	–	–	–	–	–	–
4. **Financial assets held to matury**	**55**	**–**	**55**	**700**	**(116)**	**584**
Total assets	**52,802**	**(229)**	**52,573**	**8,513**	**(189)**	**8,324**
Financial liabilities						
1. **Due to banks**	–	–	–	–	–	–
2. **Customer deposits**	–	–	–	–	–	–
3. **Securities issued**	**537**	**(391)**	**146**	**1,311**	**(62)**	**1,249**
Total liabilities	**537**	**(391)**	**146**	**1,311**	**(62)**	**1,249**

Section 7 *Net change in financial assets and liabilities carried at fair value - line item 110*

7.1 Net change in value of financial assets/liabilities carried at fair value: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net result [(A+B)-(C+D)] **31/12/2013**
1. **Financial assets**	**5,183**	**1,095**	**(395)**	**–**	**5,883**
1.1 Fixed-yield securities	15	1,095	–	–	1,110
1.2 Variable-yield securities	–	–	–	–	–
1.3 Mutual funds	5,168	–	(395)	–	4,773
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**	**–**	**–**	**–**	**–**	**(496)**
4. **Credit and financial derivatives**	**–**	**–**	**–**	**–**	**–**
Total	**5,183**	**1,095**	**(395)**	**–**	**5,387**

The gains and losses recognised mainly concern mutual funds and Italian government securities.

Section 8 *Net impairment adjustments - line item 130*

8.1 Net impairment adjustments to loans: breakdown

Transactions/ Income items	Adjustments (1) Type Write-offs	Other	Portfolio	Write-backs (2) Type A	B	Portfolio A	B	Total 31/12/2013	Total 31/12/2012
A. **Due from banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
B. **Due from customers**	**(6,840)**	**(493,625)**	**(21,653)**	**666**	**39,916**	**–**	**35,442**	**(446,094)**	**(450,957)**
Purchased impaired loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
Other receivables	**(6,840)**	**(493,625)**	**(21,653)**	**666**	**39,916**	**–**	**35,442**	**(446,094)**	**(450,957)**
- Loans	(6,840)	(493,625)	(21,653)	666	39,916	–	35,442	(446,094)	(450,957)
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
C. **Total**	**(6,840)**	**(493,625)**	**(21,653)**	**666**	**39,916**	**–**	**35,442**	**(446,094)**	**(450,957)**

Key:
A = Interest
B = Other write-backs

8.2 Net impairment adjustments to available for sale financial assets: breakdown

Transactions/Income items	Adjustments (1) Type Write-offs	Other	Write-backs (2) Type A	B	Total 31/12/2013	Total 31/12/2012
A. Fixed-yield securities	–	–	–	–	–	–
B. Variable-yield securities	–	(11,419)	–	–	(11,419)	(4,588)
C. Mutual funds	–	(1,462)	–	–	(1,462)	(637)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. **Total**	**–**	**(12,881)**	**–**	**–**	**(12,881)**	**(5,225)**

Key:
A = Interest
B = Other write-backs

The adjustments include € 9.664 million to writedown the investment in Release spa, while the impairment of the other listed variable-yield securities and certain mutual funds was recognised since their equity value was found to be lower than their historical cost.

8.4 Net impairment adjustments on other financial transactions: breakdown

Transactions/ Income items	Adjustments (1) Type Write-offs	Other	Portfolio	Write-backs (2) Type A	B	Portfolio A	B	Total 31/12/2013	Total 31/12/2012
A. Guarantees given	–	(4,500)	(5,400)	–	–	–	–	(9,900)	(1,600)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to make loans	–	–	–	–	–	–	–	–	–
D. Other transactions	–	(3,892)	–	–	–	–	–	(3,892)	–
E. **Total**	**–**	**(8,392)**	**(5,400)**	**–**	**–**	**–**	**–**	**(13,792)**	**(1,600)**

Key:
A = Interest
B = Other write-backs

The adjustments include € 9.900 million in provisions for guarantees, which have increased on the adoption of a new methodology for calculating the general provision for guarantees given on performing loans. They also include € 3.892 million representing the Bank's portion of the support to be provided by the Interbank Deposit Protection Fund to Banca Tercas spa in special receivership.

Section 9 *Administrative expenses - line item 150*

9.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2013	31/12/2012
1) **Employees**	**(165,147)**	**(162,416)**
a) Wages and salaries	(103,462)	(101,681)
b) Social security contributions	(28,227)	(26,859)
c) Termination indemnities	–	–
d) Pension expenses	–	–
e) Provision for employee termination indemnities	(7,389)	(8,090)
f) Provision for post-employment benefits and similar commitments:	(5,606)	(5,662)
- defined contribution	–	–
- defined benefits	(5,606)	(5,662)
g) Payments to external supplementary pension funds:	(2,377)	(2,244)
- defined contribution	(2,377)	(2,244)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(18,086)	(17,880)
2) **Other working personnel**	**(3,037)**	**(3,103)**
3) **Directors and Statutory auditors**	**(2,143)**	**(1,977)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**84**	**78**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(74)**	**(50)**
Total	**(170,317)**	**(167,468)**

9.2 Average number of employees by category

	31/12/2013	31/12/2012
Employees	**2,578**	**2,565**
a) Managers	22	22
b) Officials	509	509
c) Other employees	2,047	2,034
Other personnel	**77**	**82**

	31/12/2013	31/12/2012
Actual number of employees		
- Actual number of employees	2,582	2,569
- Other personnel	81	79

9.3 Defined-benefit pension plans: costs and revenues

The charge to the income statement for the year is summarised as follows.

Income items/Amounts	31/12/2013	31/12/2012
Service cost	1,984	1,855
Interest cost	3,358	3,697
Contributions from employees	(231)	(249)
Reductions and payments	495	359
Total charge to income statement (A)	**5,606**	**5,662**
Portion of yield from assets servicing the fund (B)	3,681	3,792
Total charge (A-B)	1,925	1,870

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 € 1.925 million. An additional provision of € 3.681 million was also made. However, a provision of € 2.990 million to cover the actuarial loss has not been charged to the income statement, but instead deducted from equity in accordance with IAS 19, as reported in the statement of comprehensive income.

9.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

9.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2013	31/12/2012
Telephone, post and data transmission	(12,657)	(12,232)
Maintenance of property, plant and equipment	(8,135)	(7,893)
Rent of buildings	(25,409)	(24,680)
Security	(5,966)	(6,053)
Transportation	(1,923)	(2,069)
Professional fees	(14,823)	(13,493)
Office materials	(2,193)	(1,989)
Electricity, heating and water	(5,760)	(5,307)
Advertising and entertainment	(3,122)	(3,150)
Legal	(8,995)	(7,539)
Insurance	(1,329)	(1,459)
Company searches and information	(4,896)	(4,432)
Indirect taxes and dues	(46,168)	(38,947)
Software and hardware rental and maintenance	(8,856)	(8,783)
Data entry by third parties	(1,391)	(1,388)
Cleaning	(4,864)	(4,841)
Membership fees	(1,873)	(1,845)
Services received from third parties	(3,139)	(3,078)
Outsourced activities	(17,964)	(18,133)
Deferred charges	(4,326)	(2,705)
Goods and services for employees	(1,105)	(1,216)
Other	(10,408)	(9,821)
Total	**(195,302)**	**(181,053)**

Section 10 *Net provisions for risks and charges - line item 160*

10.1 Net provisions for risks and charges: breakdown

This line item amounts to € 2.556 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 2.869 million and the use or release of provisions set aside in previous years of € 5.425 million.

Section 11 *Net adjustments to property, plant and equipment - line item 170*

11.1 Net adjustments to property, plant and equipment: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2013**
A. **Property, plant and equipment**				
A.1 Owned	(11,543)	–	–	(11,543)
- For business purposes	(11,543)	–	–	(11,543)
- For investment purposes	–	–	–	–
A.2 Acquired under finance leases	(1,019)	–	–	(1,019)
- For business purposes	(1,019)	–	–	(1,019)
- For investment purposes	–	–	–	–
Total	**(12,562)**	**–**	**–**	**(12,562)**

The finance lease charges paid during the year amounted to € 1.164 million, compared with € 1.724 million in the prior year.

Section 12 *Net adjustments to intangible assets - line item 180*

12.1 Net adjustments to Intangible assets: breakdown

Asset/Income item	Armotisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2013**
A. **Intangible assets**				
A.1 Owned	(10,908)	–	–	(10,908)
- Internally generated	–	–	–	–
- Other	(10,908)	–	–	(10,908)
A.2 Acquired under finance leases	–	–	–	–
Total	**(10,908)**	**–**	**–**	**(10,908)**

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 € 69.175 million and comprises other operating income of € 73.079 million, net of other operating expenses of € 3.904 million.

13.1 Other operating expenses: breakdown

	31/12/2013	31/12/2012
Out-of-period expense	(3,503)	(3,566)
Other	(401)	(1,690)
Total	**(3,904)**	**(5,256)**

13.2 Other operating income: breakdown

	31/12/2013	31/12/2012
Recovery of charges on deposits and overdrafts	48	50
Rental income from buildings	948	967
Recovery of taxes	40,991	34,165
Financial income of post-employment benefits plan	5,889	4,566
Out-of-period income - other	1,588	10,898
Out-of-period income - overprovisions	–	–
Other	23,615	12,327
Total	**73,079**	**62,973**

The sub-item «other» includes € 13.647 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.

This commission was only charged for a short period in the prior year.

Section 14 Share of profit (loss) of equity investments - line item 210

14.1 Share of profit (loss) of equity investments: breakdown

Income item/amount	31/12/2013	31/12/2012
A. **Income**	**–**	**–**
1. Revaluations	–	–
2. Profit from disposals	–	–
3. Write-backs	–	–
4. Other Income	–	–
B. **Charges**	**(6,570)**	**(2,093)**
1. Write-downs	(466)	(443)
2. Impairment writedowns	(6,104)	(1,650)
3. Loss from disposals	–	–
4. Other Charges	–	–
Net result	**(6,570)**	**(2,093)**

Write-downs relate to Pirovano Stelvio spa (€ 0.466 million), Alba Leasing spa (€ 3.273 million) and Banca della Nuova Terra (€ 2.831 million).

Section 17 Profit (loss) from disposal of investments - line item 240

17.1 Profit (loss) from disposal of investments: breakdown

Income item/amount	31/12/2013	31/12/2012
A. **Buildings**	**–**	**271**
- Profit from disposals	–	271
- Loss from disposals	–	–
B. **Other assets**	**5**	**9**
- Profit from disposals	15	28
- Loss from disposals	(10)	(19)
Net result	**5**	**280**

Section 18 *Income taxes on current operations - line item 260*

18.1 Income taxes on current operations: breakdown

Income items/Amounts		31/12/2013	31/12/2012
1.	Current taxes (-)	(170,000)	(152,500)
2.	Change in prior period income taxes (+/-)	–	7,422
3.	Reduction in current taxes (+)	–	–
3. *bis*	Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4.	Change in deferred tax assets (+/-)	119,267	87,790
5.	Change in deferred tax liabilities (+/-)	1,486	699
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(49,247)	(56,589)

The IRES (corporate income taxes) tax rate has increased from 27.50% to 36% following the additional 8.5 points added by art. 2 para. 2 of Decree 133 of 30 November 2013, as converted with amendments into Law 5 of 29 January 2014. The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 50.21%.

18.2 Reconciliation between the theoretical and current tax burden

INCOME TAXES	Tax base	Tax
Theoretical tax burden	98,078	(35,308)
Increases	544,299	(163,942)
Decreases	(174,304)	62,750
Effective tax burden	**468,073**	**(136,500)**

IRAP	Tax base	Tax
Theoretical tax burden	98,078	(5,463)
Increases	623,604	(34,801)
Decreases	(121,440)	6,764
Effective tax burden	**600,242**	**(33,500)**
Total effective tax burden	**–**	**(170,000)**

Income taxes are calculated at 36% for IRES and 5.57% for IRAP.

The total tax charge for the year is reconciled with the net profit for the year as indicated in the table below.

IRES

The main add-backs relate to non-deductible loan adjustments and non-deductible provisions for risks and charges, interest expense and losses and writedowns of equity investments classified as PEX (tax-exempt).

The principal deductions relate to the non-taxable portion of dividends received, the deductible portion of IRAP and the use of taxed provisions.

IRAP

The main add-backs concern personnel expenses, writedowns of loans and equity investments, interest expense, non-deductible amortisation and depreciation and other administrative expenses.

The principal deductions relate to the deductible portion of personnel expenses and other non-taxable income.

Section 21 *Earnings per share*

21.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in net profit is 308,147,985. The number of shares shown in the table below is the weighted average for the year.

	31/12/2013	31/12/2012
number of shares	308,147,985	308,147,985

This is the weighted average used as the denominator in the calculation of basic earnings per share.

21.2 Other information

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions: «Basic EPS», determined by dividing the net profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue. «Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted; there are no activities to be sold for which basic and diluted EPS must be stated separately.

	31/12/2013	31/12/2012
earnings per share - €	0.158	0.084

PART D *Comprehensive income*

Statement of comprehensive income

Items/Amounts	Gross amount	Income taxes	Gross amount
10. **Net profit (loss) for the year**	**–**	**–**	**48,832**
Other items of comprehensive income that will not be reclassified to profit or loss			
20. **Property, plant and equipment**	**–**	**–**	**–**
30. **Intangible assets**	**–**	**–**	**–**
40. **Defined-benefit plans**	**(895)**	**(793)**	**(1,688)**
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. **Financial assets available for sale:**	**37,964**	**(12,524)**	**25,440**
a) changes in fair value	18,730	(5,731)	12,999
b) transfer to income statement	19,234	(6,793)	12,441
- adjustments for impairment	(522)	98	(424)
- gains/losses on disposals	19,756	(6,891)	12,865
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**	**37,069**	**(13,317)**	**23,752**
140. **Comprehensive income (item 10+130)**	**–**	**–**	**72,584**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Section IV, Chapter 1 of the New Supervisory instructions for Banks is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

Introduction

The purpose of managing and controlling risks is to ensure the reliable and sustainable generation of value, safeguard the financial solidity and reputation of the Bank, and provide transparent disclosure about the risks accepted. In particular, this activity seeks to verify compliance with the limits placed on the acceptance of risk, to identify criteria and methodologies for the measurement/assessment of risk, to check the consistency of the work performed in each operational area with the risk objectives assigned, if any, and to monitor current and future capital adequacy.

The Board of Directors is responsible for establishing guidelines, the strategic direction and policies for the governance of business risks, in order to ensure that the principal risks to which the Bank is exposed are correctly identified and managed. Consistent with this, the Board establishes the propensity to accept risk and obtains information about the actual exposures recorded, checking that the risk profiles are monitored appropriately by the units made responsible for internal control. In addition, with support from senior management, the Board promotes the development and spread at all levels of a «risk culture», capable of recognising the importance of healthy and prudent business management and facilitating a consistent, integrated and complete understanding of the types of risk that are important for the Bank.

Based on their specific responsibilities, the managing director and the members of general management supervise implementation of the guidance, direction and instructions provided by the Board, translating them into a system of exposure limits, procedures and operations designed to ensure the moderate acceptance of risk; the practical application of significant risk policies is delegated to the central services, offices and branches, depending on how they are organised.

The Board of Statutory Auditors monitors the adequacy of the risk management processes and their consistency with regulatory requirements.

The measurement and control of risks are performed by separate functions that are organisationally independent of the units authorised to accept them. The Planning and Control Department plays a primary role by constantly supervising operations via the Risk Control Office, which makes use of systems, instruments, procedures and methodologies for the identification, assessment and monitoring of risk. The department manager reports to senior management, in an objective and impartial manner, on the outcome of these control activities.

The high-level information describing the risks accepted, prepared by the above department, is organised so that senior management – having regard for the duties and responsibilities of each person – can make an informed, complete and documented assessment of the various types of risk and the related management, control and mitigation mechanisms, as well as of the adequacy of the capital held to cover such risks. The changes in the risk profiles are also communicated to the operational areas, via operational reports designed to make personnel aware of the need to intensify efforts to prevent and attenuate risk.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General matters

In line with its mission as a cooperative, the Bank's lending policy aims to provide support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of the two specific customer segments: the entrepreneurial spirit of small and medium-sized business owners, mainly located in territory of the Bank, and households. The Bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time. However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable.

In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the Bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the Bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on; this involves:

- measurement of the current and prospective risk inherent in the loan portfolio, both as a whole and at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the Bank's profitability and solidity.

These strategies and policies have not changed since last year.

2. Credit risk management policies

2.1 Organisational aspects

The Bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them.

The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, disbursement of the loan, periodic review, monitoring and management of impaired loans.

Implementing the lines of strategy laid down by the Corporate Bodies during the planning process and in compliance with the limits of the risk profile taken on, the lending policy defines the composition of the loan book, the technical forms and their geographical distribution. These official guidelines are passed down to the organisational units involved in managing credit risk and, as a result, they reflect the operational aspects of each phase of the process.

The procedures and organisational structure set up for this purpose have been formalised, clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, we ensure that operating functions and control functions are kept separate.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *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*. It analyses, structures and coordinates corporate finance operations and identifies the best types of financing for complex investment projects. It makes a preliminary evaluation of project financing transactions, directly structuring the intervention or proposing the Bank's participation in a lending syndicate.
- Watchlist and Lending Control Department. The Watchlist and Lending Control Department reviews outstanding loans and identifies those that show signs of anomalies; depending on how serious these are, the department monitors them more closely, proposes a

restructuring, or classifies them on the watchlist or as non-performing loans. This department also administers all watchlist, restructured and past due loans.

– *Legal and Claims Department*. The Legal and Claims Department works to safeguard the interests of the bank with regard to disputed assets and liabilities. In particular, with regard to «non-performing» loans, the department takes the legal action needed to recover the outstanding amounts and also takes out-of-court action together with the Watchlist Department.
– *Planning and Control Department*. The Planning and Control Department defines, develops and maintains, through the Risk Control office, the models underlying the rating system; it checks the reliability and effectiveness of the estimates produced by them and, where necessary, takes steps to update them. It analyses, according to various analysis dimensions, the riskiness of the loan portfolio, produces the related information flows and makes them available to the competent bodies and operating functions.

– *Internal Audit Department*. The Internal Audit Department checks the proper functioning of controls and compliance with rules and procedures. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

2.2 Systems for managing, measuring and monitoring

Control over credit risk has the support of rating models that have been specifically developed by the Bank.

The Bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Businesses (one-man firms, partnerships and companies with sales lower than € 1.5 million and credit lines of less than € 75,000), Micro-Enterprises (partnerships and companies with sales lower than € 1.5 million and credit lines of over € 75,000), SMEs (partnerships and companies with sales between € 1.5 million and 50 million), Large Enterprises (non-financial partnerships and companies with sales higher than € 50 million) and Public Enterprises.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the Bank has acquired. The rating assessments are produced by qualitative statistical models that are prudently integrated by automatic downgrades if further negative elements not handled by the models are identified. These assessments are split into 13 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in seven risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad» and «Insolvent».

Together, at the end of December 2013, the sub-portfolios subject to these rating systems account for 83.0% of lending to customers (94.1% in terms of number of counterparties).

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest, whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans.

Estimates of two other important risk factors complete the rating system described above: The rate of the Loss Given Default (LGD) and the estimated Exposure at Default (EAD). These estimates, which are specific for each counterparty, also derive from internal models, and unlike the probability of default, they are heavily influenced by the presence and type of guarantees acquired by the Bank and by the technical form by which the loan is granted.

Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

The PD, LGD and EAD results also make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

The concept of insolvency used when developing, calibrating and applying the new rating models includes: non-performing, watchlist, restructured and past due loans, including those significantly overdrawn for more than 90 consecutive days. As an exception to the regulatory guidelines, for prudence sake, the definition of insolvency has also been extended to the external concept of «adjusted non-performing loan».

Together with the assessments made using internal models, the ratings granted by independent agencies are gathered automatically. These are used in determining the capital requirements for credit and counterparty risk, for which the Bank adopts the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist firm (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS and Cerved Group).

With regard to the exposures to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used.

More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterpart/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macro classes for comparison with the ratings given by international agencies.

As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

Analyses are carried out periodically on the loan portfolio using various methods, including observation of the trend in distribution of counterparties by rating class.

These assessments support the formulation of policy guidelines for lending, help adopt suitable operational measures and provide operational guidelines to the central and branch functions concerned.

The lending process provides for a series of checks aimed at mitigating risk during the various phases that make it up.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into due consideration as essential elements for an overall evaluation of the customer.

The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available. In order to ensure maximum control over credit risk, the mechanism for establishing decision-making powers for the bodies at the lower end of the hierarchical ladder now operates alongside the nominal value of the operation with another system of powers that also takes into account an objective assessment of the counterparty risk which is reflected in the internal rating.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings.

Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately.

The Watchlist and Lending Control Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up a monthly summary risk indicator. The positions identified by this indicator as being at risk are analysed appropriately and, where there are clear signs of difficulty, they are placed under observation or classified as «impaired», depending on how serious the situation is.

The task of managing problem loans is given to specific central offices, which carry on their activity with a view to returning the position to «performing», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

In order to contain the cost of risk by improving the quality of the loans portfolio, the «Credit Quality» task force intervenes with greater rapidity in the case of «performing» customers that show initial signs of difficulty or anomalous account activity, as well as of counterparts that overdraw persistently. In this regard, monitoring processes backed by dedicated instruments assign predetermined quantitative levels to each branch for the principal risk indicators regarding their loan portfolios. This activity involve intensive collaboration between central personnel, area coordinators and the branches concerned, in order to monitor constantly and carefully the development of anomalies. This work includes the performance of detailed analyses that take account of the territory concerned and the achievement of established objectives for controlling any deterioration in the quality of the loans made.

Checks are performed during the initial assessment, payout, review and monitoring stages with regard to the concentration of risk in relation to individual counterparties or groups of counterparties that are linked by legal or economic relationships.

2.3 Credit risk mitigation techniques

The Bank obtains the guarantees considered usual for banking activities in order to reduce credit risk: these principally comprise mortgages on buildings, pledges on financial instruments and unsecured guarantees. Unsecured guarantees principally comprise limited, general guarantees given by individuals and companies whose creditworthiness is considered adequate following a specific assessment.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments).

The Bank has a procedure that is able to ensure efficient management and timely assessment of properties that are subject to real encumbrances, by taking a census of the assets and filing the expert appraisals in a specific IT application. Moreover, certain buildings are assessed at least once a year, also with a view to complying with the supervisory instructions.

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The Bank is not party to settlement agreements regarding on- and off-balance sheet transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future.

At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

2.4 Impaired financial assets

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise.

Loans are classified as «impaired» if there are serious signs of tension and, depending on the nature and gravity of the anomaly, they are split into the following categories:

- *Non-performing*, covering the entire exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given and/or any loss forecasts made;
- *Watchlist*, covering the entire exposure to borrowers that are experiencing temporary objective difficulties that are likely to be resolved within a reasonable period of time;
- *Restructured*, covering loans subject to the revision of the originally agreed terms, due to a deterioration in the economic and financial requisites of the borrower, leading to a loss for the bank;
- *Past due*, unpaid exposures and/or those permanently over their credit limit according to parameters of amount and duration laid down by current supervisory instructions.

As in the previous financial statements, the following tables provide information on financial restructuring and credit rescheduling agreements that reflect the recommendations of ESMA (European Securities and Markets Authority) in the document issued in December 2012 «Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions».

The loans not allocated to the above categories are deemed to be performing loans.

The management of «impaired» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:

- non-performing, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;
- watchlist, efforts are made to re-establish the original conditions of credit-worthiness and profitability within a reasonable period of time; if this is deemed to be impossible, the loans concerned are reclassified as doubtful;
- restructured, compliance with the agreed conditions is monitored. The position remains classified as «restructured» till the period of time foreseen under current regulations has passed and until the borrower has completely recovered their solvency, without any of

their lines of credit going past due. At this stage, the customer can return to the classification of «performing». On the first occasion that the borrower fails to pay, they are transferred to the watchlist or to non-performing loans;

– past due, developments are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to the watchlist or to non-performing loans, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for non-performing, «subjective» watchlist and restructured loans, the Bank carries out a detailed analysis of each position that takes into account the effect of discounting expected recoveries. Commencing from 2013, overall assessments are made solely with regard to smaller individual loans, being not more than € 10,000 for non-performing loans and € 15,000 for subjective watchlist loans. The objective is to adopt a prudent approach to the control of these impaired assets that, given their intrinsic characteristics (large number of not significant amounts), can be processed rapidly and at low cost on primarily an automated basis, thus ensuring the uniformity of the assessments made.

The impairment adjustments for «objective» watchlist loans and past due amounts are determined with reference to the historical experience of losses on loans with that type of anomaly.

The Bank has never acquired impaired loans from third parties.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures, impaired	Past due exposures, not impaired	Other assets	**Total 31/12/2013**
1. Financial assets held for trading	5	339	1	24	–	3,102,741	3,103,110
2. Financial assets available for sale	–	–	–	–	–	3,234,937	3,234,937
3. Financial assets held to maturity	–	–	–	–	–	182,621	182,621
4. Due from banks	–	–	–	–	–	1,481,715	1,481,715
5. Due from customers	450,431	844,337	34,775	433,368	909,977	18,170,689	20,843,577
6. Financial assets measured at fair value	–	–	–	–	–	493	493
7. Financial assets being sold	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	–	–
Total 31/12/2013	**450,436**	**844,676**	**34,776**	**433,392**	**909,977**	**26,173,196**	**28,846,453**
Total 31/12/2012	**282,804**	**469,056**	**48,347**	**430,562**	**948,598**	**26,630,153**	**28,809,520**

The word exposures is understood as excluding equities and mutual funds.

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

	Impaired assets			Performing			
Gross Portfolio/quality	Specific exposure	Net adjustments	Gross exposure	portfolio exposure	General Net adjustments	Net exposure	**Total (net exposure)**
1. Financial assets held for trading	432	63	369	3,102,741	–	3,102,741	3,103,110
2. Financial assets available for sale	–	–	–	3,234,937	–	3,234,937	3,234,937
3. Financial assets held to maturity	–	–	–	182,621	–	182,621	182,621
4. Due from banks	–	–	–	1,481,715	–	1,481,715	1,481,715
5. Due from customers	2,861,689	1,098,777	1,762,912	19,201,626	120,961	19,080,665	20,843,577
6. Financial assets measured at fair value	–	–	–	493	–	493	493
7. Financial assets being sold	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	–	–
Total 31/12/2013	**2,862,121**	**1,098,840**	**1,763,281**	**27,204,133**	**120,961**	**27,083,172**	**28,846,453**
Total 31/12/2012	**1,834,826**	**604,057**	**1,230,769**	**27,731,621**	**152,870**	**27,578,751**	**28,809,520**

With reference to financial assets held for trading and those at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial writeoffs recorded over the years in relation to the above portfolios total € 88.458 million, reflecting the non-performing loans still held on the books.

The following analysis of «Loans to customers, performing» distinguishes between the exposures subject to renegotiation under collective agreements (e.g. «2013 lending agreement» signed by ABI and the Business Associations) and other exposures, indicating the ageing of any past due amounts.

Loans to customers of which:	Net exposure	Past due up to 3 months	Past due from 3 to 6 months	Past due from 6 to 12 months	Past due for over 1 year	Not past due
Subject to renegotiation under collective agreements	354,185	16,409	3,435	–	–	334,341
Other receivables	18,726,480	593,841	195,511	94,301	6,480	17,836,347

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

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**				
a) Non-performing loans	–	–	–	–
b) Watchlist loans	–	–	–	–
c) Restructured exposures	–	–	–	–
d) Impaired past due exposures	–	–	–	–
e) Other assets	1,744,005	–	–	1,744,005
Total A	**1,744,005**	**–**	**–**	**1,744,005**
B. **Off-balance sheet exposures**				
a) Impaired	–	–	–	–
b) Other	429,054	–	–	429,054
Total B	**429,054**	**–**	**–**	**429,054**
Total A+B	**2,173,059**	**–**	**–**	**2,173,059**

Cash exposures include the amounts due from banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

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

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**				
a) Non-performing loans	1,108,984	658,548	–	450,436
b) Watchlist loans	1,225,496	381,159	–	844,337
c) Restructured exposures	41,350	6,575	–	34,775
d) Impaired past due exposures	485,863	52,495	–	433,368
e) Other assets	25,391,737	–	120,961	25,270,776
Total A	**28,253,430**	**1,098,777**	**120,961**	**27,033,692**
B. **Off-balance sheet exposures**				
a) Impaired	81,074	12,663	–	68,411
b) Other	4,740,239	–	5,400	4,734,839
Total B	**4,821,313**	**12,663**	**5,400**	**4,803,250**
Total A+B	**33,074,743**	**1,111,440**	**126,361**	**31,836,942**

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. **Opening gross exposure**	**618,711**	**670,595**	**60,343**	**484,137**
- of which: sold but not eliminated from the balance sheet	857	2,710	–	8,832
B. **Increases**	**564,780**	**989,822**	**30,905**	**466,836**
B.1 transfers from performing loans	159,783	677,629	4,005	441,111
B.2 transfers from other categories of impaired exposure	363,955	263,175	24,129	7,462
B.3 other increases	41,042	49,018	2,771	18,263
C. **Decreases**	**74,507**	**434,921**	**49,898**	**465,110**
C.1 transfers to performing loans	–	30,089	7	86,756
C.2 write-offs	8,732	–	–	–
C.3 collections	65,775	86,976	8,064	79,316
C.4 proceeds from disposals	–	–	–	–
C.4 bis Loss from disposals	–	–	–	–
C.5 transfers to other categories of impaired exposure	–	317,856	41,827	299,038
C.6 other decreases	–	–	–	–
D. **Closing gross exposure**	**1,108,984**	**1,225,496**	**41,350**	**485,863**
- of which: sold but not eliminated from the balance sheet	3,750	14,799	–	22,693

A.1.8 Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. **Total opening adjustments**	**335,907**	**201,939**	**12,004**	**54,207**
- of which: sold but not eliminated from the balance sheet	213	292	–	581
B. **Increases**	**353,090**	**295,002**	**3,607**	**33,920**
B.1 adjustments	244,297	260,886	787	32,966
B.1 bis Loss from disposals	–	–	–	–
B.2 transfers from other categories of impaired exposure	108,793	34,116	2,820	954
B.3 other increases	–	–	–	–
C. **Decreases**	**30,449**	**115,782**	**9,036**	**35,632**
C.1 write-backs on valuation	16,795	12,397	141	695
C.2 write-backs due to collections	4,922	289	–	245
C.2 bis Profit from disposals	–	–	–	–
C.3 write-offs	8,732	–	–	–
C.4 transfers to other categories of impaired exposure	–	103,096	8,895	34,692
C.5 other decreases	–	–	–	–
D. **Total closing adjustments**	**658,548**	**381,159**	**6,575**	**52,495**
- of which: sold but not eliminated from the balance sheet	1,073	2,612	–	1,818

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash loans and off-balance sheet items by external rating class

	External rating classes							Total
Exposure	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	31/12/2013
A. **Cash exposure**	**6,057,836**	**163,916**	**388,687**	**385,926**	**15**	**5,081**	**21,950,793**	**28,952,254**
B. **Derivatives**	**30**	**6,843**	**1,444**	**108**	**–**	**–**	**60,331**	**68,756**
B.1 Financial derivatives	30	6,843	1,444	108	–	–	60,331	68,756
B.2 Credit derivatives	–	–	–	–	–	–	–	–
C. **Guarantees given**	**31,008**	**43,196**	**182,607**	**141,167**	**–**	**–**	**3,946,678**	**4,344,656**
D. **Commitments to make loans**	**10,616**	**–**	**19,660**	**102,102**	**–**	**–**	**686,514**	**818,892**
E. Other	–	–	–	–	–	–	–	–
Total	**6,099,490**	**213,955**	**592,398**	**629,303**	**15**	**5,081**	**26,644,316**	**34,184,558**

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 (see Circular no. 263 of 27.12.2006 «New supervisory instructions for banks»).

The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard &Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BBH to BBL	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 Distribution of cash loans by internal rating class

PRIVATE CUSTOMERS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**471,035**	**111,558**	**123,468**	**473,382**	**708,089**	**514,011**	**189,489**
B. **Derivatives**	**42**	**1**	**–**	**188**	**320**	**700**	**517**
B.1 Financial derivatives	42	1	–	188	320	700	517
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**2,816**	**150**	**74**	**18,802**	**17,491**	**11,906**	**1,664**
D. **Commitments to make loans**	**139**	**1,238**	**225**	**3,264**	**3,423**	**1,815**	**441**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**474,032**	**112,947**	**123,767**	**495,636**	**729,323**	**528,432**	**192,111**

SMALL BUSINESS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**6,597**	**346,860**	**111,656**	**231,134**	**1,000,045**	**287,845**	**181,974**
B. **Derivatives**	**–**	**12**	**16**	**17**	**242**	**221**	**76**
B.1 Financial derivatives	–	12	16	17	242	221	76
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**565**	**4,404**	**4,842**	**10,814**	**43,896**	**31,425**	**4,776**
D. **Commitments to make loans**	**160**	**1,825**	**321**	**706**	**5,724**	**2,670**	**2,339**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**7,322**	**353,101**	**116,835**	**242,671**	**1,049,907**	**322,161**	**189,165**

MICRO-ENTERPRISES - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**18,995**	**52,657**	**81,270**	**212,105**	**837,734**	**773,102**	**839,862**
B. **Derivatives**	**28**	**32**	**160**	**100**	**1,720**	**658**	**247**
B.1 Financial derivatives	28	32	160	100	1,720	658	247
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**3,642**	**2,440**	**7,606**	**49,007**	**95,063**	**39,887**	**43,590**
D. **Commitments to make loans**	**–**	**320**	**1,379**	**4,700**	**16,984**	**23,726**	**35,708**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**22,665**	**55,449**	**90,415**	**265,912**	**951,501**	**837,373**	**919,407**

08	09	10	11	12	13	Insolvent	Total 31/12/2013
120,942	**131,608**	**52,194**	**29,831**	**24,678**	**91,590**	**300,455**	**3,342,330**
406	**466**	**4**	**11**	**2**	**4**	**153**	**2,814**
406	466	4	11	2	4	153	2,814
–	–	–	–	–	–	–	–
503	**615**	**195**	**346**	**30**	**616**	**970**	**56,178**
256	**32**	**174**	**155**	**–**	**54**	**303**	**11,519**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
122,107	**132,721**	**52,567**	**30,343**	**24,710**	**92,264**	**301,881**	**3,412,841**

08	09	10	11	12	13	Insolvent	Total 31/12/2013
166,486	**76,403**	**37,116**	**42,174**	**28,693**	**73,218**	**222,673**	**2,812,874**
12	**2**	**6**	**–**	**1**	**5**	**25**	**635**
12	2	6	–	1	5	25	635
–	–	–	–	–	–	–	–
4,344	**2,037**	**1,388**	**709**	**836**	**2,517**	**3,327**	**115,880**
1,512	**1,062**	**58**	**129**	**125**	**209**	**2,882**	**19,722**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
172,354	**79,504**	**38,568**	**43,012**	**29,655**	**75,949**	**228,907**	**2,949,111**

08	09	10	11	12	13	Insolvent	Total 31/12/2013
664,526	**254,090**	**148,587**	**53,710**	**57,069**	**128,092**	**704,414**	**4,826,213**
117	**105**	**20**	**25**	**–**	**40**	**136**	**3,388**
117	105	20	25	–	40	136	3,388
–	–	–	–	–	–	–	–
41,744	**8,901**	**4,969**	**607**	**1,524**	**4,185**	**17,040**	**320,205**
17,720	**7,528**	**3,888**	**80**	**577**	**1,614**	**1,291**	**115,515**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
724,107	**270,624**	**157,464**	**54,422**	**59,170**	**133,931**	**722,881**	**5,265,321**

SMEs - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**4,783**	**12,404**	**37,093**	**116,369**	**822,216**	**921,127**	**520,250**
B. **Derivatives**	**14**	**–**	**71**	**58**	**1,279**	**1,523**	**645**
B.1 Financial derivatives	14	–	71	58	1,279	1,523	645
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**5,672**	**9,957**	**5,299**	**36,248**	**224,186**	**149,942**	**57,368**
D. **Commitments to make loans**	**–**	**–**	**184**	**700**	**16,743**	**36,541**	**20,737**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**10,469**	**22,361**	**42,647**	**153,375**	**1,064,424**	**1,109,133**	**599,000**

LARGE AND PUBLIC ENTERPRISES - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**867**	**78,977**	**142,149**	**608,271**	**312,952**	**155,006**	**139,666**
B. **Derivatives**	**–**	**3,599**	**23**	**7,609**	**687**	**565**	**127**
B.1 Financial derivatives	–	3,599	23	7,609	687	565	127
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**11,078**	**98,163**	**335,373**	**493,919**	**523,463**	**62,607**	**233,881**
D. **Commitments to make loans**	**–**	**100**	**3,396**	**17,992**	**7,054**	**2,317**	**94,361**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**11,945**	**180,839**	**480,941**	**1,127,791**	**844,156**	**220,495**	**468,035**

BANKS - Exposure	01	02	03	04
A. **Cash exposures**	**–**	**–**	**807,138**	**10,953**
B. **Derivatives**	**–**	**–**	**30,749**	**211**
B.1 Financial derivatives	–	–	30,749	211
B.2 Credit derivatives	–	–	–	–
C. **Guarantees given**	**–**	**–**	**183,814**	**686**
D. **Commitments to make loans**	**–**	**–**	**100**	**484**
E. **Other**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**1,021,801**	**12,334**

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The 1st class identifies customers with the lowest risk, while the 13th class highlights the maximum risk, which is only exceeded by a state of insolvency.

The «Banks» segment presents the ten classes used by the internal system to classify counterparties. The first class identifies customers with the lowest risk, while the ninth class indicates the maximum risk; situations of insolvency go into the tenth class. The model is applied to those borrowers who do not have a merit assessment issued by a rating agency.

Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

08	09	10	11	12	13	Insolvent	Total 31/12/2013
433,914	**377,212**	**114,149**	**112,138**	**72,273**	**97,922**	**409,728**	**4,051,578**
125	**224**	**7**	**9**	**9**	**9**	**53**	**4,026**
125	224	7	9	9	9	53	4,026
–	–	–	–	–	–	–	–
56,214	**27,982**	**12,444**	**5,157**	**1,515**	**7,371**	**17,454**	**616,809**
7,251	**6,055**	**1,195**	**–**	**8,838**	**9**	**707**	**98,960**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
497,504	**411,473**	**127,795**	**117,304**	**82,635**	**105,311**	**427,942**	**4,771,373**

08	09	10	11	12	13	Insolvent	Total 31/12/2013
146,447	**192,313**	**5,087**	**22,337**	**52,019**	**31,561**	**78,872**	**1,966,524**
851	**95**	**–**	**–**	**–**	**–**	**1**	**13,557**
851	95	–	–	–	–	1	13,557
–	–	–	–	–	–	–	–
83,173	**67,834**	**–**	**854**	**7,089**	**13,592**	**7,564**	**1,938,590**
232	**1,246**	**19**	**40**	**–**	**–**	**9,058**	**135,815**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
230,703	**261,488**	**5,106**	**23,231**	**59,108**	**45,153**	**95,495**	**4,054,486**

Internal rating classes						
05	06	07	08	09	Insolvent	Total 31/12/2013
39,140	**36,556**	**1,853**	**–**	**–**	**–**	**895,640**
5	**24**	**1**	**–**	**–**	**–**	**30,990**
5	24	1	–	–	–	30,990
–	–	–	–	–	–	–
1,295	**526**	**4,447**	**–**	**–**	**–**	**190,768**
414	**–**	**–**	**–**	**–**	**–**	**998**
–	**–**	**–**	**–**	**–**	**–**	**–**
40,854	**37,106**	**6,301**	**–**	**–**	**–**	**1,118,396**

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the “Net exposure” column are stated net of specific and portfolio adjustments The guarantees are split on the basis of this exposure. The amounts shown in columns “guarantees” refer to the actual value of the collateral (so-called “fair value”), which can be much higher than the amount guaranteed. This is especially true for the guarantees represented by properties, for which the value of the assets pledged can significantly exceed the balance of the loan still outstanding, as can the value of the mortgage originally registered.

A.3.1 Guaranteed exposures to banks

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**51,080**	**–**	**–**	**–**	**–**
1.1 fully guaranteed	44,079	–	–	–	–
- of which: impaired	–	–	–	–	–
1.2 partially guaranteed	7,001	–	–	–	–
- of which: impaired	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**12,060**	**–**	**–**	**–**	**–**
2.1 fully guaranteed	12,000	–	–	–	–
- of which: impaired	–	–	–	–	–
2.2 partially guaranteed	60	–	–	–	–
- of which: impaired	–	–	–	–	–

A.3.2 Guaranteed exposures to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**13,499,306**	**30,348,275**	**–**	**449,900**	**297,515**
1.1 fully guaranteed	12,583,297	30,342,512	–	349,286	271,603
- of which: impaired	1,417,999	4,480,193	–	20,913	21,777
1.2 partially guaranteed	916,009	5,763	–	100,614	25,912
- of which: impaired	93,997	1,858	–	5,706	610
2. **Guaranteed off-balance sheet exposures:**	**1,419,769**	**1,135,690**	**–**	**48,890**	**51,990**
2.1 fully guaranteed	1,132,860	1,135,690	–	39,362	45,786
- of which: impaired	33,669	830,009	–	698	3,113
2.2 partially guaranteed	286,909	–	–	9,528	6,204
- of which: impaired	1,080	–	–	104	25

Personal guarantees (2)									
Credit derivatives									
	Other Derivatives				Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2013**
–	**–**	**–**	**–**	**–**	**5,458**	**–**	**57,033**	**–**	**62,491**
–	–	–	–	–	5,458	–	51,039	–	56,497
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	5,994	–	5,994
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**12,043**	**–**	**–**	**–**	**12,043**
–	–	–	–	–	12,000	–	–	–	12,000
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	43	–	–	–	43
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives									
	Other Derivatives				Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2013**
–	**–**	**–**	**–**	**–**	**35,894**	**60,551**	**20,924**	**9,729,060**	**40,942,119**
–	–	–	–	–	10,051	55,104	14,781	9,210,975	40,254,312
–	–	–	–	–	689	2,244	823	1,535,382	6,062,021
–	–	–	–	–	25,843	5,447	6,143	518,085	687,807
–	–	–	–	–	1,264	658	–	89,893	99,989
–	**–**	**–**	**–**	**–**	**50,137**	**9,133**	**6,291**	**1,320,050**	**2,622,181**
–	–	–	–	–	4,366	9,133	4,413	1,174,799	2,413,549
–	–	–	–	–	1,500	–	–	62,901	898,221
–	–	–	–	–	45,771	–	1,878	145,251	208,632
–	–	–	–	–	–	–	–	721	850

B. Distribution and concentration of exposure

For the purposes of this section, net exposure is defined in the manner envisaged for Tables A.1.3 and A.1.6. This excludes the counterparty risk relating to the giving or taking of securities or goods on loan.

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	Government			Other public entities		
Exposures/Counterparties	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Portfolio adjustments	Net exposure
A. **Cash exposures**						
A.1 Non-performing loans	–	–	–	–	–	–
A.2 Watchlist loans	–	–	–	–	–	–
A.3 Restructured exposures	–	–	–	–	–	–
A.4 Past due exposures	–	–	–	–	–	–
A.5 Other Exposure	6,022,899	–	–	87,146	–	–
Total A	**6,022,899**	**–**	**–**	**87,146**	**–**	**–**
B. **Off-balance sheet exposures**						
B.1 Non-performing loans	–	–	–	–	–	–
B.2 Watchlist loans	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–
B.4 Other Exposure	10,616	–	–	29,635	–	–
Total B	**10,616**	**–**	**–**	**29,635**	**–**	**–**
Total (A+B) 31/12/2013	**6,033,515**	**–**	**–**	**116,781**	**–**	**–**
Total (A+B) 31/12/2012	**3,915,021**	**–**	**–**	**125,214**	**–**	**–**

B.2 Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	437,469	651,795	12,967	6,741
A.2 Watchlist loans	834,870	369,179	9,428	11,972
A.3 Restructured exposures	34,775	6,575	–	–
A.4 Past due exposures	431,668	52,336	1,681	157
A.5 Other exposure	24,846,087	118,360	359,321	2,425
Total A	**26,584,869**	**1,198,245**	**383,397**	**21,295**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	15,081	6,599	–	–
B.2 Watchlist loans	39,488	6,026	–	–
B.3 Other impaired assets	11,100	12	50	–
B.4 Other exposure	4,453,224	5,006	281,301	394
Total B	**4,518,893**	**17,643**	**281,351**	**394**
Total A+B 31/12/2013	**31,103,762**	**1,215,888**	**664,748**	**21,689**
Total A+B 31/12/2012	**30,585,479**	**746,992**	**676,637**	**17,699**

As regards the geographical distribution of exposures to customers resident in Italy, amounts «Due from customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (80.8%) and Centre (11.1%), followed by the North East (5.7%) and the South and Islands (1.4%).

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
3,146	10,543	–	–	–	–	357,108	566,865	–	90,182	81,140	–
28,070	23,416	–	–	–	–	680,542	321,421	–	135,725	36,322	–
–	–	–	–	–	–	34,162	6,571	–	613	4	–
915	95	–	–	–	–	320,120	41,242	–	112,333	11,158	–
2,938,906	–	7,239	24,415	–	22	12,391,941	–	86,690	3,805,469	–	27,010
2,971,037	**34,054**	**7,239**	**24,415**	**–**	**22**	**13,783,873**	**936,099**	**86,690**	**4,144,322**	**128,624**	**27,010**
–	59	–	–	17	–	14,891	6,339	–	190	183	–
18	3	–	–	–	–	41,387	6,017	–	775	33	–
–	–	–	–	–	–	9,504	11	–	1,646	1	–
330,783	–	112	11,261	–	17	4,061,947	–	4,948	290,403	–	323
330,801	**62**	**112**	**11,261**	**17**	**17**	**4,127,729**	**12,367**	**4,948**	**293,014**	**217**	**323**
3,301,838	**34,116**	**7,351**	**35,676**	**17**	**39**	**17,911,602**	**948,466**	**91,638**	**4,437,336**	**128,841**	**27,333**
4,092,258	**15,307**	**20,390**	**23,672**	**17**	**17**	**18,873,823**	**507,752**	**105,053**	**4,318,916**	**89,081**	**27,409**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	12	–	–	–	–
–	–	39	8	–	–
–	–	–	–	–	–
–	–	13	1	6	1
56,076	110	7,497	53	1,795	13
56,076	**122**	**7,549**	**62**	**1,801**	**14**
–	–	–	–	–	–
–	–	2,692	27	–	–
–	–	–	–	–	–
–	–	–	–	120	–
–	**–**	**2,692**	**27**	**120**	**–**
56,076	**122**	**10,241**	**89**	**1,921**	**14**
61,797	**211**	**7,850**	**124**	**17,141**	**2**

B.3 Territorial distribution of the cash and off-balance sheet exposures to banks (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	–	–	–	–
A.2 Watchlist loans	–	–	–	–
A.3 Restructured exposures	–	–	–	–
A.4 Past due exposures	–	–	–	–
A.5 Other exposures	765,512	–	922,928	–
Total	**765,512**	**–**	**922,928**	**–**
B. **Off-balance sheet exposures**	**–**	**–**	**–**	**–**
B.1 Non-performing loans	–	–	–	–
B.2 Watchlist loans	–	–	–	–
B.3 Other impaired assets	–	–	–	–
B.4 Other exposures	162,944	–	253,378	–
Total	**162,944**	**–**	**253,378**	**–**
Total 31/12/2013	**928,456**	**–**	**1,176,306**	**–**
Total 31/12/2012	**1,392,466**	**–**	**1,196,297**	**–**

B.4 Significant risks

	31/12/2013	**31/12/2012**
Number of positions	14	14
Nominal exposure	13,787,724	11,567,139
Risk position	3,024,162	2,921,416

The exposure limit of 10% of capital for supervisory purposes – the threshold for inclusion of a counterparty in the category of «significant risks» – has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers.

On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
26,217	–	24,497	–	4,851	–
26,217	**–**	**24,497**	**–**	**4,851**	**–**
–	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
291	–	10,965	–	1,476	–
291	**–**	**10,965**	**–**	**1,476**	**–**
26,508	**–**	**35,462**	**–**	**6,327**	**–**
27,117	**–**	**19,908**	**–**	**2,749**	**–**

C. Securitisation transactions and disposal of assets

C.2 Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

C.2.1 Financial assets sold and not eliminated from the balance sheet: book value and full value

	Financial assets held for trading			Financial assets carried at fair value			Financial assets available for sale		
Technical forms/Portfolio	A	B	C	A	B	C	A	B	C
A. **Cash assets**	**27,120**	**–**	**–**	**–**	**–**	**–**	**184,074**	**–**	**–**
1. Fixed-yield securities	27,120	–	–	–	–	–	184,074	–	–
2. Variable-yield securities	–	–	–	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total 31/12/2013	**27,120**	**–**	**–**	**–**	**–**	**–**	**184,074**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–
Total 31/12/2012	**263,075**	**–**	**–**	**–**	**–**	**–**	**275,287**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–

Key:
A = financial assets sold and recognised in full (book value)
B = financial assets sold and recognised in part (book value)
C = financial assets sold and recognised in part (full value)

These are securities sold under repurchase agreements.

C.2.2 Financial liabilities associated with assets sold and not eliminated from the balance sheet: book value

Liabilities/Portfolio of assets	Financial assets held for trading	Financial assets carried at al fair value	Financial assets available for sale	Financial assets held to maturity	Due from Banks	Due from Customers	**Total 31/12/2013**
1. **Due to customers**	**27,120**	**–**	**183,848**	**–**	**–**	**–**	**210,968**
a) for assets recognised in full	27,120	–	183,848	–	–	–	210,968
b) for assets recognised in part	–	–	–	–	–	–	–
2. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
Total 31/12/2013	**27,120**	**–**	**183,848**	**–**	**–**	**–**	**210,968**
Total 31/12/2012	**262,330**	**–**	**271,481**	**–**	**–**	**–**	**533,811**

Financial assets held to maturity			Due from banks			Due from customers			**Total**	**Total**
A	B	C	A	B	C	A	B	C	**31/12/2013**	**31/12/2012**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**211,194**	**538,362**
–	–	–	–	–	–	–	–	–	211,194	538,362
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**211,194**	**–**
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**538,362**
–	–	–	–	–	–	–	–	–	–	–

C.2.3 Disposals with recourse limited solely to the assets sold: fair value

	Financial assets held for trading		Financial assets carried at fair value		Financial assets available for sale	
Technical forms/Portfolio	A	B	A	B	A	B
A. **Cash assets**	**27,120**	**–**	**–**	**–**	**184,074**	**–**
1. Fixed-yield securities	27,120	–	–	–	184,074	–
2. Variable-yield securities	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total Assets	**27,120**	**–**	**–**	**–**	**184,074**	**–**
C. **Associated liabilities**	**27,120**	**–**	**–**	**–**	**183,848**	**–**
1. Due to customer	27,120	–	–	–	183,848	–
2. Due to banks	–	–	–	–	–	–
Total liabilities	**27,120**	**–**	**–**	**–**	**183,848**	**–**
Net value 31/12/2013	**–**	**–**	**–**	**–**	**226**	**–**
Net value 31/12/2012	**745**	**–**	**–**	**–**	**3,806**	**–**

Key:
A = financial assets sold and recognised in full
B = financial assets sold and recognised in part

Section 2 Market risks

2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The principal source of interest rate risk consists of the fixed-yield securities classified under «financial assets held for trading».

The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is very short.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

With regard to the treatment of derivative instruments, the offices deal in untraded options on fixed-yield government securities, while activity regarding other innovative or complex instruments is negligible.

The nature of trading activities did not change significantly over the year.

The main source of price risk consists of variable-yield securities and units in mutual funds classified as «financial assets held for trading», including the investments that service employees' post-employment benefits.

As with regard to interest rate risk, the strategy for containing price risk as part of the bank's overall risk management strategy is to take a prudent approach.

This is evidenced by the low weighting of variable-yield securities within the entire securities portfolio (excluding those servicing the post-employment benefits of employees), which represent just 1.80% of the overall total of 55.705 million.

Furthermore, variable-yield securities comprise holdings in leading companies with a liquid market.

Financial assets held to maturity (fair value)		Due from Banks (fair value)		Due from Customers (fair value)		Total	
A	B	A	B	A	B	31/12/2013	31/12/2012
–	**–**	**–**	**–**	**–**	**–**	**211,194**	**538,362**
–	–	–	–	–	–	211,194	538,362
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**211,194**	**538,362**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**210,968**	**533,811**
–	**–**	**–**	**–**	**–**	**–**	**226**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**4,551**

Once again, trading activity concentrates on benefiting from short-term opportunities while, with regard to derivatives, the transactions in equity options have been both limited.

There were no significant changes during the year.

B. Management and measurement of interest rate risk and price risk

The internal processes for control and management of the interest rate risk associated with the trading portfolio have the following characteristics. The organisational structure comprises: the Board of Directors, which establishes guidelines and the maximum degree of acceptable risk; General Management, which carries out supervision and, in turn, sets limits on risk that are consistent with those established by the Board; the «central and branch internal auditors», part of the Internal Audit Department, who check on compliance with established limits; the «Risk control» office, within the Planning and management control department, measures risk and produces the related reports; the «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets.

The system for the limitation of risk, especially market risk (exchange rate, share price), is governed by the Board resolution on «Operational and managerial limits for financial activities» adopted on 29 November 2001, as amendment with resolution dated 27 April 2009. This system is organised on the basis described below. As part of its governance functions, the Board of Directors quantifies the maximum acceptable loss for the period, consistent with the bank's volume of business. At operational level, General Management allocates this Maximum Acceptable Loss between market risks and credit risks. Suitable limits on the potential exposure to financial risk are established in terms of Value at Risk.

The characteristics of the internal management and control of price risk in relation to the trading portfolio are the same – in terms of organisational structure and the limitation of risk acceptance – as those described in relation to interest rate risk.

The procedures for the control and management of risk described above have not changed significantly during the year.

The methodology used for the analysis of sensitivity to interest rate risk essentially comprises application of the internal model for strategic Asset & Liability Management (ALM), described in section 2.2 below (interest rate risk inherent in the bank's portfolio), and an internal model for the daily calculation of Value at Risk (VaR) also used for the analysis of sensitivity to price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties – with the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with the famous JP Morgan Riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the trading portfolios held for supervisory purposes: as for interest rate risk, debt securities, repurchase agreements, forward contracts on fixed-yield securities, options on variable-yield securities and forward contracts on exchange rates (excluding those on gold), in addition to, and limited to the year-end figures, other financial derivatives (derivatives in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps); as regards price risk, variable-yield securities, purchase/sale transactions not yet settled in variable-yield securities and options on 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.

Note that, only in the year-end figures, there has been a restatement in which, unlike what happened in the previous daily surveys, the repurchase agreements with underlying fixed-yield securities of the bank book have been excluded from the trading portfolio for supervisory purposes.

Options have been treated using the delta-gamma methodology, while any warrants would have been treated as variable-yield securities of the same value.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The policies and procedures for comparison of the model's results with actual results («back-testing») regarding the trading portfolio for supervisory purposes, limited to debt securities on the one hand, and variable-yield securities and mutual funds on the other, consist of a comparison between the daily VaR and the change in market value on the following day for the same positions used to calculate the VaR (theoretical loss) and the difference between capital gains, write-backs, capital losses, and the realised gains and losses on transactions in the shares held in the portfolio, as reported by the securities procedure (actual loss). For back-testing purposes, the VaR information and the theoretical and actual losses include both the price risk and the exchange risk element deriving from shares, funds and sicavs denominated in foreign currencies.

The internal policies and procedures for stress testing include, with reference to the standard methodology used for ICAAP (Internal Capital Adequacy Assessment Process) purposes, the tests described below.

General risk on fixed-yield securities: change in market rates

With regard to the risk position in fixed-yield securities, consideration is given to greater adverse changes in interest rates than those implicit in the weightings of the regulatory algorithm.

Specific risk on fixed-yield securities: downgrading of issuers

The effect on internal capital of a downgrade in the rating of counterpart issuers is estimated by applying the next worse weighting factor.

With regard to the general risk on fixed-yield securities, different intensities of shock were applied to the various maturity bands: the increase in rates by 200 basis points is in line with that suggested in the regulations for stress tests carried out using the simplified model for the interest-rate risk on the bank book.

Further stress tests applied the same intensity of shock (100 basis points) to all maturity/repricing bands, or acted separately on a single maturity band, leaving other bands subject to the normal weighting. These analyses indicate over time the sensitivity of the portfolio to changes affecting different maturities along the rate curve.

As for the changes in risk exposure, measured in terms of VaR, compared with the previous year, based on interest rate risk the overall VaR has gone down from 1.584 million to 1.454 mainly because of fixed-yield securities (from 1.575 million to 1.459); based on the price risk, the overall VaR at period end has increased from 1.735 million to 1.922; based on the interest rate and price risk, the overall VaR at period end has decreased from 3.005 million to 2.315.

We would also like to comment on the year-end figures generated by the ALM procedure, limited to the debt securities in the trading portfolio for supervisory purposes as well as lending and funding repurchase agreements: the effect of a change in interest rates of +100 basis points over twelve months on the future interest margin – the difference between the future interest income on fixed-yield securities held in the trading portfolio for supervisory purposes and on lending repos and the future interest expense on funding repos – has gone from an increase of 14.385 million to one of 18.890 million; the effect of an instantaneous change in interest rates by +100 basis points on equity – the difference between the present value of fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos with respect to that of funding repos – has passed from a loss of 11.889

million to one of 22.261 million; the difference between the future income margin for the following twelve months under the most favourable scenario and that under the worst outcome has decreased from 27.790 million to 6.765 million.

Note that all of the figures indicated above are net of repurchase agreements with underlying fixed-yield securities held in the bank book.

The internal model is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The Standardised Approach is used in this case.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**946,736**	**1,325,727**	**362,394**	**397,498**	**25,067**	**6,005**	**–**
1.1 Fixed-yield securities	–	897,324	1,325,727	362,394	397,498	25,067	6,005	–
- with early repayment option	–	34,597	–	–	91	–	–	–
- Other	–	862,727	1,325,727	362,394	397,407	25,067	6,005	–
1.2 Other assets	–	49,412	–	–	–	–	–	–
2. **Cash liabilities**	**3**	**27,118**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	3	27,118	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,202,073**	**786,322**	**228,996**	**494,303**	**162,434**	**49,791**	**–**
3.1 With underlying security	–	26,812	3,357	850	–	–	20,731	–
- Options	–	5,255	3,357	850	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	5,255	3,357	850	–	–	–	–
- Other Derivatives	–	21,557	–	–	–	–	20,731	–
+ Long positions	–	10,787	–	–	–	–	10,362	–
+ Short positions	–	10,770	–	–	–	–	10,369	–
3.2 Without underlying security	–	2,175,261	782,965	228,146	494,303	162,434	29,060	–
- Options	–	22,936	8,589	27,260	162,080	154,050	22,308	–
+ Long positions	–	11,477	4,396	13,540	81,040	77,025	11,154	–
+ Short positions	–	11,459	4,193	13,720	81,040	77,025	11,154	–
- Other Derivatives	–	2,152,325	774,376	200,886	332,223	8,384	6,752	–
+ Long positions	–	1,097,816	384,573	100,096	166,580	4,192	3,376	–
+ Short positions	–	1,054,509	389,803	100,790	165,643	4,192	3,376	–

Currency: US DOLLAR

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**10**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	10	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	10	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,290,761**	**129,006**	**71,250**	**24,588**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,290,761	129,006	71,250	24,588	–	–	–
- Options	–	17,095	3,679	15,580	722	–	–	–
+ Long positions	–	8,550	1,839	7,790	361	–	–	–
+ Short positions	–	8,545	1,840	7,790	361	–	–	–
- Other Derivatives	–	1,273,666	125,327	55,670	23,866	–	–	–
+ Long positions	–	617,246	64,749	27,080	11,933	–	–	–
+ Short positions	–	656,420	60,578	28,590	11,933	–	–	–

Currency: SWISS FRANC

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,566,186**	**1,564,668**	**236,131**	**1,519,230**	**615,184**	**814**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other Derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,566,186	1,564,668	236,131	1,519,230	615,184	814	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other Derivatives	–	1,566,186	1,564,668	236,131	1,519,230	615,184	814	–
+ Long positions	–	784,055	782,843	118,612	759,616	307,592	407	–
+ Short positions	–	782,131	781,825	117,519	759,614	307,592	407	–

Currency: JAPANESE YEN

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**139,834**	**506**	**2,488**	**1,382**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other Derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	139,834	506	2,488	1,382	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other Derivatives	–	139,834	506	2,488	1,382	–	–	–
+ Long positions	–	67,827	219	1,244	691	–	–	–
+ Short positions	–	72,007	288	1,244	691	–	–	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**278,971**	**36,203**	**72,939**	**15,697**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	278,971	36,203	72,939	15,697	–	–	–
- Options	–	2,888	–	–	–	–	–	–
+ Long positions	–	1,444	–	–	–	–	–	–
+ Short positions	–	1,444	–	–	–	–	–	–
- Other Derivatives	–	276,083	36,203	72,939	15,697	–	–	–
+ Long positions	–	137,676	18,102	36,926	7,393	–	–	–
+ Short positions	–	138,407	18,101	36,013	8,304	–	–	–

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 of America	United Kingdom	Japan	Germany	other	
A. **variable-yield securities**							
- long positions	28,611	719	974	–	4,132	7,553	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	251	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other Derivatives on variable-yield securities**							
- long positions	9,384	–	–	–	–	78	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in table 2 above and other transactions for which the calculation is carried out in any case. Note that in the following table, the figures exclude repurchase agreements with underlying fixed-yield securities held in the bank book; the figures are therefore comparable with those published in the same table last year.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. **Cash assets**	**1,458.9**
1.1 Fixed-yield securities	1,458.8
1.2 Other assets	0.3
2. **Cash liabilities**	**0.2**
2.1 Repurchase agreements	0.2
2.2 Other liabilities	–
3. **Financial derivatives**	**11.3**
3.1 With underlying security	0.0
- Options	–
+ Long positions	–
+ Short positions	–
- Other Derivatives	0.0
+ Long positions	90.3
+ Short positions	90.3
3.2 Without underlying security	11.3
- Options	16.7
- Other Derivatives	7.9
+ Long positions	2,292.8
+ Short positions	2,284.9
Total interest rate risk	**1,453.9**
A. **Variable-yield securities**	**1,365.9**
- long positions	1,365.9
- short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**10.0**
- long positions	10.0
- short positions	–
C. **Other Derivatives on Variable-yield securities**	**323.0**
- long positions	323.0
- short positions	–
D. **Derivatives on stock indices**	**–**
- long positions	–
- short positions	–
Total Price risk transactions table 2	**1,645.9**
Mutual funds	**300.8**
Forward contracts on other instruments (goods)	**–**
- long positions	104.5
- short positions	104.5
Options on other instruments (goods)	**–**
- long positions	–
- short positions	–
Total Price risk	**1,921.7**
Total Interest rate risk and price risk	**2,314.8**

Interest rate risk

Information on average, minimum and maximum VaR is provided below.

Note that in the following two tables, the figures include repurchase agreements with underlying fixed-yield securities held in the bank book; the figures are therefore comparable with those published in the same tables last year.

Total Value at Risk (VaR)

	(in thousands of euro)
average	1,315.0
minimum	739.3
maximum	2,306.4

With regard to the distribution of VaR during the year, the average VaR for each month in 2013 is presented below.

January	1,441.4
February	1,511.4
March	1,626.6
April	1,040.3
May	927.7
June	1,568.4
July	1,573.0
August	872.0
September	950.6
October	1,222.8
November	1,434.3
December	1,579.5

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 65 out of 251 observations, the number of days on which theoretical losses exceeded VaR was 62 out of 251 observations.

Price risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	2,033.4
minimum	1,292.5
maximum	2,921.3

With regard to the distribution of VaR during the year, the average VaR for each month in 2013 is presented below.

January	1,614.4
February	2,007.4
March	2,596.6
April	2,475.3
May	2,063.5
June	2,291.3
July	2,408.0
August	1,922.2
September	1,948.9
October	1,628.4
November	1,562.3
December	1,811.3

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 2 out of 251 observations, the number of days on which theoretical losses exceeded VaR was 1 out of 251 observations.

Price risk

Information on average, minimum and maximum VaR is provided below.

Note that in the following two tables, the figures include repurchase agreements with underlying fixed-yield securities held in the bank book; the figures are therefore comparable with those published in the same tables last year.

Total Value at Risk (VaR)

	(in thousands of euro)
average	2,848.4
minimum	1,954.6
maximum	4,942.1

With regard to the distribution of VaR during the year, the average VaR for each month in 2013 is presented below.

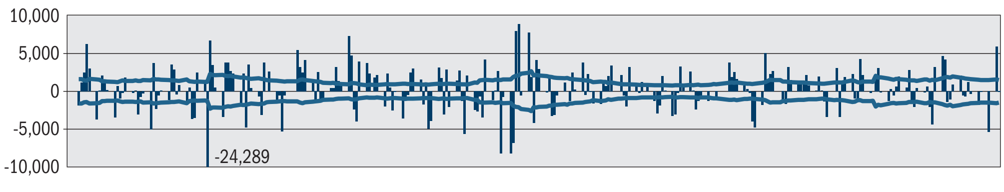
January	2,778.8
February	3,181.3
March	3,913.2
April	3,047.8
May	2,590.3
June	3,277.8
July	3,285.9
August	2,292.3
September	2,417.3
October	2,490.7
November	2,292.0
December	2,525.2

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for supervisory purposes, the number of days on which actual losses exceeded VaR was 36 out of 251 observations, the number of days on which theoretical losses exceeded VaR was 34 out of 251 observations.

The following graphs compare VaR with the daily results.

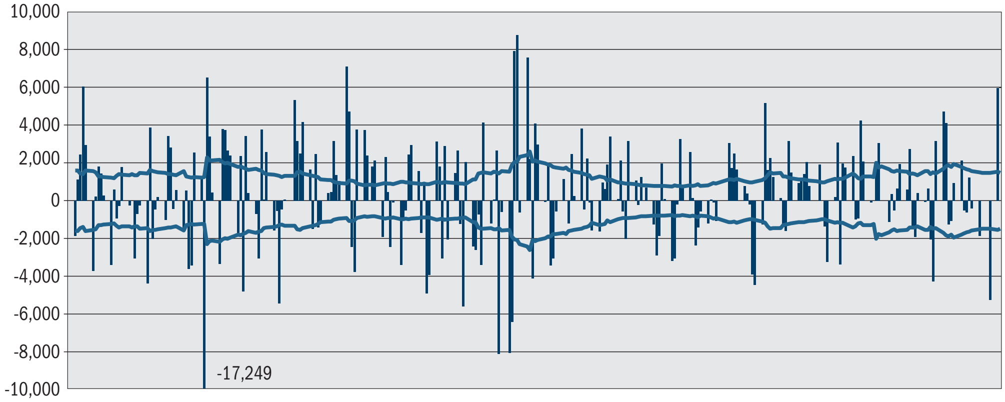
Fixed-yield securities: VaR and actual profits/losses

(in thousands of euro)



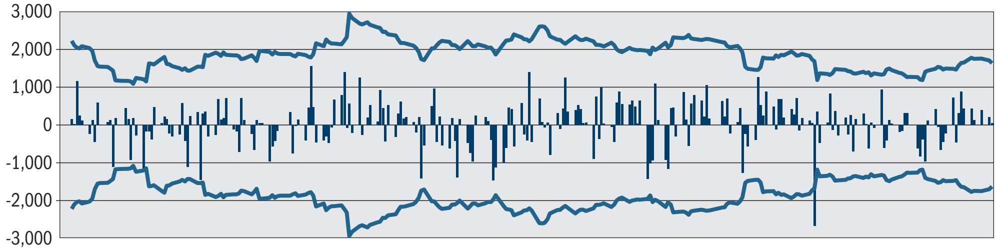
Fixed-yield securities: VaR and theoretical profits/losses

(in thousands of euro)



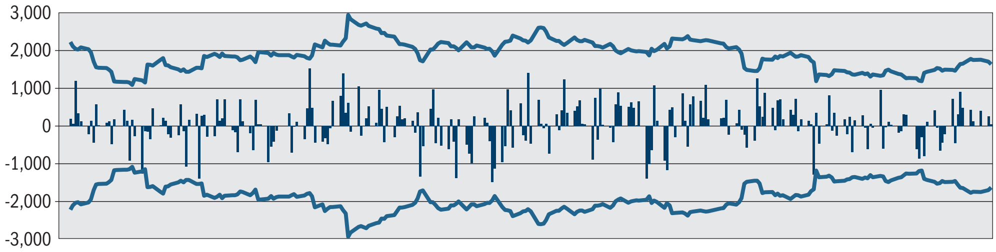
Variable-yield securities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



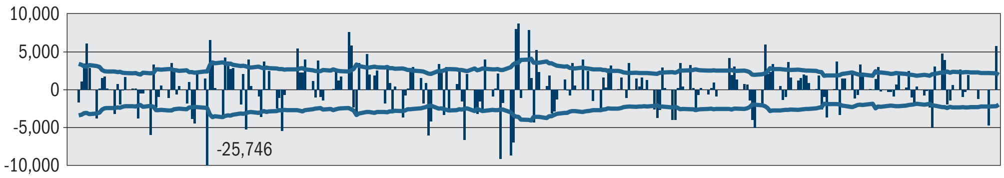
Variable-yield securities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



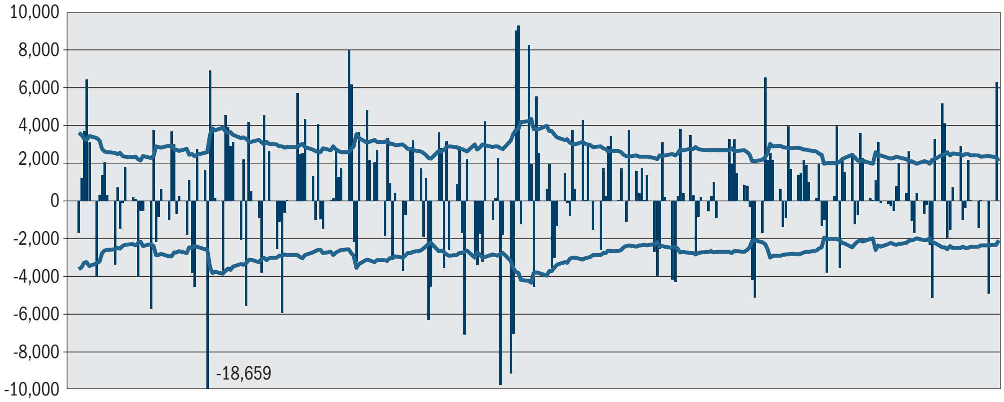
Fixed-yield securities, equities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



Fixed-yield securities, equities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), the following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the bank book.

Effects of a change in interest rates by +100 basis points over a twelve-month period on the future interest margin.

For a change of -100 basis points, the sign of the amounts should be reversed.

The future interest margin is understood as being the difference between the future interest income on the trading portfolio for supervisory purposes and lending repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes) calculated only on the transactions outstanding at the reference date.

Exposure to risk

	(in thousands of euro)
at period end	18,890
average	19,052
minimum	14,385
maximum	21,915

Effects of an instant change in interest rates of +100 basis points on equity.

For a change of -100 basis points, the sign of the amounts should be reversed.

Equity is defined as the difference between the present value of fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos, and that of funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes).

Exposure to risk

	(in thousands of euro)
at period end	-22,261
average	-16,168
minimum	-11,309
maximum	-23,543

Analysis of scenario: difference between the future interest margin for the following twelve months under the worst scenario and that under the most favourable outcome.

The scenarios considered are that with constant market rates and the three referred to in the qualitative information provided in section 2.2 on the interest rate risk of the bank book.

Exposure to risk

	(in thousands of euro)
at period end	-6,765
average	-26,496
minimum	-6,765
maximum	-50,244

2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

The principal sources of interest rate risk deriving from fair value are associated with funding transactions (especially the issue of bonds) and lending transactions (principally long-term loans and fixed-yield securities) at a fixed rate; the interest rate risk deriving from cash flows is originated by other sight or indexed rate assets and liabilities, which represent the majority of the total.

The internal management and control of interest rate risk is centralised within General Management, which periodically checks the ALM situation (integrated asset and liability management) prepared each month and takes the necessary operational decisions.

There were no significant changes during the year in the risk management and control procedures described.

The methods for the measurement and control of interest-rate risk on the bank book essentially apply a model consistent with the methodology defined by the Bank of Italy in Attachment C - Section III, Chapter 1 of the «New Supervisory instructions for banks» (Circular 263 of 27 December 2006, now Circular 285 of 17 December 2013 «Supervisory rules for banks», part I), and an internal model for strategic Asset & Liability Management (ALM) with the characteristics described below.

With regard to the principal assumptions and underlying parameters, the model used supports «gap analysis» for analysing the sensitivity of net interest income and «duration analysis» for analysing the sensitivity of equity, only from a static standpoint, considering the transactions outstanding at the reference date, based on three alternative scenarios for rate changes provided by external consultants using their own econometric model. The gap analysis and the related scenario analysis take account of the introduction of a stickiness model for asset and liability current accounts and deposit accounts; otherwise, the transactions are considered with reference to their contractual characteristics, without any form of optional behaviour.

The system covers the following assets in terms of financial instruments exposed to interest rate risk included in the trading portfolio or in the Bank's own portfolio. The first includes interest-earning assets and interest-bearing liabilities (excluding «sight and overnight deposits»), as defined in the balance sheet format prepared by the National

Association of Cooperative Banks, based on the supervisory matrix, excluding bankers' drafts and all securities held apart from fixed-yield securities (note that the securities classified as non-performing in the supervisory matrix are excluded from interest-earning assets in the table). The second includes the same instruments, except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), as the information on these is disclosed in section 2.1 above on the trading portfolio for supervisory purposes.

The various risk profiles are aggregated by simple summation.

The internal policies and procedures for the analysis of scenarios involve calculating all the results under the three, more or less favourable, alternative scenarios mentioned for possible changes in interest rates.

The source of price risk lies in the variable-yield securities and mutual funds not included in the trading portfolio for supervisory purposes, excluding treasury shares. It therefore includes the variable-yield securities classified as equity investments and the variable-yield securities and mutual funds classified as «financial assets available for sale» or «financial assets carried at fair value».

The equity investments held by the bank essentially relate to companies that supply the goods and services which complete the bank's range of commercial services and, therefore, are necessary for the achievement and maintenance of an effective competitive position. These are stable investments and reflect the established strategy of concentrating the bank's activities on ordinary operations, while also making recourse – for certain, important near-banking activities (mutual funds, insurance, leasing, factoring, stockbroking, trust management etc.) – to specialist operators. Banca Popolare di Sondrio (Suisse) SA, a wholly owned Swiss bank that is part of the banking group, does not strictly adhere to these principles; Factorit spa, which was acquired for the strategic intention of reinforcing the commercial services that the Banking Group could offer its corporate customers, especially in the management of domestic and international receivables; in addition, Pirovano Stelvio spa and Sinergia Seconda srl.

The Bank understands these companies well and participates in their management; accordingly, the risk – which is more strategic than market related – is well monitored.

We would reiterate that «financial assets available for sale» include non derivative financial assets not classified as «loans», «financial assets held for trading» or «assets held to maturity», while the portfolio of «Financial assets carried at fair value» includes those securities to which the Bank decided to apply the fair value option.

The measurement and control of price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties – essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known Riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the bank book, which no longer has a specific table in these notes: variable-yield securities (including equity investments) and mutual funds. The price risk on foreign currency mutual funds also includes exchange risk.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

Any early redemption options purchased and granted are treated as if not exercised.

The stress tests used as part of the strategies to govern the interest-rate risk (but not the price risk) on the bank book include, with reference to the standard methodology used for ICAAP (Internal Capital Adequacy Assessment Process) purposes, those described below.

Parallel shift in rates by more than that indicated in the prudential regulations

With regard to the risk position, consideration is given to parallel adverse interest-rate shifts by more than those envisaged in the regulatory model proposed by the Supervisory Authorities. In particular, the impact of shift of 300 basis points in assessed.

Non-parallel change in rates

With regard to the risk position, consideration is given to different adverse changes in interest rates for each currency and for each maturity band. Shifts of +200 basis points are considered when the net position of the Bank for the individual currency and maturity band is positive (excess of interest-earning assets over interest-paying liabilities), while the shifts of –200 basis points are considered in the case of net liabilities.

With specific regard to the «*Non-parallel change in rates*», the size of the additional capital requirement derives from the inability to net the weighted net positions of the different maturity bands, while such netting is implicit in the regulatory model adopted.

B. Fair value hedges

The bank has not arranged any macro hedges, nor has hedging operations outstanding.

C. Cash flow hedges

The Bank has not arranged any cash-flow hedges.

D. Hedges of foreign investments

The bank did not carry out any hedges of foreign investments.

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**463**	**67,268**	**1,249**	**1,690**	**46,119**	**60,117**	**81,770**	**–**
3.1 With underlying security								
Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other Derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	463	67,268	1,249	1,690	46,119	60,117	81,770	–
Options	463	67,268	1,249	1,690	46,119	60,117	81,770	–
+ Long positions	–	1,440	298	1,152	29,518	39,598	55,217	–
+ Short positions	463	65,828	951	538	16,601	20,519	26,553	–
Other Derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. **Other off-balance sheet transactions**	**639,373**	**235,690**	**4,990**	**3**	**132**	**50**	**270**	**–**
+ Long positions	199,076	235,690	4,990	3	132	50	270	–
+ Short positions	440,297	–	–	–	–	–	–	–

This table only shows financial derivatives as a price risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Interest rate risk

With reference to the interest-earning assets and interest-bearing liabilities – except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), as the information on these is disclosed in the section on the trading portfolio for supervisory purposes – as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +100 basis points over a twelve-month period on the future interest margin.

The future interest margin is understood as being the difference between the future interest income on interest-earning assets (excluding fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos) and the future interest expense on interest-bearing liabilities (excluding funding repos with underlying fixed-yield securities in the trading portfolio for supervisory purposes), based solely on transactions outstanding at the reference date.

Exposure to risk

	(in thousands of euro)
at period end	3,280
average	7,223
minimum	591
maximum	19,391

Effects of a change in interest rates by -100 basis points over a twelve-month period on the future interest margin.

Exposure to risk

	(in thousands of euro)
at period end	-42,687
average	-94,062
minimum	-42,687
maximum	-112,221

Effects of an instant change in interest rates of +100 basis points on equity.

For a change of -100 basis points, the sign of the amounts should be reversed.

Equity is understood as being the difference between the present value of interest-earning assets (excluding fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos) and that of interest-bearing liabilities (excluding funding repos with underlying fixed-yield securities in the trading portfolio for supervisory purposes).

Exposure to risk

	(in thousands of euro)
at period end	-77,182
average	-69,981
minimum	-53,457
maximum	-79,590

Analysis of scenario: difference between the future interest margin for the following twelve months under the worst scenario and that under the most favourable outcome.

The scenarios considered are that with constant market rates and the three referred to in the qualitative information provided in this section.

Exposure to risk

	(in thousands of euro)
at period end	-5,609
average	-33,682
minimum	-5,609
maximum	-50,746

Price risk

With reference to the closing date, we report above all the VaR figures specifying that: they refer to transactions that are no longer explicitly foreseen in the standard tables of the notes, but on which we still carry out the calculation; they are consistent with those published last year, also in terms of presentation.

Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	10,307.6
- of which equity investments	8,434.5
Mutual funds	719.8
Total	**10,848.6**

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
at period end average	12,781.7
minimum	9,238.8
maximum	20,310.4

With regard to the distribution of VaR during the year, the average VaR for each month in 2013 is presented below.

January	11,139.9
February	12,963.0
March	16,817.1
April	14,201.6
May	13,203.8
June	14,348.5
July	15,106.6
August	11,568.5
September	11,898.7
October	11,024.0
November	10,241.6
December	10,715.4

2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk are: the investment in Banca Popolare di Sondrio (Suisse) SA, denominated in Swiss francs, certain other equities, variable-yield securities and mutual funds denominated in foreign currencies and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the Bank's foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits. etc.).

Excluding securities, the Bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs.

The characteristics of the internal management and control of exchange risk are the same

– in terms of organisational structure and the limitation of risk acceptance – as those described in relation to interest rate risk in section 2.1, to which reference is made.

There were no significant changes during the year in the risk management and control procedures described.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known riskmetrics methodology. It covers the following assets in terms of financial instruments exposed to exchange rate risk at the balance sheet date: all of the foreign currency assets and liabilities (excluding gold, the African Financial Community franc, the Latvian lat, the Lithuanian litas, the Kenyan shilling, the new Bulgarian lev, the Bahraini dinar, Jordanian dinar and the Qatari riyal) shown in table 1 below, excluding mutual funds in foreign currency where the exchange risk is included in price risk; 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 parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The Bank does not envisage the use of stress tests as part of the strategies to govern exchange-rate risk.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

B. Hedging of exchange risk

The Bank has not arranged any specific hedges of exchange risk. The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations and the tighter limits on VaR established by General Management.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Canadian Dollars	Swiss Francs	Other currencies
A. **Financial assets**	**665,150**	**37,703**	**16,533**	**3,730**	**780,138**	**24,123**
A.1 Fixed-yield securities	10	–	–	–	–	–
A.2 Variable-yield securities	12,116	974	–	–	110,363	–
A.3 Loans to banks	114,612	34,365	7,048	2,922	78,079	23,455
A.4 Loans to customers	538,412	2,364	9,485	808	591,696	668
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**2,639**	**1,053**	**163**	**116**	**5,949**	**1,078**
C. **Financial liabilities**	**623,184**	**39,121**	**12,362**	**3,600**	**689,544**	**23,195**
C.1 Due to banks	361,801	9,470	265	474	457,136	2,653
C.2 Due to customers	261,383	29,651	12,097	3,126	232,408	20,542
C.3 Fixed-yield securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**2,629**	**662**	**17**	**104**	**985**	**60**
E. **Financial derivatives**	**1,517,225**	**172,779**	**144,211**	**1,013**	**286,020**	**230,017**
- Options	37,075	–	–	–	–	2,888
+ long positions	18,540	–	–	–	–	1,444
+ short positions	18,535	–	–	–	–	1,444
- Other derivatives	1,480,150	172,779	144,211	1,013	286,020	227,129
+ long positions	721,819	86,444	69,981	474	145,029	113,178
+ short positions	758,331	86,335	74,230	539	140,991	113,951
Total assets	**1,408,148**	**125,200**	**86,677**	**4,320**	**931,116**	**139,823**
Total liabilities	**1,402,679**	**126,118**	**86,609**	**4,243**	**831,520**	**138,650**
Total (+/-)	**(5,469)**	**918**	**(68)**	**(77)**	**(99,596)**	**(1,173)**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	0.1
Variable-yield securities	348.6
Net balance between other assets and liabilities	355.5
Financial derivatives	351.8
- Options	0.0
+ Long positions	156.9
+ Short positions	156.9
- Other derivatives	351.8
+ Long positions	7,009.5
+ Short positions	7,357.3
Total transactions table 1	**338.6**
- Interest Rate Swaps	18.3
+ Long positions	8,398.3
+ Short positions	8,380.0
Total	**356.8**

Details of the principal currencies

US Dollars	3.0
Sterling	7.0
Japanese Yen	1.1
Swiss Francs	359.6
Canadian Dollars	1.0
Other currencies	6.5
Total	**356.8**

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	677.6
minimum	100.8
maximum	1,196.1

With regard to the distribution of VaR during the year, the average VaR for each month in 2013 is presented below.

January	744.5
February	876.2
March	864.6
April	639.7
May	954.9
June	952.1
July	756.5
August	609.1
September	550.6
October	420.2
November	393.1
December	331.5

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 31/12/2013 Over the counter	Total 31/12/2013 Central Counterparties	Total 31/12/2012 Over the counter	Total 31/12/2012 Central Counterparties
1. **Fixed-yield securities and interest rates**	**3,246,949**	**–**	**3,137,033**	**–**
a) Options	46,023	–	87,673	–
b) Swaps	3,200,926	–	3,049,360	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**67,865**	**–**	**61,981**
a) Options	–	67,865	–	61,981
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**2,228,659**	**–**	**2,785,395**	**–**
a) Options	77,558	–	53,143	–
b) Swaps	–	–	–	–
c) Forwards	2,151,101	–	2,732,252	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**14,003**	**–**	**12,795**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**5,489,611**	**67,865**	**5,935,223**	**61,981**
Averages	**5,712,418**	**64,923**	**7,390,207**	**30,990**

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.

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

Portfolio/Type of derivatives	POSITIVE FAIR VALUE			
	Total 31/12/2013		Total 31/12/2012	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**67,878**	**877**	**93,612**	**565**
a) Options	1,235	877	1,085	565
b) Interest rate swaps	47,276	–	73,359	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	18,925	–	19,012	–
f) Futures	–	–	–	–
g) Other	442	–	156	–
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	**67,878**	**877**	**93,612**	**565**

The positive fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.4 Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivatives	NEGATIVE FAIR VALUE Total 31/12/2013 Over the counter	Total 31/12/2013 Central Counterparties	Total 31/12/2012 Over the counter	Total 31/12/2012 Central Counterparties
A. **Trading portfolio for supervisory purposes**	**60,279**	**29**	**86,203**	**528**
a) Options	1,176	29	1,054	528
b) Interest rate swaps	40,659	–	66,208	–
c) Cross currency swaps	–	–	–	–
d) Equity Swaps	–	–	–	–
e) Forwards	18,026	–	18,816	–
f) Futures	–	–	–	–
g) Other	418	–	125	–
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	**60,279**	**29**	**86,203**	**528**

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 pubblic entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) **Fixed-yield securities and interest rates**							
- notional value	–	–	2,977,524	22,134	–	234,798	12,494
- positive fair value	–	–	34,118	41	–	12,890	458
- negative fair value	–	–	40,716	9	–	155	2
- future exposure	–	–	17,992	1	–	474	41
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	–	–	1,116,203	20,121	–	805,269	287,066
- positive fair value	–	–	6,415	235	–	10,377	2,903
- negative fair value	–	–	13,212	618	–	3,302	1,849
- future exposure	–	–	11,884	360	–	8,653	2,877
4. **Other assets**							
- notional value	–	–	7,002	–	–	7,002	–
- positive fair value	–	–	17	–	–	425	–
- negative fair value	–	–	405	–	–	13	–
- future exposure	–	–	718	–	–	718	–

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

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	**Total**
A. **Trading portfolio for supervisory purposes**	**2,778,447**	**1,934,801**	**776,364**	**5,489,612**
A.1 Financial derivatives on fixed-yield securities and interest rates	585,209	1,885,377	776,364	3,246,950
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on exchange rates and gold	2,181,045	47,614	–	2,228,659
A.4 Financial derivatives on other instruments	12,193	1,810	–	14,003
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 31/12/2013	**2,778,447**	**1,934,801**	**776,364**	**5,489,612**
Total 31/12/2012	**3,405,017**	**2,052,429**	**477,777**	**5,935,223**

Section 3 *Liquidity risk*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (funding liquidity risk);
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk).

The Bank's overall strategy for managing liquidity risk, with its low propensity for risk, consists above all of giving priority to liquidity objectives rather than profitability, always taking a prudent approach.

This preference for limited exposure to liquidity risk also manifests itself in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising.

In particular, as regards the first of these sources of risk, the Bank makes considerable efforts to avoid a concentration of funding; its very nature as a cooperative bank is to be close to households and small businesses and this makes it possible to enjoy a wide and stable retail funding base, which by definition is widely diversified.

Another source of funding is the interbank market, on which the Bank has never had problems raising money at market conditions, given its high reputation.

The potential liquidity risk deriving from difficulties in unwinding positions is contained by the decision of the Bank maintain a portfolio of high quality securities, that was expanded considerably during the year: most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds that are highly liquid as they easily be sold on the market or used, when liquidity is needed, in repurchase agreements with banks or in refinancing auctions held by the European Central Bank as most of them are eligible.

Another element that contributes positively to the reserve availability known as the «counterbalancing capacity» is represented by the loans granted to the European Central Bank, in addition to eligible fixed-yield securities, in the form of collateral, so-called ABACO loans (A.BA. CO stands for Attivi Bancari Collateralizzati or collateralised bank assets).

Control over liquidity risk is carried out by various units: the first level control is performed by the operating functions that provide for a timely check that they carry out their duties properly and report the results in summary form on a daily basis. Then there is systematic monitoring of the expected liquidity position by the Planning and Control Department: based on the data on treasury operations and the liquidity reserve made up of easily marketable securities and other assets, we are able to forecast potential liquidity mismatches up to three months into the future. These tables are made available to the Bank of Italy on a weekly basis. The long-term liquidity position is also monitored, with no time limits.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**6,978,102**	**409,543**	**1,494,112**	**802,548**	**1,267,420**	**857,866**	**1,620,986**	**9,569,904**	**4,928,193**	**105,509**
A.1 Government securities	2,975	–	–	–	108,287	268,022	710,648	4,710,305	307,075	–
A.2 Other fixed-yield securities	4,307	5	1,987	7,184	17,039	35,324	40,131	241,745	119,570	5
A.3 Mutual funds	160,930	–	–	–	–	–	–	–	–	–
A.4 Loans	6,809,890	409,538	1,492,125	795,364	1,142,094	554,520	870,207	4,617,854	4,501,548	105,504
- Banks	146,003	93,560	46,057	260,498	523,720	28,211	13,538	5,005	–	105,504
- Customers	6,663,887	315,978	1,446,068	534,866	618,374	526,309	856,669	4,612,849	4,501,548	–
Cash liabilities	**16,749,528**	**649,449**	**527,014**	**871,416**	**1,285,619**	**1,329,557**	**1,100,171**	**3,651,076**	**238,032**	**–**
B.1 Deposits and current accounts	16,620,560	405,404	522,510	853,786	982,603	1,118,654	669,844	21,172	–	–
- Banks	149,793	70,002	68,514	385,727	67,561	79,029	37,414	200	–	–
- Customers	16,470,767	335,402	453,996	468,059	915,042	1,039,625	632,430	20,972	–	–
B.2 Fixed-yield securities	85,166	1,406	2,162	3,687	275,056	203,590	416,284	1,732,468	169,733	–
B.3 Other liabilities	43,802	242,639	2,342	13,943	27,960	7,313	14,043	1,897,436	68,299	–
Off-balance sheet transactions	**543,246**	**238,372**	**177,592**	**495,875**	**1,009,116**	**276,728**	**367,270**	**60,472**	**131,679**	**–**
C.1 Financial derivatives with exchange of capital		237,184	172,517	466,993	1,007,075	246,261	183,044	48,308	20,000	–
- Long positions	–	122,625	88,863	240,501	508,938	118,840	90,760	24,623	10,000	–
- Short positions	–	114,559	83,654	226,492	498,137	127,421	92,284	23,685	10,000	–
C.2 Financial derivatives without exchange of capital	27,019									
- Long positions	14,202	–	–	–	–	–	–	–	–	–
- Short positions	12,817	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received										
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	515,347	1,166	14	28,882	1,782	30,027	183,122	9,364	110,804	–
- Long positions	75,050	1,166	14	28,882	1,782	30,027	183,122	9,364	110,804	–
- Short positions	440,297	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	880	22	61	–	259	440	1,104	2,800	875	–
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 amounts due from banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

Currency: US DOLLAR

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**37,892**	**30,779**	**153,619**	**128,603**	**290,096**	**8,786**	**2,443**	**10,713**	**9,053**	**–**
A.1 Government securities	–	–	–	–	–	–	–	10	–	–
A.2 Other Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	13,158	–	–	–	–	–	–	–	–	–
A.4 Loans	24,734	30,779	153,619	128,603	290,096	8,786	2,443	10,703	9,053	–
- Banks	20,345	1,308	73,205	4,344	5,169	3,536	–	–	6,764	–
- Customers	4,389	29,471	80,414	124,259	284,927	5,250	2,443	10,703	2,289	–
Cash liabilities	**410,605**	**28,208**	**91,509**	**29,209**	**60,551**	**1,789**	**1,205**	**–**	**–**	**–**
B.1 Deposits and current accounts	410,605	28,208	91,454	28,877	57,791	1,789	1,205	–	–	–
- Banks	162,735	28,063	88,390	27,921	51,210	–	229	–	–	–
- Customers	247,870	145	3,064	956	6,581	1,789	976	–	–	–
B.2 Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	55	332	2,760	–	–	–	–	–
Off-balance sheet transactions	**25,643**	**110,027**	**159,814**	**389,573**	**653,203**	**132,646**	**71,249**	**24,588**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	106,401	143,661	389,523	651,176	129,005	71,249	24,588	–	–
- Long positions	–	51,070	68,256	186,985	319,485	66,588	34,870	12,294	–	–
- Short positions	–	55,331	75,405	202,538	331,691	62,417	36,379	12,294	–	–
C.2 Financial derivatives with exchange of capital	146	–	–	–	–	–	–	–	–	–
- Long positions	74	–	–	–	–	–	–	–	–	–
- Short positions	72	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	3,771	3,626	145	–	–	–	–	–	–	–
- Long positions	3,771	–	–	–	–	–	–	–	–	–
- Short positions	–	3,626	145	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	21,726	–	16,008	50	2,027	3,641	–	–	–	–
- Long positions	–	–	16,008	50	2,027	3,641	–	–	–	–
- Short positions	21,726	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Currency: SWISS FRANC

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**32,224**	**60,849**	**18,438**	**20,994**	**105,123**	**11,630**	**21,730**	**134,782**	**278,204**	**-**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	–	–	–	–	–	–	–	–	–	–
A.4 Loans	32,224	60,849	18,438	20,994	105,123	11,630	21,730	134,782	278,204	-
- Banks	10,180	59,460	8,146	163	131	–	–	–	–	-
- Customers	22,044	1,389	10,292	20,831	104,992	11,630	21,730	134,782	278,204	-
Cash liabilities	**83,057**	**280,426**	**86,023**	**37,160**	**154,051**	**24,405**	**23,990**	**427**	**-**	**-**
B.1 Deposits and current accounts	83,057	280,426	86,023	37,160	154,051	24,405	23,990	427	–	-
- Banks	3,222	227,398	75,670	24,439	122,197	98	4,106	–	–	-
- Customers	79,835	53,028	10,353	12,721	31,854	24,307	19,884	427	–	-
B.2 Fixed-yield securities	–	–	–	–	–	–	–	–	–	-
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	-
Off-balance sheet transactions	**109,325**	**54,461**	**19,591**	**29,271**	**102,045**	**79,217**	**43,560**	**5,219**		
C.1 Financial derivatives with exchange of capital	–	17,804	19,591	29,181	92,148	78,515	43,560	5,219	–	-
- Long positions	–	8,051	10,474	15,181	46,618	39,767	22,327	2,610	–	-
- Short positions	–	9,753	9,117	14,000	45,530	38,748	21,233	2,609	–	-
C.2 Financial derivatives without exchange of capital	62,082	–	–	–	–	–	–	–	–	-
- Long positions	33,672	–	–	–	–	–	–	–	–	-
- Short positions	28,410	–	–	–	–	–	–	–	–	-
C.3 Depositis and loans to be received	46,554	36,657	–	–	9,897	–	–	–	–	-
- Long positions	46,554	–	–	–	–	–	–	–	–	-
- Short positions	–	36,657	–	–	9,897	–	–	–	–	-
C.4 Irrevocable commitments to make loans	689	–	–	90	–	600	–	–	–	-
- Long positions	–	–	–	90	–	600	–	–	–	-
- Short positions	689	–	–	–	–	–	–	–	–	-
C.5 Financial guarantees issued	–	–	–	–	–	102	–	–	–	-
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	-
C.7 Financial derivatives with exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-
C.8 Credit derivatives without exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-

Currency: JAPANESE YEN

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**4,060**	**789**	**2,833**	**4,256**	**4,159**	**443**	**8**	**41**	**55**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	4,060	789	2,833	4,256	4,159	443	8	41	55	-
- Banks	3,900	622	1,902	-	271	356	-	-	-	-
- Customers	160	167	931	4,256	3,888	87	8	41	55	-
Cash liabilities	**12,134**	**-**	**-**	**228**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	12,134	-	-	228	-	-	-	-	-	-
- Banks	37	-	-	228	-	-	-	-	-	-
- Customers	12,097	-	-	-	-	-	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**871**	**62,647**	**6,530**	**6,670**	**64,858**	**507**	**2,488**	**1,382**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	62,647	6,219	6,110	64,858	507	2,488	1,382	-	-
- Long positions	-	30,628	3,455	3,009	30,735	219	1,244	691	-	-
- Short positions	-	32,019	2,764	3,101	34,123	288	1,244	691	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	871	-	311	560	-	-	-	-	-	-
- Long positions	-	-	311	560	-	-	-	-	-	-
- Short positions	871	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 a 7 giorni	7 to 15 a 15 giorni	15 days to month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**19,717**	**2,586**	**37,838**	**2,342**	**933**	**1,631**	**67**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	468	–	–	–	–	–	–	–	–	–
A.4 Loans	19,249	2,586	37,838	2,342	933	1,631	67	–	–	–
- Banks	17,413	2,441	37,656	2,163	83	946	67	–	–	–
- Customers	1,836	145	182	179	850	685	–	–	–	–
Cash liabilities	**48,571**	**8,921**	**361**	**1,943**	**713**	**2,445**	**2,950**	**–**	**–**	**–**
B.1 Deposits and current accounts	48,571	8,921	361	1,943	713	2,445	2,950	–	–	–
- Banks	1,256	8,921	272	742	400	943	66	–	–	–
- Customers	47,315	–	89	1,201	313	1,502	2,884	–	–	–
B.2 Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**1,662**	**29,699**	**120**	**48,329**	**201,655**	**36,203**	**72,939**	**15,697**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	28,881	120	48,316	201,655	36,203	72,939	15,697	–	–
- Long positions	–	14,098	60	24,173	100,790	18,102	36,926	7,393	–	–
- Short positions	–	14,783	60	24,143	100,865	18,101	36,013	8,304	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	831	818	–	13	–	–	–	–	–	
- Long positions	–	818	–	13	–	–	–	–	–	–
- Short positions	831	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

2 Information about committed assets recognised in the balance sheet

Technical forms	Committed BV	Committed FV	Not committed BV	Not committed FV	Total 31/12/2013	Total 31/12/2012
1. Cash and balances with central banks	–	–	109,512	–	109,512	114,159
2. Fixed-yield securities	2,262,665	2,262,161	4,189,740	4,189,285	6,452,405	4,469,990
3. Variable-yield securities	–	–	107,036	107,036	107,036	119,810
4. Loans	1,758,703	–	20,566,589	–	22,325,292	24,245,288
5. Other financial assets	–	–	243,311	–	243,311	254,536
6. Non-financial assets	–	–	1,225,159	–	1,225,159	941,247
Total 31/12/2013	**4,021,368**	**2,262,161**	**26,441,347**	**4,296,321**	**30,462,715**	**–**
Total 31/12/2012	**3,570,675**	**2,087,678**	**26,574,355**	**2,499,035**	**–**	**30,145,030**

Key:
BV = book value
FV = fair value

3 Information about committed assets not recognised in the balance sheet

Technical forms	Committed	Not committed	Total 31/12/2013	Total 31/12/2012
1. **Financial assets**	**1,071,994**	**394,182**	**1,466,176**	**2,064,561**
- Securities	1,071,994	394,182	1,466,176	2,064,561
- Other	–	–	–	–
2, **Non-financial assets**	**–**	**–**	**–**	**–**
Total 31/12/2013	**1,071,994**	**394,182**	**1,466,176**	**–**
Total 31/12/2012	**1,253,383**	**811,178**	**–**	**2,064,561**

These are securities associated with repurchase agreements and securitisations.

Securitisation transactions and disposal of assets

Securitisation transactions

A securitisation was carried out by the Bank in April 2012 as part of its funding policies. The transaction consisted of the sale without recourse under Law 130/1999 of € 1,630 million of performing residential mortgage loans to Centro delle Alpi RMBS srl, an SPV specifically set up for this purpose.

The SPV issued securities for € 1,678 million, made up of € 1,385 million of «Senior» securities and € 293 million of «Junior» securities, all of which were purchased by the Parent Bank. The Senior securities are listed on the Luxembourg Stock Exchange and are considered «eligible» for the European Central Bank. These securities were pledged as collateral for refinancing granted by the ECB. In accordance with IAS 39, given that the conditions for derecognition do not exist because the Bank has retained all of the risks and rewards, the securitised loans have been maintained in balance sheet item 70 «Loans to customers», whereas the Junior and Senior securities and the loan to the SPV do not feature. The asset-backed securities have been assigned credit ratings by Standard & Poor's and Moody's; these ratings will be monitored throughout the operation. The Bank acts as servicer on behalf of Centro delle Alpi RMBS srl, which means that it handles the management, administration and collection of the loans; it acts on behalf of the SPV, but is the only counterparty of the customers. It receives a fee for performing this service. Quarterly reports are prepared, highlighting the various flows of the operation, which are sent to the offices and corporate bodies involved so that they can constantly assess its results.

Section 4 *Operational risks*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

Operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes. Operational risk includes legal risk, whereas strategic and reputational risks are excluded.

The Bank is fully aware that in addition to the unfavourable economic effects, loss events could also give rise to considerable damage to its image and reputation. It has therefore adopted a suitable management system, which is being constantly refined, to minimise the impact.

This system is based on an approach that involves identification, measurement and mitigation of both a quantitative and qualitative nature. This makes it possible to recognise the risk not only in terms of any losses already incurred, but also in terms of potential risk in the future.

Testing has been completed on a dedicated IT application that provides an integrated environment for both quantitative information, organised identification and recording of information about loss events suffered by the Bank, and qualitative information, analyses and assessments of assets potentially at risk.

The periodic self-assessment of the entire risk management system carried out during the year identified areas for improving the alignment with changing business conditions and current regulations.

Again with regard to operational risks, work commenced during the year on a project to model operational losses, with a view to measuring the exposure to this risk using a statistical approach.

The weak statistical significance of the losses identified internally has suggested expanding the available databases to include information from the Italian Database of Operating Losses (DIPO); the identification of a methodology for including losses from an external source will allowed periodic comparison, using an analytical dashboard, with equivalent information drawn from the banking system.

QUANTITATIVE INFORMATION

The most frequently recurring errors and those with the greatest individual impact in terms of overall amount are errors in the execution of day-to-day transactions, usually promptly corrected, mainly when making payments and in trading transactions.

Also involved are prudent provisions for legal disputes and settlements reached with customers as well as events of an external nature, such as bank robberies, cloning debit and credit cards, forging cheques, normally mitigated by stipulating insurance policies.

The following table summarises losses for the last three years, showing the amount in absolute and percentage terms, both gross and net of recoveries and insurance reimbursements, split according to the various sources and suitably aggregated. The extent of recoveries, amounting to about 60% of the total, demonstrates the effectiveness of the action taken to minimise or transfer the losses incurred.

Sources of losses from 01/01/2011 to 31/12/2013

	N° of events	% of events	Gross loss	% of total	Net loss	% of total	% recovered
Fraud	259	32.29%	1,763,621	11.16%	1,023,270	16.09%	41.98%
Settlements and legal disputes	105	13.09%	3,063,903	19.39%	2,784,561	43.78%	9.12%
Damage to fixed assets	89	11.10%	607,201	3.84%	399,951	6.29%	34.13%
Errors in carrying out transactions	339	42.27%	10,168,137	64.34%	2,001,474	31.47%	80.32%
Other	10	1.25%	201,697	1.27%	150,762	2.37%	25.25%
Total	**802**	**100.00%**	**15,804,559**	**100.00%**	**6,360,018**	**100.00%**	**59.76%**

(Amounts in euro)

Key:

Fraud = bank robberies, theft, false instructions, cloning debit and credit cards, forging cheques, disloyalty.

Settlements and legal disputes = settlements reached with customers, transactions contrary to the rules of proper conduct and prudent provisions for legal disputes.

Errors in carrying out transactions = errors in day-to-day operations, in the execution of processes, in relations with vendors or suppliers.

Damage to fixed assets = accidents, damage caused to third parties, structural failures and breakdowns.

Other = violations of the regulations on lending, safety in the workplace and system breakdowns.

Information on exposure to sovereign debtors

Consob with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the bank at 31/12/2013 amounted to € 6,619 million and was structured as follows:

a) Italian government securities: € 6,023 million;

b) Securities of other issuers: € 24 million;

c) Loans to government departments: € 0 million;

d) Loans to local governments: € 46 million;

e) Loans to state-owned or local government-owned enterprises: € 358 million;

f) Loans to other public administrations and miscellaneous entities: € 168 million.

PART F Information on equity

Section 1 Capital

QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects their reputation.

The need for capital adequacy has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. Indeed, 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 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, BPS has identified the capitalisation policy as the instrument that, by creating the role of shareholder/customer, that increases loyalty and makes it possible to pursue the strategy of autonomous growth preferred by management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases – the latest dating back to 2007 – have always been taken up en masse, as reflected in the total number of shareholders that we have reached.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity. The responsibilities that the Bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the Company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

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. Accordingly, the Bank has now decided to prepare for a capital increase given the lowering of market tensions and the need to strengthen the level of capitalisation that might derive from the ECB's assessment of the banking system, as well as from the subsequent stress tests that all banks supervised by the ECB must undergo during the year. On 28 February 2014, the Board of Directors resolved to propose a combined bonus and rights issue to an extraordinary general meeting of the shareholders. The EGM would authorise the Board to complete the operation during the current year by issuing shares for payment totalling up to 350 million, including any premium, and making a bonus issue of up to a total nominal amount of 100 million by transfer of the related amounts from the «share premium reserve» to «share capital». The Chairman's Committee would also be authorised to reach agreement, on the terms and conditions usual in such cases, with an underwriting syndicate of leading institutions that would subscribe for any rights not taken up on expiry of the offer for payment.

In addition, again with a view to strengthening its capital for supervisory purposes, the directors have also authorised the issue of a subordinated bond for 500 million with characteristics suitable for inclusion in the supervisory capital of the Bank.

Given the above, the 2014 consolidated Common Equity Tier 1 ratio is estimated to increase to 9.45%.

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. We 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 31/12/2012. The method used to estimate the recoverable amount is the Dividend Discount Model (DDM), which assumes that the value of the Bank is equal to the sum of the dividends distributed to the shareholders over a chosen planning horizon (2013-2017), 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 9.21%. The test carried out by the Corporate Finance Department in conjunction with the Planning and Control Department showed that the Group was worth more than its consolidated equity.

The Group's value in use amounted to € 2,065 million, with a surplus over its consolidated equity of € 129 million.

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	31/12/2013	31/12/2012
1. **Share capital**	**924,444**	**924,444**
2. **Share premium reserve**	**171,450**	**171,449**
3. **Reserves**	**638,001**	**622,319**
- retained earnings	638,001	622,318
a) legal	142,886	135,079
b) statutory	377,395	369,519
c) treasury shares	93,000	93,000
d) other	24,720	24,721
- other	–	–
4. **Equity instruments**	**–**	**–**
5. **(Treasury shares)**	**(24,316)**	**(24,316)**
6. **Valuation reserves**	**15,358**	**(8,394)**
- Financial assets available for sale	32,313	6,872
- Property, plant and equipment	–	–
- Intangible assets	–	–
- Hedges of foreign investments	–	–
- Cash-flow hedges	–	–
- Exchange differences	–	–
- Non-current assets and disposal groups held for sale	–	–
- Actuarial profits (losses) on defined-benefit plans	(16,955)	(15,266)
- Portion of valuation reserves related to subsidiaries carried at equity	–	–
- Special revaluation regulations	–	–
7. **Net profit (loss) for the year**	**48,832**	**25,822**
Total	**1,773,769**	**1,711,324**

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

	Total 31/12/2013		Total 31/12/2012	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	33,277	(4,225)	15,648	(12,988)
2. Variable-yield securities	2,654	(202)	2,581	(238)
3. Mutual funds	912	(103)	1,959	(90)
4. Loans	–	–	–	–
Total	**36,843**	**(4,530)**	**20,188**	**(13,316)**

B.3 Valuation reserves for financial assets available for sale: change in the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. **Opening balance**	**2,660**	**2,343**	**1,869**	**–**
2. **Positive changes**	**28,875**	**1,756**	**253**	**–**
2.1 Increases in fair value	13,692	1,756	203	–
2.2 Release to the income statement of negative reserves	15,183	–	50	–
- from impairment	–	–	–	–
- from disposals	15,183	–	50	–
2.3 Other changes	–	–	–	–
3. **Negative changes**	**2,483**	**1,647**	**1,313**	**–**
3.1 Reductions in fair value	2,483	107	63	–
3.2 Impairment writedowns	–	267	157	–
3.3 Transfer to income statement from positive reserves: from disposals	–	1,273	1,093	–
3.4 Other changes	–	–	–	–
4. **Closing balance**	**29,052**	**2,452**	**809**	**–**

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 € 16.955 million; the amount has increased by a total of € 1.688 million following the recognition of unrealised gains and losses of € 2.095 million and € 2.990 million respectively, and the recognition of taxation totalling € 0.793 million.

Section 2 *Capital and capital adequacy ratios*

2.1 Capital for supervisory purposes

QUALITATIVE INFORMATION

Capital for supervisory purposes is determined in accordance with the rules laid down by the Bank of Italy in its 15th update of Circular Letter 155 "Instructions for the reporting of capital and capital ratios".

This is the main point of reference for the Supervisory Body when assessing the stability of the Bank and of the system. The principal prudent control mechanisms all make reference to capital for supervisory purposes: the requirements to cover market risk and the rules governing the concentration of risk. It consists of the sum of Tier 1 capital, which is included in the calculation without any limitation, and Tier 2 capital that is included up to the equivalent of the Tier 1 capital. The amounts foreseen in the regulations applicable at 31 December 2013 are then deducted from this aggregate.

1. Tier 1 capital

The positive elements of Tier 1 capital comprise share capital, the share premium reserve, other reserves and part of the net profit for 2013, on the assumption that the shareholders will approve the proposed allocations to reserves; the negative elements, consisting of treasury shares (line item 190 of liabilities), intangible assets (line item 120 of assets) and other elements to be deducted in application of the «prudential filters» made up of negative balances among valuation reserves and negative ones relating to fixed-yield securities classified in the «financial assets available for sale» portfolio and the negative balance of «actuarial profits (losses) on pension plans».

From Tier 1 capital calculated in this way get deducted 50% of any equity investments in excess of 10% in non-consolidated banks and financial companies, the combination of any equity investments equal to or higher than 10% in banks and financial companies and subordinated instruments that exceed 10% of «Tier 1 and Tier 2 capital, both gross of the elements to be deducted».

Bank of Italy Circular 285 of 17 December 2013 «Prudential supervision instructions» came into force on 1 January 2014, which implement the CRR Regulation and the CRD IV Directive following adoption by the European Union of the standards defined by the Basel Committee (Basel 3). The «Transitional instructions regarding own funds» section of this circular allows banks an option to exclude from their own funds any unrealised gains or losses on exposures to central administrations classified as «financial assets available for sale» pursuant to IAS 39. This option had to be exercised by 31 January 2014. The Bank has opted not to include in its own funds the positive and negative reserves arising on exposures to central administrations that are classified as «Financial assets available for sale», consistent with the approach adopted pursuant to the Bank of Italy instruction dated 18 May 2010. This has led to the non-recognition for supervisory purposes of unrealised gains of about 33 million, net of tax effect.

2. Tier 2 capital

Tier 2 capital is made up of positive reserves on the measurement of shareholdings classified as «assets available for sale» and subordinated loans net of negative elements consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

The subordinated loans of € 694.235 million consist of the following bonds:

- loan of € 290.893 million from 26/2/2010 and maturity on 26/2/2017 with an annual repayment of 20% from 26/2/2013. This was issued with an interest rate of 4% which will gradually rise to 5%; the coupon current at year end is 4.25%.
- loan of € 403.342 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%.

This bond loans have the characteristics required by the regulations for inclusion in capital for supervisory purposes. The subordination clause consists of the bond owner's right to be reimbursed in the event of liquidation after all the other creditors have been satisfied.

The positive elements of Tier 2 capital are represented by after-tax gains on shareholdings and mutual funds classified as «assets available for sale». It is made up of the positive reserves deriving from after-tax gains on securities available for sale, cut by 50% for the application of the prudential filters and reduced by the negative elements, consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

3. Tier 3 capital

There are no elements of equity to be included in Tier 3 capital.

2.1 Capital for supervisory purposes

QUANTITATIVE INFORMATION

	31/12/2013	31/12/2012
A. **Tier 1 before the application of prudential filters**	**1,714,271**	**1,697,690**
B. **Prudential filters of Tier 1 capital:**	**(3,936)**	**(20,042)**
B.1 Positive IFRS prudential filters (+)	–	–
B.2 Negative IFRS prudential filters (-)	(3,936)	(20,042)
C. **Tier 1 capital gross of the elements to be deducted (A + B)**	**1,710,335**	**1,677,648**
D. **Elements to be deducted from tier 1 capital**	**51,546**	**46,344**
E. **Total Tier 1 capital (C-D)**	**1,658,789**	**1,631,304**
F. **Tier 2 capital before the application of prudential filters**	**682,149**	**753,935**
G. **Prudential filters for tier 2 capital**	**(1,631)**	**(2,106)**
G.1 Positive IFRS prudential filters (+)	–	–
G.2 Negative IFRS prudential filters (-)	(1,631)	(2,106)
H. **Tier 2 capital gross of the elements to be deducted (F + G)**	**680,518**	**751,829**
I. **Elements to be deducted from tier 2 capital**	**51,546**	**46,344**
L. **Total tier 2 capital (H-I)**	**628,972**	**705,485**
M. **Items to be deducted from tier 1 and tier 2 capital**	**–**	**–**
N. **Capital for supervisory purposes (E + L - M)**	**2,287,761**	**2,336,789**
O. **Tier 3 capital**	**–**	**–**
P. **Capital for supervisory purposes including tier 3 (N + O)**	**2,287,761**	**2,336,789**

2.2 Capital adequacy

QUALITATIVE INFORMATION

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and protect against risk. The Bank is subject to the capital adequacy requirements according to the rules adopted by the Bank of Italy. Based on these rules, at enterprise level the ratio between capital and total risk-weighted risk assets has to be at least 8%. On an individual basis, the minimum capital requirement is reduced by 25% as foreseen by the current rules of Basel II for banks forming part of banking groups. Compliance with these requirements is checked on a quarterly basis when preparing the periodic reports to be sent to the Supervisory Authority. The annual ICAAP report on the Group's capital adequacy sent to the Bank of Italy outlines the checks carried out on the degree of risk inherent in the various items. This requisite is expressed by the ratio between capital for supervisory purposes and total risk-weighted assets, which at the end of the year came to 14.54%, with an excess of 654 basis points compared with the minimum requirement of 8% mentioned above. In absolute terms, the excess capital compared with the minimum requirement – what is called «free capital» – amounts to € 1,028.6 million.

The following table provides information of a quantitative nature on risk assets and capital ratios, reflecting prudent management of the various types of risks with a limited absorption of capital. Capital for supervisory purposes is absorbed for around 50% by credit risk, around 1% by market risks, around 4% by operational risks, while the other 45% is free capital. The reduction in supervisory capital since the end of 2012 reflects a fall in supplementary capital by 76.513 million, mainly following the partial repayment of subordinated loans in accordance with their amortisation schedules. Core capital does not include any innovative capital instruments. Accordingly, Core Tier 1 and Tier 1 are the same.

Following the operations authorised and due to be completed in the current year, comprising the capital increase by 350 million and the issue of a subordinated bond for 500 million, the supervisory capital of the Bank will be sufficient to comply with both current and future capital adequacy requirements.

2.2 Capital adequacy

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts	
	31/12/2013	**31/12/2012**	**31/12/2013**	**31/12/2012**
A. **Assets at risk**				
A.1 Credit and counterparty risk	29,733,423	30,288,351	19,031,537	19,699,969
1. Standardised approach	29,733,423	30,288,351	19,031,537	19,699,969
2. Approach based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	–	–	–	–
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk	–	–	1,522,523	1,575,998
B.2 Market risks	–	–	38,380	27,618
1. Standard methodology	–	–	38,380	27,618
2. Internal models	–	–	–	–
3. Concentration risk	–	–	–	–
B.3 Operational risk	–	–	117,957	101,712
1. Basic method	–	–	117,957	101,712
2. Standardised approach	–	–	–	–
3. Advanced method	–	–	–	–
B.4 Other precautionary requirements	–	–	–	–
B.5 Other calculation elements	–	–	(419,715)	(426,332)
B.6 Total precautionary requirements	–	–	1,259,145	1,278,996
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets	–	–	15,739,312	15,987,450
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	10.54%	10.20%
C.3 Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)	–	–	14.54%	14.62%

The other calculation elements shown at line B.5 consist of the reduction of 25%, established by the regulation for banks belonging to banking groups.

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Poplare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
PIERO MELAZZINI	Chairman	1/1/2013-31/12/2013	31/12/2013	952	–	–	191
MARIO ALBERTO PEDRANZINI (*)	Director	1/1/2013-31/12/2013	31/12/2013	152	–	–	–
MILES EMILIO NEGRI	Deputy Chairman	1/1/2013-31/12/2013	31/12/2013	93	–	–	–
FRANCESCO VENOSTA	Deputy Chairman	1/1/2013-31/12/2013	31/12/2015	100	–	–	25
CLAUDIO BENEDETTI	Director	1/1/2013-31/12/2013	31/12/2014	41	–	–	–
PAOLO BIGLIOLI	Director	1/1/2013-31/12/2013	31/12/2013	42	–	–	–
FEDERICO FALCK	Director	1/1/2013-31/12/2013	31/12/2015	40	–	–	–
ATTILIO PIERO FERRARI	Director	1/1/2013-31/12/2013	31/12/2014	40	–	–	–
GIUSEPPE FONTANA	Director	1/1/2013-31/12/2013	31/12/2014	40	–	–	–
CRISTINA GALBUSERA	Director	1/1/2013-31/12/2013	31/12/2015	42	–	–	–
NICOLÒ MELZI DI CUSANO	Director	1/1/2013-31/12/2013	31/12/2015	39	–	–	–
ADRIANO PROPERSI	Director	1/1/2013-31/12/2013	31/12/2014	40	–	–	–
RENATO SOZZANI	Director	1/1/2013-31/12/2013	31/12/2014	78	–	–	3
LINO ENRICO STOPPANI	Director	1/1/2013-31/12/2013	31/12/2013	48	–	–	13
DOMENICO TRIACCA	Director	1/1/2013-31/12/2013	31/12/2015	60	–	–	–
PIERGIUSEPPE FORNI	Chairman of the Board of Statutory Auditors	1/1/2013-31/12/2013	31/12/2014	91	–	–	12
PIO BERSANI	Auditor	1/1/2013-31/12/2013	31/12/2014	69	–	–	17
MARIO VITALI	Auditor	1/1/2013-31/12/2013	31/12/2014	66	–	–	26
MARIO ALBERTO PEDRANZINI (*)	General Manager	1/1/2013-31/12/2013		–	86	300	687
MANAGER WITH STRATEGIC RESPONSIBILITIES		1/1/2013-31/12/2013		–	33	172	911

(*) 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 € 2,598 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.102 thousand 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	48	11,463	2	317	–	–
Statutory auditors	830	187	27	4	22	20
Management	2	1,728	–	46	23	–
Family members	1,716	26,765	72	779	69	9,493
Subsidiaries	2,227,390	913,962	33,394	27,191	296,527	34,818
Associated companies	478,530	136,969	6,362	2,936	106,395	3,159
Other related parties	303,866	140,028	4,057	5,398	31,083	30,530

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 € 365 million to Alba Leasing SpA and for € 76 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 191 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 72/1983);
– 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)

PROPERTY	Investment	Amount of revaluation Law 576 of 2/12/75	Amount of revaluation Law 72 of 19/3/83	Amount of revaluation Law 413 of 30/12/91	Total at al 31/12/2013	Accumulated depreciation as of 31/12/2013	Net book value as of 31/12/2013
ABBIATEGRASSO - Via S. Maria - Ang P. Garibaldi	1,547,078	0	0	0	1,547,078	23,206	1,523,872
APRICA - Corso Rome, 140	428,765	0	356,355	146,929	932,049	557,769	374,280
BERBENNO DI VALTELLINA - Via Raneè, 542	13,899,575	0	0	99,417	13,998,992	5,046,007	8,952,985
BERGAMO - Via Broseta, 64/B	3,794,328	0	0	0	3,794,328	730,721	3,063,607
BERGAMO - Via G. D'alzano, 5	2,170,674	0	0	0	2,170,674	134,919	2,035,755
BORMIO - Via Rome, 64	439,238	46,481	573,267	136,524	1,195,510	255,603	939,907
BORMIO - Via Rome Angolo Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,408,783	2,220,844
BRENO - Piazza Ronchi, 4	1,529,470	0	0	87,467	1,616,937	654,896	962,041
CHIAVENNA - Via Dolzino, 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,132,957	1,329,332
CHIESA VALMALENCO - Via Rome, 138	800,868	17,560	664,795	133,250	1,616,473	596,194	1,020,279
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	234,321	39,916
DELEBIO - Piazza S. Carpoforo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,332,600	869,392
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	857,883	741,612
DOMASO - Via Statale Regina, 71	311,875	0	0	53,817	365,692	128,350	237,342
DONGO - Piazza V. Matteri, 14	1,614,826	0	0	415,551	2,030,377	1,082,876	947,501
EDOLO - Piazza Martiri della Libertà, 16	1,058,736	0	0	509,161	1,567,897	1,269,776	298,121
GENOA - Via XXV Aprile, 7	7,559,724	0	0	0	7,559,724	1,455,471	6,104,253
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	341,679	310,398
GRAVEDONA - Piazza Garibaldi, 10/12	3,388,983	0	0	223,957	3,612,940	694,145	2,918,795
GRAVEDONA - Via Tagliaferri, 5	309,900	0	0	0	309,900	13,946	295,954
GROSIO - Via Rome, 67	26,372	7,230	229,791	51,484	314,877	235,411	79,466
GROSOTTO - Via Statale, 73	452,238	12,911	147,146	42,099	654,394	256,207	398,187
ISOLACCIA VALDIDENTRO - Via Nazionale, 31	403,788	0	290,229	272,602	966,619	601,745	364,874
LECCO - Corso Martiri della Liberazione, 63/65	9,574,332	0	351,191	2,124,557	12,050,080	6,536,984	5,513,096
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	138,984	71,598
LIVIGNO - Via S. Antoni, 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	1,504,017	5,146,927
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	580,310	116,965
MARCHIROLO - Via Cav. Emilio Busetti, 7/A	1,089,019	0	0	0	1,089,019	393,989	695,030
MAZZO VALTELLINA - Via S. Stefano, 18	616,356	16,010	163,550	48,833	844,749	189,367	655,382
MELEGNANO - Piazza Garibaldi, 1	2,274,058	0	0	0	2,274,058	34,111	2,239,947
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	167,427	84,512
MILAN - Via A. Messina, 22	150,000	0	0	0	150,000	15,750	134,250
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	55,663	2,320
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	53,381	2,224
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	159,991	37,529
MILAN - Via Porpora, 104	5,318,962	0	0	165,381	5,484,343	1,478,460	4,005,883
MILAN - Via S. Maria Fulcorina, 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	5,269,414	11,280,436
MILAN - Via S. Maria Fulcorina, 11	493,165	0	0	0	493,165	384,668	108,497
MILAN - Via Sangallo, 16	4,752	0	0	11,915	16,667	13,500	3,167
MILAN - Via Solari, 15	422,156	0	0	0	422,156	139,312	282,844

PROPERTY	Investment	Amount of revaluation Law 576 of 2/12/75	Amount of revaluation Law 72 of 19/3/83	Amount of revaluation Law 413 of 30/12/91	Total at al 31/12/2013	Accumulated depreciation as of 31/12/2013	Net book value as of 31/12/2013
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	727,561	470,955
MORBEGNO - Piazza Caduti della Libertà, 6	2,101,004	0	1,088,606	704,283	3,893,893	2,107,968	1,785,925
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	63,030	9,418
MORBEGNO - Via Garibaldi, 81	435,688	25,823	0	56,050	517,561	368,930	148,631
MOZZO - Via G. D'annunzio, 4	26,424	0	0	14,259	40,683	28,071	12,612
NOVATE MEZZOLA - Via Rome, 13	45,682	0	251,282	89,219	386,183	257,779	128,404
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	762,921	163,671
PONTE VALTELLINA - Piazza della Vittoria, 1	51,496	12,911	258,098	86,540	409,045	249,880	159,165
REGOLEDO DI COSIO VALTELLINO - Via Rome, 7	134,617	0	0	78,405	213,022	145,132	67,890
ROME - Piazza Filippo II Macedone, 75	2,400,000	0	0	0	2,400,000	684,000	1,716,000
ROME - Via della Farnesina, 154	928,169	0	0	0	928,169	153,148	775,021
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	305,667	195,098
S. SIRO - Via Statale Regina	467,692	0	0	0	467,692	198,143	269,549
S. PIETRO BERBENNO - Via Nazionale Ovest, 110	1,286,403	22,208	328,181	122,795	1,759,587	467,607	1,291,980
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	107,041	30,191
SESTO CALENDE - Piazza Mazzini, 10	443,111	0	0	0	443,111	6,647	436,464
SONDALO - Via Zubiani, 2/4/6/8/10	21,757	25,823	312,456	158,005	518,041	387,852	130,189
SONDRIO - Corso V. Veneto, 7	858,944	0	0	1,190,813	2,049,757	697,350	1,352,407
SONDRIO - Largo Pedrini, 8	363,862	0	0	22,527	386,389	179,816	206,573
SONDRIO - Lungo Mallero Cadorna, 24	1,806,112	0	196,254	451,249	2,453,615	1,012,355	1,441,260
SONDRIO - Piazzale Tocalli - Via delle Prese	348,608	0	0	0	348,608	245,769	102,839
SONDRIO - Piazza Garibaldi, 1	14,985,525	0	0	0	14,985,525	119,048	14,866,477
SONDRIO - Piazza Garibaldi, 16	1,563,597	351,191	7,810,125	3,142,651	12,867,564	6,799,512	6,068,052
SONDRIO - Via Bernina, 1	181,930	0	82,385	45,795	310,110	158,118	151,992
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	374,184	30,073
SONDRIO - Via Cesura, 4	156,991	0	0	64,149	221,140	119,070	102,070
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	163,354	84,152
SONDRIO - Via Tonale, 6	56,297	0	243,248	54,643	354,188	353,486	702
SONDRIO - Via Pio Rajna, 1	16,195	0	0	40,221	56,416	42,312	14,104
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	467,966	280,993
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	85,627	53,725
TIRANO - Piazza Cavour, 20	392,571	0	1,736,322	718,576	2,847,469	1,818,566	1,028,903
TURIN - Via XX Settembre, 37	6,473,624	0	0	0	6,473,624	291,140	6,182,484
TRESCORE BALNEARIO - Piazza Cavour, 6	1,292,789	0	0	0	1,292,789	19,392	1,273,397
TRESENDA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	380,590	73,201
VILLA DI CHIAVENNA - Via Rome, 39	197,712	0	0	7,639	205,351	197,407	7,944
VILLA DI TIRANO - Traversa Foppa, 25	440,817	0	0	7,651	448,468	228,935	219,533
GRAND TOTAL	**124,650,772**	**781,632**	**22,496,863**	**19,084,124**	**167,013,391**	**59,117,797**	**107,895,594**

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 (thousand euro)
Audit of the financial statements	KPMG spa	Banca Popolare di Sondrio	223
Other emoluments	KPMG spa	Banca Popolare di Sondrio	58
Audit of the financial statements	KPMG SA	Banca Popolare di Sondrio (SUISSE) SA	356
Audit of the financial statements	KPMG spa	Sinergia Seconda srl	21
Audit of the financial statements	KPMG spa	Pirovano Stelvio spa	11
Consultancy services	KPMG Advisory spa*	Banca Popolare di Sondrio	256

* 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 2013

(in Swiss francs)

ASSETS	2013	2012
Liquid assets	106,803,295	83,998,050
Due from banks	916,030,391	818,890,876
Due from customers	592,460,287	636,716,749
Mortgage loans	2,717,640,641	2,525,142,141
Financial investments	33,413,364	26,216,283
Equity investments	603,138	603,138
Fixed assets	26,099,335	30,683,979
Accrued income and prepayments	9,072,722	7,727,486
Other assets	42,437,973	68,448,259
Total assets	**4,444,561,146**	**4,198,426,961**
Total amounts due from Group companies and holders of qualifying equity investments	867,192,687	731,478,842

LIABILITIES	2013	2012
Debt securities issued - money market	118,120	197,585
Due to banks	1,078,120,701	1,004,028,867
Due to customers - savings and investments	823,346,060	701,956,112
Due to customers - other	2,006,848,386	1,953,411,416
Treasury liabilities	151,212,000	139,908,000
Accrued liabilities and deferred income	14,544,124	14,539,603
Other liabilities	46,621,105	71,350,888
Adjustments and provisions	42,276,531	33,269,809
Reserve for general banking risks	13,724,000	13,724,000
Share capital	150,000,000	150,000,000
General legal reserve	116,040,680	115,569,927
Net profit for the year	1,709,439	470,754
Total liabilities	**4,444,561,146**	**4,198,426,961**
Total amounts due to Group companies and holders of qualifying equity investments	975,187,912	932,513,164

OFF-BALANCE SHEET TRANSACTIONS	2013	2012
Contingent liabilities	257,522,303	232,631,923
Irrevocable commitments	14,498,000	14,436,000
Derivative products	3,048,312,692	2,907,281,481
- Gross positive replacement value	3,335,250	2,751,015
- Gross negative replacement value	38,021,959	61,629,588
Fiduciary transactions	240,323,881	253,281,352

INCOME STATEMENT

(in Swiss francs)

	2013	2012
Interest income:		
- Interest income and discounts	77,243,686	76,003,031
- Interest income and dividends from equity investments	425,348	422,760
Interest expense	-42,667,795	-48,199,484
Net interest income	**35,001,239**	**28,226,307**
Commission income:		
- on lending transactions	2,080,400	1,449,979
- on trading in securities and investments	32,974,836	32,588,013
- on services	7,090,075	5,906,133
Commission expense	-5,537,438	-5,195,416
Net commission income and income from services	**36,607,873**	**34,748,709**
Profits from financial transactions	**11,057,675**	**10,897,002**
Profit (loss) on disposal of financial investments	216,094	200,276
Income from equity investments	-	-
Net proceeds from properties	218,703	172,298
Other ordinary income	273,130	844,298
Other ordinary charges	-169,572	-141,325
Total other ordinary income	**538,355**	**1,075,547**
Net income from ordinary banking operations	**83,205,142**	**74,947,565**
Operating expenses		
Personnel costs	43,768,538	45,143,546
Other operating expenses	21,683,059	22,306,090
Operating expenses	**65,451,597**	**67,449,636**
Gross profit	**17,753,545**	**7,497,929**

	2013	2012
Depreciation and amortisation	-6,314,996	-7,038,654
Adjustments, provisions and losses	-8,241,769	-6,930,027
Interim results	**3,196,780**	**-6,470,752**
Extraordinary income	136,659	9,089,916
Extraordinary charges	–	-450,655
Income taxes	-1,624,000	-1,697,755
Net profit for the year	**1,709,439**	**470,754**
ALLOCATION OF NET PROFIT		
Net profit for the year	1,709,439	470,754
Retained earnings	–	–
Earnings available for allocation	**1,709,439**	**470,754**
Proposal of the Board of Directors for the allocation of 2013 net profit of CHF 1,709,439 to general legal reserve.	–	–
Balance carried forward	**–**	**–**

FACTORIT SPA

FINANCIAL STATEMENTS AS OF 31 December 2013

(in euro)

ASSET ITEMS	31/12/2013	31/12/2012
10. Cash and balances with central banks	2,987	5,400
40. Financial assets available for sale	2,250,000	–
60. Receivables	1,782,753,543	2,011,553,763
100. Property, plant and equipment	502,312	384,319
110. Intangible assets	1,248,218	1,256,035
120. Tax assets	50,004,777	36,563,804
a) current	20,565,145	9,706,588
b) deferred	29,439,632	26,857,216
b1) of which as per Law 214/2011	26,845,768	24,601,540
140. Other assets	5,199,500	3,395,495
TOTAL ASSETS	**1,841,961,337**	**2,053,158,816**

EQUITY AND LIABILITY ITEMS	31/12/2013	31/12/2012
10. Payables	1,587,930,291	1,822,663,367
70. Tax liabilities	18,753,557	17,981,966
a) current	16,329,761	15,597,799
b) deferred	2,423,796	2,384,167
90. Other liabilities	35,043,123	27,253,373
100. Reserve for termination indemnities	2,123,354	2,233,450
110. Provisions for risks and charges:	7,128,307	5,528,393
b) other provisions	7,128,307	5,528,393
120. Share capital	85,000,002	85,000,002
150. Share premium reserve	11,030,364	11,030,364
160. Reserves	75,654,185	66,724,986
170. Valuation reserves	(53,420)	(136,284)
180. Net profit (loss) for the year (+/-)	19,351,574	14,879,199
TOTAL LIABILITIES AND EQUITY	**1,841,961,337**	**2,053,158,816**

INCOME STATEMENT	31/12/2013	31/12/2012
10. Interest income and similar revenues	59,681,575	62,879,889
20. Interest expense and similar charges	(18,019,957)	(22,485,339)
NET INTEREST INCOME	**41,661,618**	**40,394,550**
30. Commission income	33,164,237	38,927,892
40. Commission expense	(5,811,440)	(6,285,732)
NET COMMISSION INCOME	**27,352,797**	**32,642,160**
60. Net trading income	(27,528)	313,573
INCOME FROM BANKING ACTIVITIES	**68,986,887**	**73,350,283**
100. Net impairment adjustments to:	(14,062,270)	(28,935,436)
a) financial assets	(14,321,765)	(28,076,692)
b) other financial operations	259,495	(858,744)
110. Administrative expenses:	(22,905,741)	(21,864,609)
a) personnel expenses	(12,345,370)	(11,545,870)
b) other administrative expenses	(10,560,371)	(10,318,739)
120. Net adjustments to property, plant and equipment	(138,769)	(109,103)
130. Net adjustments to intangible assets	(50,964)	(50,977)
150. Net provisions for risks and charges	(1,835,500)	(893,530)
160. Other operating income and expenses	3,108,966	3,108,084
OPERATING PROFIT (LOSS)	**33,102,609**	**24,604,712**
180. Gains (losses) on disposal of investments	4,508	-
PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES	**33,107,117**	**24,604,712**
190. Income taxes on current operations	(13,755,543)	(9,725,513)
NET PROFIT (LOSS) NET OF INCOME TAXES	**19,351,574**	**14,879,199**
NET PROFIT (LOSS) FOR THE YEAR	**19,351,574**	**14,879,199**

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 December 2013

(in euro)

ASSETS	31/12/2013	31/12/2012
B) **NON-CURRENT ASSETS**		
I Intangible assets		
03 Industrial patent rights and intellectual property rights	10,283	15,187
Total I	***10,283***	***15,187***
II Property, plant and equipment		
01 Land and buildings	2,907,503	2,978,159
02 Equipment and machinery	139,899	196,369
03 Industrial and commercial equipment	42,402	59,938
04 Other assets	13,943	19,729
05 Assets under construction and advances	7,676	7,676
Total II	***3,111,423***	***3,261,871***
III Financial assets		
01 Equity investments		
b) in associated companies	333,042	325,913
d) in other companies	2,199	2,199
Total 01	*335,241*	*328,112*
Total III	***335,241***	***328,112***
TOTAL NON-CURRENT ASSETS	**3,456,947**	**3,605,170**
C) **CURRENT ASSETS**		
I inventories		
04 Finished products and merchandise	28,791	41,959
Total I	***28,791***	***41,959***
II Receivables		
01 Due from customers		
a) due within 12 months	40,841	17,957
Total 01	*40,841*	*17,957*
04 Due from parent companies		
a) due within 12 months	169,394	168,632
Total 04	*169,394*	*168,632*
04-bis Due from tax authorities		
a) due within 12 months	6,356	17,134
Total 4-bis	*6,356*	*17,134*
05 Due from others		
a) due within 12 months	8,478	7,555
Total 05	*8,478*	*7,555*
Total II	***225,069***	***211,278***
IV Cash and banks		
01 Bank and post office deposits	384	172
03 Cash and cash equivalents on hand	109	527
Total IV	***493***	***699***
TOTAL CURRENT ASSETS	**254,353**	**253,936**
D) **ACCRUED INCOME AND PREPAYMENTS**		
02 Accrued income and prepayments	5,479	3,331
TOTAL ACCRUED INCOME AND PREPAYMENTS	**5,479**	**3,331**
TOTAL ASSETS	**3,716,779**	**3,862,437**

LIABILITIES AND EQUITY	31/12/2013	31/12/2012
A) **EQUITY**		
I Share capital	2,064,000	2,064,000
III Valuation reserves	192,104	192,104
IV Legal reserve	5,959	5,959
VII Other reserves		
01 Voluntary reserve	232,397	232,397
08 Rounding reserves	(0)	1
Total VII	***232,397***	***232,398***
IX Loss for the year	(465,573)	(442,928)
TOTAL EQUITY	**2,028,887**	**2,051,533**
C) **RESERVE FOR TERMINATION INDEMNITIES**	**139,120**	**129,229**
D) **PAYABLES**		
06 Advance payments		
a) due within 12 months	945	946
Total 06	***945***	***946***
07 Trade payables		
a) due within 12 months	81,535	138,190
Total 07	***81,535***	***138,190***
10 Due to associated companies		
a) due within 12 months	6,042	5,850
Total 10	***6,042***	***5,850***
11 Due to parent companies		
a) due within 12 months	1,409,130	1,495,364
Total 11	***1,409,130***	***1,495,364***
12 Taxes payable		
a) due within 12 months	10,290	7,974
Total 12	***10,290***	***7,974***
13 Due to social security institutions		
a) due within 12 months	7,594	8,272
Total 13	***7,594***	***8,272***
14 Other payables		
a) due within 12 months	23,249	20,453
Total 14	***23,249***	***20,453***
TOTAL PAYABLES	**1,538,785**	**1,677,049**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
02 Accrued expenses and deferred income	9,987	4,626
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**9,987**	**4,626**
TOTAL LIABILITIES	**3,716,779**	**3,862,437**

MEMORANDUM ACCOUNTS	31/12/2013	31/12/2012
05 Risks and commitments		
C) Commitments taken by third parties	6,733	6,733
Total 05	**6,733**	**6,733**
TOTAL MEMORANDUM ACCOUNTS	**6,733**	**6,733**

INCOME STATEMENT	31/12/2013	31/12/2012
A) **PRODUCTION VALUE**		
01 Revenues from sales and services	1,148,798	1,272,441
05 Other revenues and income		
a) other revenues and income	72,929	56,311
Total 05	***72,929***	***56,311***
TOTAL PRODUCTION VALUE	**1,221,727**	**1,328,752**
B) **PRODUCTION COSTS**		
06 Raw materials, consumables and goods	(280,025)	(343,050)
07 Services	(703,234)	(729,547)
09 Personnel costs		
a) wages and salaries	(478,472)	(493,406)
b) social security contributions	(153,061)	(151,832)
c) termination indemnities	(26,775)	(29,075)
e) other costs	(637)	(544)
Total 09	***(658,945)***	***(674,857)***
10 Depreciation, amortisation and writedowns		
a) amortisation of intangible assets	(9,674)	(8,728)
b) depreciation of property, plant and equipment	(152,898)	(152,187)
Total 10	***(162,572)***	***(160,915)***
11 Change in raw materials, consumables and goods	(13,168)	8,533
14 Sundry operating costs	(52,212)	(56,530)
TOTAL PRODUCTION COSTS	**(1,870,156)**	**(1,956,366)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**(648,429)**	**(627,614)**
C) **FINANCIAL INCOME AND CHARGES**		
15 Income from equity investments		
b) in associated companies	12,968	12,968
Total 15	***12,968***	***12,968***
17 Interest and other financial charges		
c) versus parent companies	(5,743)	(9,790)
d) versus others	(633)	(493)
Total 17	***(6,376)***	***(10,283)***
TOTAL FINANCIAL INCOME AND CHARGES	**6,592**	**2,685**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
18 Revaluations		
a) of equity investments	7,129	18,432
Total 18	***7,129***	***18,432***
TOTAL ADJUSTMENTS	**7,129**	**18,432**
E) **EXTRAORDINARY ITEMS**		
20 Income		
c) rounding differences	1	(0)
Total 20	***1***	***(0)***
21 Charges		
c) rounding differences	(260)	(340)
Total 21	***(260)***	***(340)***
TOTAL EXTRAORDINARY ITEMS	**(259)**	**(340)**
PRE-TAX PROFIT (LOSS)	**(634,967)**	**(606,837)**
22 current income taxes and change in deferred tax assets and liabilities		
a) Current taxes	169,394	163,909
Total 22	***169,394***	***163,909***
23 **LOSS**	**(465,573)**	**(442,928)**

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 December 2013

(in euro)

ASSETS	31/12/2013	31/12/2012
A) **AMOUNTS RECEIVABLE FROM SHAREHOLDERS**	-	-
Of which already called €		
B) **NON-CURRENT ASSETS**		
I - Intangible assets	-	-
II - Property, plant and equipment		
1) Land and buildings		
1 - owned	67,235,432	68,800,747
5) Assets under construction and advances		
1 - owned	110,400	-
Total property, plant and equipment	***67,345,832***	***68,800,747***
III - Financial assets		
1) equity investments in		
a) subsidiary companies	8,654,405	20,000
Total financial assets	***8,654,405***	***20,000***
TOTAL NON-CURRENT ASSETS	**76,000,237**	**68,820,747**
C) **CURRENT ASSETS**		
I - Inventories	-	-
II - Receivables		
1) due from customers		
a) due within 12 months	130,391	301,737
2) due from subsidiary companies		
a) due within 12 months	58,352	8,692,757
4 bis) due from tax authorities		
a) due within 12 months	653,052	401,628
5) due from others		
a) due within 12 months	-	110
Total receivables	841,795	9,396,232
III - Financial assets not held as non-current assets	-	-
IV - Cash and banks		
3) cash and cash equivalents on hand	33	33
Total cash and banks	***33***	***33***
TOTAL CURRENT ASSETS	**841,828**	**9,396,265**
D) **ACCRUED INCOME AND PREPAYMENTS**		
1) accrued income and prepayments	5,365	9,044
TOTAL ACCRUED INCOME AND PREPAYMENTS	**5,365**	**9,044**
TOTAL ASSETS	**76,847,430**	**78,226,056**

LIABILITIES AND EQUITY	31/12/2013	31/12/2012
A) **EQUITY**		
I - Share capital	60,000,000	60,000,000
II - Share premium reserve	–	–
III - Valuation reserves	–	–
IV - Legal reserve	2,040,000	2,040,000
V - Statutory reserves	–	–
VI - Reserve for treasury shares	–	–
VII - Other reserves	–	–
VIII - Retained earnings	5,011,264	5,064,964
IX - Net profit (loss) for the year	308,567	-53,700
TOTAL EQUITY	**67,359,831**	**67,051,264**
B) **RESERVES FOR RISKS AND CHARGES**		
TOTAL RESERVES FOR RISKS AND CHARGES	**–**	**–**
C) **RESERVE FOR TERMINATION INDEMNITIES**	**–**	**–**
D) **PAYABLES**		
7) due to suppliers		
a) due within 12 months	231,359	253,882
9) due to subsidiary companies		
a) due within 12 months	131,855	89,021
11) due to parent companies		
a) due within 12 months	8,981,940	10,594,856
12) taxes payable		
a) due within 12 months	17,354	113,395
14) other payables		
a) due within 12 months	100,941	100,941
TOTAL PAYABLES	**9,463,449**	**11,152,095**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
1) accrued expenses and deferred income	24,150	22,697
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**24,150**	**22,697**
TOTAL LIABILITIES AND EQUITY	**76,847,430**	**78,226,056**

INCOME STATEMENT	31/12/2013	31/12/2012
A) **PRODUCTION VALUE**		
1) revenues from sales and services		
e) office rents	3,401,213	2,667,648
g) office expense reimbursements	18,230	30,911
5) other revenues and income		
c) other revenues	185	79
TOTAL PRODUCTION VALUE	**3,419,628**	**2,698,638**
B) **PRODUCTION COSTS**		
7) for services	616,595	459,671
10) depreciation, amortisation and writedowns		
b) depreciation of property, plant and equipment	1,623,017	1,531,722
14) sundry operating costs		
a) other operating costs and charges	203,723	199,700
b) non-deductible charges	288,976	232,352
TOTAL PRODUCTION COSTS	**2,732,311**	**2,423,445**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**687,317**	**275,193**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
b) parent banks	215,007	272,755
c) third parties	9	–
TOTAL FINANCIAL INCOME AND CHARGES	**-215,016**	**-272,755**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
19) write-downs		
a) of equity investments	–	10,368
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	**–**	**-10,368**
E) **EXTRAORDINARY ITEMS**		
20) income		
b) other extraordinary income	4,287	–
21) charges		
c) taxes relating to prior years	–	37,295
d) rounding differences on conversion to euro	1	–
TOTAL EXTRAORDINARY ITEMS	**4,286**	**-37,295**
PRE-TAX PROFIT (LOSS)	**476,587**	**-45,225**
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	129,031	755,760
b) IRAP (regional business tax)	38,989	25,407
c) Deferred taxes	–	-772,692
23) **NET PROFIT FOR THE YEAR**	**308,567**	**-53,700**

Attestation pursuant to art. 154-bis, para. 5, 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 2013.

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 2013:
– 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, 25 March 2014

The Managing Director
Mario Alberto Pedranzini

The Financial Reporting Officer
Maurizio Bertoletti

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Banca Popolare di Sondrio S.C.p.A.

1 We have audited the separate financial statements of Banca Popolare di Sondrio S.C.p.A. as at and for the year ended 31 December 2013, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 4 April 2013 for our opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the separate financial statements of Banca Popolare di Sondrio S.C.p.A. as at and for the year ended 31 December 2013 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Banca Popolare di Sondrio S.C.p.A. as at 31 December 2013, the results of its operations and its cash flows for the year then ended.

4 The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of a directors' report on operations and a report on the corporate governance and the ownership structure, published in the "informativa societaria" section of Banca Popolare di Sondrio S.C.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and the ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and the ownership structure are consistent with the separate financial statements of Banca Popolare di Sondrio S.C.p.A. as at and for the year ended 31 December 2013.

Milan, 4 April 2014

KPMG S.p.A.

(signed on the original)

Paolo Valsecchi
Director of Audit

Banca Popolare di Sondrio

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

REPORT ON OPERATIONS

Shareholders,

As parent bank of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent bank:

Banca Popolare di Sondrio s.c.p.a. – Sondrio

Group companies:

Banca Popolare di Sondrio (SUISSE) SA – Lugano CH.

The Parent bank holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, 150,000,000 CHF, which is fully paid-up.

Factorit spa - Milano.

The Parent bank holds 60.5% of the capital of Factorit spa, 85,000,002 euro.

Sinergia Seconda Srl - Milano.

The Parent bank holds all the capital of Sinergia Seconda Srl, 60,000,000 euro.

Equity investments are consolidated as follows:

FULLY CONSOLIDATED SHAREHOLDINGS:

Name	Location	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 150,000	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

* held by Sinergia Seconda srl.

SHAREHOLDINGS CONSOLIDATED UNDER THE EQUITY METHOD:

Name	Location	Share capital (in thousands)	% held
Alba Leasing spa	Milan	325,000	20.950
Arca Vita spa	Verona	208,279	14.837
Banca della Nuova Terra spa	Milan	50,000	19.609
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Rajna Immobiliare srl	Sondrio	20	50.000
Sofipo SA	Lugano	(CHF) 2,000 *	30.000

* held by Banca Popolare di Sondrio (Suisse) SA.

GENERAL ECONOMIC CONTEXT

The report on operations accompanying the parent bank's financial statements contains information on the international, Swiss and Italian economic situation during the year 2013.

TERRITORIAL EXPANSION

The policy of expanding and developing in established territories continued throughout the year, in accordance with the guidelines set for the Group.

Banca Popolare di Sondrio opened 12 branches, raising the total to 318. Banca Popolare di Sondrio (SUISSE) SA worked to rationalise its presence in Switzerland, closing the year with 20 branches.

Accordingly, in total, the Group had 338 branches at the end of 2013, in addition to the representative office in Neuchâtel, which started full branch operations in the new year.

GROUP PERFORMANCE

Funding

In an objectively difficult macro environment, clouded by uncertainties, the Group has been able to maintain and strengthen its fiduciary relationship with customers. The efforts made to expand and enhance our range of products have resulted in the growth of direct customer deposits to 26,675 million, +1.87%.

Indirect customer deposits amounted to € 27,341 million, +12.19%.

Insurance premium income came to € 719 million, +16.34%.

Total customer deposits therefore amounted to € 54,735 million (+6.96%).

Amounts due to banks amounted to € 3,068 million, -4.25%, whereas indirect deposits from banks came to € 1,295 million, +37.32%.

Total deposits from customers and banks therefore came to 59,098 million (+6.83%). The table «Direct customer deposits» shows the various components in more detail with respect to the Notes.

Considering the individual items, euro and currency accounts have increased to 19,103 million, +8.65%, in part due to a reduction in deposit accounts to 3,852 million, -15.61%, given the cost-containment policy adopted in relation to funding. Euro and currency accounts represent 71.62% of total direct deposits. Bonds have slightly increased from € 2,830 to € 2,881 million, +1.82%. Savings deposits have declined 4.64% to 544 million, while repo transactions fell 60.48% to 211 million; Certificates of deposit dropped to 9 million, -69.43%, and remain entirely marginal. Bank drafts also fell slightly to 75 million, -0.64%.

DIRECT CUSTOMER DEPOSITS

(in thousands of euro)	2013	%	2012	%	% Change
Savings deposits	543,921	2.04	570,398	2.18	-4.64
Certificates of deposit	9,038	0.03	29,569	0.11	-69.43
Bonds	2,881,231	10.80	2,829,810	10.81	1.82
Repo transactions	210,968	0.79	533,811	2.04	-60.48
Bank drafts and similar	74,705	0.28	75,183	0.29	-0.64
Current accounts	16,839,397	63.13	15,350,320	58.62	9.70
Time deposit accounts	3,852,033	14.44	4,564,397	17.43	-15.61
Foreign currency accounts	2,264,033	8.49	2,231,824	8.52	1.44
Total	**26,675,326**	**100.00**	**26,185,312**	**100.00**	**1.87**

TOTAL DEPOSITS

(in thousands of euro)	2013	%	2012	%	% Change
Total direct customer deposits	26,675,326	45.14	26,185,312	47.33	1.87
Total indirect customer deposits	27,341,054	46.26	24,369,954	44.05	12.19
Total insurance-related deposits	718,808	1.22	617,866	1.12	16.34
Total	**54,735,188**	**92.62**	**51,173,132**	**92.50**	**6.96**
Due to banks	3,067,978	5.19	3,204,024	5.80	-4.25
Indirect deposits from banks	1,295,125	2.19	943,176	1.70	37.32
Grand total	**59,098,291**	**100.00**	**55,320,332**	**100.00**	**6.83**

Loans

Once again, this past year was heavily conditioned by the prolonged economic crisis, which has resulted in both a credit squeeze and a further worrying deterioration in the quality of lending.

Against this difficult background, we have worked to reaffirm our role as a pillar of the local economies served, while – of course – refining the tools available for the management of credit risk.

The critical economic conditions have resulted in a need for additional, substantial impairment adjustments, made by applying extremely prudent criteria.

The amount due from customers has fallen from 25,309 to 23,905 million, -5.55%.

Impaired loans totalled € 1,838 million, an increase of 40.89%. The table gives an overview of impaired loans.

As regards credit quality, net non-performing loans, i.e. after writedowns, amount to 461 million, +58.45%, equal to 1.93% of total loans to customers, versus 1.15% at the end of the previous year.

The dynamics of non-performing loans, despite the size of the adjustments made, is symptomatic of the ongoing difficulties faced by businesses and households. Adjustments increased from 57.86% in the previous year to 60.94%. 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 74.79%. copertura di tali crediti si attesta al 74,79%.

In any case, the magnitude of our non-performing loans remains below the average for the system.

DUE FROM CUSTOMERS - DOUBTFUL LOANS

(in thousands of euro)		31/12/2013	31/12/2012	(+/-)	%
Impaired loans	Gross exposure	3,024,910	1,995,430	1,029,480	51.59%
	Adjustments	1,186,438	690,543	495,895	71.81%
	Net exposure	**1,838,472**	**1,304,887**	**533,585**	**40.89%**
– Non-performing loans	Gross exposure	1,179,504	689,914	489,590	70.96%
	Adjustments	718,823	399,171	319,652	80.08%
	Net exposure	**460,681**	**290,743**	**169,938**	**58.45%**
– Watchlist loans	Gross exposure	1,305,665	745,280	560,385	75.19%
	Adjustments	406,531	224,489	182,042	81.09%
	Net exposure	**899,134**	**520,791**	**378,343**	**72.65%**
– Restructured loans	Gross exposure	51,163	60,343	-9,180	-15.21%
	Adjustments	8,344	12,004	-3,660	-30.49%
	Net exposure	**42,819**	**48,339**	**-5,520**	**-11.42%**
– Past due loans	Gross exposure	488,578	499,893	-11,315	-2.26%
	Adjustments	52,740	54,879	-2,139	-3.90%
	Net exposure	**435,838**	**445,014**	**-9,176**	**-2.06%**

DUE FROM CUSTOMERS

(in thousands of euro)	2013	%	2012	%	% Change
Current accounts	6,415,216	26.84	6,993,848	27.63	-8.27
Foreign currency loans	1,497,522	6.26	1,774,826	7.01	-15.62
Advances	438,528	1.83	476,586	1.88	-7.99
Advances subject to collection	254,092	1.06	274,594	1.08	-7.47
Discounted portfolio	11,626	0.05	13,859	0.05	-16.11
Artisan loans	17,173	0.07	19,233	0.08	-10.71
Agricultural loans	32,363	0.14	33,861	0.13	-4.42
Personal loans	166,907	0.70	143,846	0.57	16.03
Other unsecured loans	4,031,078	16.86	4,264,327	16.85	-5.47
Mortgage loans	8,880,310	37.15	8,720,540	34.47	1.83
Non-performing loans	460,681	1.93	290,743	1.15	58.45
Repo transactions	49,412	0.21	485,863	1.92	-89.83
Factoring	1,649,651	6.90	1,816,672	7.18	-9.19
Total	**23,904,559**	**100.00**	**25,308,798**	**100.00**	**-5.55**

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, rose to € 899 million, +72.65%, or 3.76% of total loans to customers compared with 2.06% the previous year.

Restructured loans amount to 43 million. The reduction of 11.42% largely reflects the reclassifications made to other categories of impaired loan.

Past due loans come to € 436 million (-2.06%).

Total adjustments of impaired loans have risen from 691 to 1,186 million, +71.81%, which represents 39.22% of the gross amount outstanding.

Performing loans amount to 22,066 million; the related adjustments represent 0.66% of the gross amount.

There are various different types of loans involved in the total.

These items are shown in greater detail in the table «Loans to customers» and are based on other criteria compared with the notes.

The reduction was fairly generalised, although current accounts were most affected with a decrease of 8.27% from 6,994 to 6,415 million; the contraction in repurchase agreements was also significant in both absolute and percentage terms, down from 486 to 49 million, -89.83%, while foreign currency loans declined from 1,775 to 1,498 million, -15.62%. Other unsecured loans eased 5.47%, from 4,264 to 4,031 million; factoring also fell 9.19%, from 1,817 to 1,650 million. On the brighter side, despite the serious crisis in the property sector, mortgage loans rose from 8,721 to 8,880 million, +1.83%, while personal loans climbed 16.03% from 144 to 167 million.

In accordance with the terms established by Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that the amount of loans to customers included loans made to central and local government for 56 million, local or state-owned enterprises for 365 million and to various other entities for 176 million.

Portfolio of financial assets

At the end of the year, the net interbank position reflected borrowing of 2,334 million, up by 310 million from 2,024 million at the end of 2012. This change essentially reflects the increase in financial assets held, as partially offset by the reduction in customer loans caused by a contraction in demand. Excluding the parent bank's LTRO operations with the ECB, amounting to 1,800 million, the net borrowing position totals 534 million.

The liquidity situation is monitored daily over a three-month time horizon and has always been optimal. The stock of high-quality financial assets acceptable to the ECB was substantial at all times.

Treasury activities on own account were as intensive as usual, with a preference for lending transactions, although down with respect to 2012, over funding transactions, which were up. The Parent Bank maintained significant positions in the e-MID and New MIC markets throughout the year, with substantial volumes. In fact, according to statistics at December 2013, the Bank places third at national level for interbank volumes traded on the New MIC market.

The size of the financial portfolios continued to grow during the year, particularly as a result of the abundant liquidity available in the markets.

The Bank's portfolios of financial assets at 31 December 2013 total 6,795 million, +41.05%. The following table summarises the various amounts involved:

FINANCIAL ASSETS

(in thousands of euro)	2013	2012	% change
Financial assets held for trading (HFT)	3,154,594	2,070,237	52.38
of which. derivatives	*37,687*	*45,042*	*-16.33*
Financial assets carried at fair value (CFV - Carried at Fair Value)	79,226	104,224	-23.98
Financial assets available for sale (AFS - Available For Sale)	3,375,500	2,438,079	38.45
Financial assets held to maturity (HTM)	182,621	204,644	-10.76
Hedging derivatives	2,923	52	–
Total	**6,794,864**	**4,817,236**	**41.05**

As in the past, the portfolio largely contains domestic government bonds. The volume of these increased significantly during the year, given the attractive yields and better sentiment regarding Italian sovereign risk, as confirmed by the improved outlook. The overall short duration of these securities (less than 3 years) is a further indication of the limited risk involved.

Key information about each portfolio is provided below.

As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2013 these portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 6,052 million. The portfolios did not include any securities issued by peripheral countries within the Eurozone.

Financial assets held for trading

Financial assets held for trading (HFT), as shown in the following table, amount to 3,155 million and have increased by 52.38%.

(in thousands of euro)	2013	2012	% change
Floating-rate Italian government securities	1,791,494	1,290,480	38.82
Fixed-rate Italian government securities	1,037,321	346,706	199.19
Bank bonds	161,114	264,375	-39.06
Bonds of other issuers	24,830	28,157	-11.82
Securitisations	33,804	38,424	-12.02
Variable-yield securities and mutual funds	68,344	57,053	19.79
Net book value of derivative contracts	37,687	45,042	-16.33
Total	**3,154,594**	**2,070,237**	**52.38**

The HFT portfolio largely comprises CCTs, representing 56.79% of the total. This is down in percentage terms – although up in absolute terms as a result of substantial purchasing – following the disposal of securities about to mature and the greater weighting of BTPs and BOTs.

The positive tone of the financial markets is reflected in the portfolio, both in terms of its value and with regard to the results of trading.

In particular, unrealised gains amounted to 45.108 million, while unrealised losses totalled € 3.432 million. Unrealised gains amounted to 67.974 million in the prior year, while unrealised losses totalled 3.274 million.

The net profit from HFT portfolio transactions was 81.616 million, compared with 134.515 million in 2012. «Net trading income», which refers to total fixed-yield securities, includes net trading profits of 33.210 million, unrealised gains of 43.412 million and unrealised losses of 0.903 million. Then we have to add profits of € 6.730 million and net losses of € 0.833 million on variable-yield securities and mutual funds. In 2012, on the entire portfolio, we booked: net profits of € 69.815 million; net gains of € 64.700 million.

As mentioned, the HFT portfolio continues to largely comprise CCTs, 1,791 million representing 56.79% of the total. Corporate bonds amount to 186 million, down by 107 million, of which 25 million relate to bank issues. Securities that are part of securitisations are all senior and have been reduced to 34 million as a result of partial reimbursements and sales. Fixed-rate Government securities has tripled to 1,037 million, following the purchase of BTPs and BOTs. Variable-yield securities and mutual funds, which are still marginal, have increased to 68 million, +19.79%. Derivatives have fallen by 16.33% to € 38 million and is made up of: derivatives on debt securities and interest rates, € 14 million; derivatives on equities and equity indices, € 1 million; derivatives on foreign currency, gold and precious metals, € 23 million.

Financial assets carried at fair value

Financial assets carried at fair value (CFV) amount to 79 million, -23.98%. The change reflects the sale of CCTs totalling 30 million, representing the debt securities component, together with an increase in fair value by 5 million. This portfolio now solely comprises various types of mutual fund.

Financial assets available for sale

Financial assets available for sale (AFS) amount to 3,375 million, +38.45%, mainly following the purchase of CCTs, BOTs and BTPs, valued at 3,172 million at the end of the year. The increase confirms the Bank's determination to include securities in this portfolio that are not held with a view to immediate disposal. This approach seeks to limit, at least in part, the impact on the income statement of the volatility experienced by financial markets in recent years. The portfolio also includes fixed-yield securities of banks and other issuers of 63 million, variable-yield securities of 67 million and mutual funds of 73 million. A careful assessment has been made to detect any impairment that should be recognised in the income statement. The valuation reserve reported in equity includes the net change in unrealised gains of 25.441 million, after tax effect, which increased the year-end balance from 6.872 a 32.313 million.

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

As regards the changes, note the following: purchases of debt securities of 3,357 million, relating to government securities and bonds; increase on mutual funds of 65 million; increase in equities of 2 million; increase in fair value of 61 million, while other changes of 135 million comprise coupons, discounts and positive effects of accounting at amortised cost. Decreases included the disposal of fixed-yield securities of 2,293 million, equities of 6 million and mutual funds of 62 million. Redemptions totalled 225 million; impairment adjustments amounted to 13 million, of which 10 relates to the investment in Release spa, while the remainder relates to listed equities and mutual funds; transfers to other portfolios of 4 million relate to the interest held in Unione Fiduciaria, now classified as an equity investment following an increase in the size of the holding; decrease in fair value of 2 million. Other decreases, 79 million, reflect the collection of coupons amounting to 49 million, reclassifications from equity on disposals of 20 million, amortised costs of 2 million, disposals of equities and the expiry of profit-sharing agreements of 3 million and reclassifications from equity of 2 million, together with the redemption of mutual funds of 1 million and reclassifications from equity of 2 million.

Financial assets held to maturity

The portfolio of financial assets held to maturity (HTM) amounts to 183 million, a decrease of 10.76% that was largely a consequence of redemptions.

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

At 31 December 2013, these securities are carried at 108 million, which is down 19.97% from 135 million in the prior year as a result of redemptions. They have a fair value of 102 million. The theoretical loss, before tax effect, therefore amounts to 6 million.

Asset management

At the end of 2013, the various forms of asset management amount to 3,995 million, +6.61%. mutual funds total 2,168 million, +10.67%. assets under direct management total 1,827 million, +2.16%.

BPS stock

The BPS stock, which is listed on the MTA, the screen-based market, Blue Chips segment, of the Italian Stock Exchange, saw its price fall by 4.38% in 2013.

Banca Popolare di Sondrio (SUISSE) SA, Factorit spa and Sinergia Seconda srl did not carry out any transactions in their own shares or those of the Parent Bank.

The other consolidated companies did not carry out any transactions in their own or the parent bank's shares either.

There are no cross-holdings among the companies included within the scope of consolidation.

EQUITY INVESTMENTS

Equity investments amount to € 156 million, with a rise of 6.97%. The reader is referred to the report accompanying the parent bank's financial statements and to the notes Part A, sections 3 and 10 for the related comments.

Related-party transactions

Related party transactions, as identified in accordance with IAS 24 and with the «Regulation on related party transactions», issued by Consob with resolution 17221 and subsequent amendments, form part of the Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2013, the Parent Bank and Factorit's corporate bodies decided the following transactions of greater relevance:

- Factorit spa, subsidiary; granting of an overdraft facility of 700,000,000 repayable on demand; revolving facility for advances of up to 140,000,000, available until revoked; renewal of lines of credit totalling 981,039,000 repayable on demand; and 500,000,000 repayable on 28/02/2013; resolutions of 31/01/2013;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal of lines of credit totalling 631,043,399 repayable on demand; resolution of 18/02/2013;
- Banca della Nuova Terra spa, associated company; renewal of lines of credit totalling € 188,000,000 repayable on demand; resolution of 18/02/2013;
- Release spa, associated company; revolving facility for guarantees in favour of residents of up to € 6,240,000, available until revoked; revolving facility for guarantees in favour of residents of up to € 3,744,000, available until revoked; revolving facility for guarantees in favour of residents of up to € 1,248,000, available until revoked; renewal of lines of credit totalling € 220,000,000 repayable on demand; resolutions of 12/03/2013;
- Factorit spa, subsidiary; revolving facility for advances up to € 545,000,000, available until revoked; resolution of 26/03/2013;
- Falck Renewables spa, a company in which Federico Falck, a director of the Bank, has an indirect equity interest; sureties in favour of non-resident of € 15,000,000, available until revoked; renewal of lines of credit totalling € 26,502,830 repayable on demand; resolution of 14/05/2013;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; guarantee deposit of securities totalling € 10,500,000, expiring on 01/04/2014; guarantee deposit of securities totalling € 4,000,000, expiring on 01/11/2016; revolving guarantee deposit of securities up to € 3,000,000, available until revoked; revolving guarantee deposit of securities up to € 250,000, available until revoked; resolutions of 01/08/2013;

– Alba Leasing spa, associated company; renewal of lines of credit totalling € 70,000,000 (transaction completed by Factorit spa); resolution of 25/10/2013;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; guarantee deposit of securities up to € 14,500,000, expiring on 01/04/2014; resolution of 06/11/2013.

During 2013, no transactions of greater or lesser relevance were carried out with related parties, which could have had an significant impact on the Group's balance sheet or results. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Group's balance sheet or results with regard to related party transactions carried out during 2012; in any case none were atypical, unusual or not on market terms.

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

During 2013 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

This goodwill amounts to 8.959 million, of which 7.847 million relates to the acquisition of Factorit spa and 1.112 million to the absorption of InFactor spa by Factorit spa in 1999. This goodwill has been tested for impairment to identify any losses in value. Details are explained in part B of the notes. Together, the evaluation processes did not highlight any need to write down the balance of goodwill on the books.

HUMAN RESOURCES

At the end of 2013 the Group had 3,061 employees, a decrease of 0.39% compared with 3,073 at the end of the previous year.

The reduction reflects the organisational rationalisation carried out by the Swiss subsidiary.

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	2013	2012	2013	2012
ASSETS				
Due from banks	35,004	48,508	–	–
Due from customers	388,732	417,861	1,114	1,095
Other financial assets	53,680	75,761	–	–
LIABILITIES AND EQUITY				
Due to banks	23	55	–	–
Due to customers	136,519	11,255	428	762
Other financial liabilities	–	–	–	–
GUARANTEES AND COMMITMENTS				
Guarantees given	106,306	48,291	89	1,693
Commitments	2,371	2,371	–	–

The personnel department has been heavily involved in selecting. training and managing the staff to ensure that the necessary professional resources are available for the Group's operational development and growth.

A breakdown of personnel by individual category is contained in the notes.

CAPITAL AND RESERVES

At 31 December 2013 capital and reserves amounted to a 1,936.174 million, with an increase of 66.249 million, +3.54% – including net profit for the year.

The share capital, consisting of 308,147,985 ordinary shares with par value of 3 euro, is unchanged at € 924.444 million. The share premium reserve is also unchanged at 171.450 million. The reserves rose to 794,781 million (+2.96%) due to allocation of a large part of the net profit for 2012. Valuation reserves now amount to 16.782 million, compared with a previously negative balance of 7.876 million.

As regards treasury shares, the Parent Bank holds 3,020,000 shares with a carrying amount of 24.316 million, unchanged compared with 2012. There were no purchase or sale transactions during 2013.

The capital ratios by current regulation of the Bank of Italy show our capital adequacy. The Group's solvency ratio (Total Capital Ratio) is at 10.53%, compared with the minimum required of 8%, while Tier 1 Capital Ratio is at 7.89%.

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 Bank carried out an impairment test on the entire structure. The results of this test showed that the Group was worth more than its consolidated equity. Further details are provided in Part F «Information on equity» of the notes.

The relationship between capital and the principal financial parameters is summarised below:

– *capital/direct customer deposits*
  7.26% v. 7.14%;
– *capital/customer loans*
  8.10% v. 7.39%;
– *capital/financial assets*
  28.49% v. 38.82%;
– *capital/total assets*
  5.91% v. 5.78%;
– *net non-performing loans/capital*
  23.79% v. 15.55%.

RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles «net profit for the year» and «equity» as shown in the parent bank's financial statements and the equivalent figures in the consolidated financial statements.

RECONCILIATION OF THE EQUITY AND NET PROFIT FOR THE YEAR REPORTED BY THE PARENT BANK WITH THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of euro)

	Equity	of which: Net profit for the year
Equity of the Parent Bank as of 31.12.2013	1,773,769	48,832
Consolidation adjustments	(11,000)	(11,000)
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	147,348	13,589
– companies valued using the equity method	26,057	1,612
Balance as of 31.12.2013, as reported in the consolidated financial statements	**1,936,174**	**53,033**

INCOME STATEMENT

The operations of the Group were conditioned, of course, by the difficult economic situation and the income statement has had to absorb substantial loan adjustments. Despite this, net profit for the year amounted to 53.033 million, up by 54.59% compared with 2012.

Following a decline in the first half and a recovery in the second, net interest income rose from 526.106 a 559.162 million, +6.28%, even though the spread has contracted further. Interest income was essentially unchanged (+0.56%). The effect of lower lending to customers and deposits with banks was offset by action to ensure a proper balance between remuneration and the risks accepted. The increased size of the securities portfolio also made a contribution, although their yields were much lower, with government securities – in particular – reflecting the relaxation of market tensions. Interest expense on the other hand fell by 5.63%, due to the lower cost of the funding obtained from customers, now stabilising, and from the interbank market.

Net commission income fell very slightly, from 283.993 to 283.001 million, -0.35%. The good performance of commissions on guarantees given, from the acceptance of instructions and from the placement of insurance products and mutual funds, as well as from collections and payments, was offset by a reduction in those associated with loans, given the effect of the regulatory changes introduced in the prior year, and the negative effect of the change in the accounting for commissions related to factoring transactions. There was also a reduction, on the one hand, in the commissions earned from custodian bank activities following the transfer in 2012 of the work performed by the Parent Bank for Arca Sgr and, on the other, in the commission expense incurred on guarantees received. In the prior year, this included commissions of 3.090 million paid to the Italian State by the Parent Bank for the guarantee given on the CD issued by the Bank as collateral acceptable to the ECB, as part of the refinancing of the banking system.

Dividends went from 2.934 to 2.699 million, +8.01%. The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 169.117 million compared with 177.702 million, -4.83%. This reduction was essentially attributable to securities, given that the considerable rise in trading/disposal gains compared with the prior year, was accompanied by a marked drop in the net unrealised capital gains that were recognised. By contrast, there was a slight improvement in exchange gains.

Income from banking activities accordingly rose 2.35% to 1,013.979 million. Within this aggregate, the weighting of net interest income increased from 53.10 to 55.15%.

Among the financial activities, the net trading income associated with the HFT portfolio contributed 111.055 million compared with 161.241 million. Analysing its component parts, net trading income on securities has decreased from 69.815 to 39.940 million; the contribution made by

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	2013	2012	(+/-)	% change
Net interest income	559,162	526,106	33,056	6.28
Dividends	2,699	2,934	-235	-8.01
Net commission income	283,001	283,993	-992	-0.35
Results of financial activities	169,117	177,702	-8,585	-4.83
Income from banking activities	**1,013,979**	**990,735**	**23,244**	**2.35**
Net adjustments to loans and financial assets	-490,285	-491,899	1,614	-0.33
Balance of financial management	**523,694**	**498,836**	**24,858**	**4.98**
Personnel costs	-219,088	-217,177	-1,911	0.88
Other administrative expenses	-222,087	-209,130	-12,957	6.20
Other operating income/expense	73,465	62,305	11,160	17.91
Net provisions for risks and charges	-2,850	-3,167	317	
Adjustments to property, plant and equipment and intangible assets	-29,416	-29,534	118	-0.40
Operating costs	**-399,976**	**-396,703**	**-3,273**	**0.83**
Operating profit (loss)	**123,718**	**102,133**	**21,585**	**21.13**
Share of profit (loss) of equity investments and other investments	1,630	4,696	-3,066	-65.29
Profit (loss) before tax	**125,348**	**106,829**	**18,519**	**17.34**
Income taxes on current operations	-64,671	-66,646	1,975	-2.96
Net result	**60,677**	**40,183**	**20,494**	**51.00**
Profit pertaining to minority interests	-7,644	-5,877	-1,767	30.07
Profit pertaining to the parent bank	**53,033**	**34,306**	**18,727**	**54.59**

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

net unrealised capital gains was 41.676 million, compared with 64.700 million in the previous year; Exchange gains and differences have risen from € 13.747 to € 14.046 million, while the net gains on foreign currencies amounted to € 9.033 million compared with € 9.057 million; lastly, derivatives come to € 6.360 million, up from € 3.922 million.

The contribution made by financial assets available for sale, financial assets held to maturity and financial liabilities amounted to 52.720 million, as against 9.573 million, mainly reflecting gains on the disposal of Italian government bonds. The result from assets carried at fair value was 5.387 million, compared with 6.273 million in the previous year.

As mentioned at the start of this report, the continuing recession resulted in the need during the year to recognise further large impairment adjustments, given the deterioration in the quality of lending and the adoption of extremely prudent measurement criteria.

Net adjustments to loans, financial assets available for sale and other financial transactions came to € 490.285 million compared with € 491.899

million (-0.33%). The element of this relating to customer loans fell from 484.215 to 463.866 million, -4.20%. This statistic reflects the delayed effects of the reduced creditworthiness of borrowers and, as mentioned, the extremely prudent criteria adopted by the Parent Bank for the assessment of risk. This approach takes account of our discussions with the Supervisory Authorities during the inspection carried out last year, especially with regard to the valuation of guarantees and assessment of the ability of counterparts to generate the cash flows needed to meet their commitments. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has risen from 1.91% to 1.94%. Unrealised losses from the impairment di securities have increased to 12.881 from 5.225 million, including a writedown of 9.664 million in the investment held in Release spa, as well as in certain equities and mutual funds held in the AFS portfolio, given that comparison of their market prices with their original carrying amounts revealed objective impairment. The adjustments recorded in relation to other financial transactions totalled 13.538 million. This amount comprises: 9.647 million in provisions on guarantees given, which were much higher in view of the increase in impaired loans and the general provision recorded against performing accounts on the same basis as that applied to performing loans; 3.891 million provided by the parent bank to cover its share of the support to be given by the Interbank Deposit Protection Fund in favour of Banca Tercas, which is in Special Receivership.

The balance of financial management therefore comes to 523.694 million, +4.98%.

Operating costs amounted to 399.976 million, +0.83%. In addition to constant monitoring, the contained increase reflects the inclusion in other income of the CIV (Commission for rapid investigation), which was only partially present in the prior year, and the release of provisions for legal disputes. The ratio of operating costs/income from banking activities, i.e. the «cost income ratio», has fallen to 39.45% from 40.04%.

Considering the various components of this ratio, administrative expenses amounted to 441.175 million, +3.49%; of these, personnel expenses rose from 217.177 to 219.088 million, +0.88%, partly as a consequence of contractual increases; other administrative expenses increased from 209.130 to 222.087 million, +6.20%, due in the main to higher stamp duties linked to the rise in other operating income, but also to costs associated with the branch network, IT costs and consultancy and legal fees.

Net movements on provisions for risks and charges amount to 2.850 million because of the difference between the provisions made during the year and the release and use of provisions made in prior years.

The depreciation of property, plant and equipment and amortisation of software amounted to 29.416 million, -0.40%.

Other operating income, net of other operating expenses, contributed 73.465 million, +17.91%. This was mainly due to recognition of the CIV, only present for a limited period in the prior year, as well as to the additional recoveries of taxation following related increases – the cost of which is reported among the other administrative expenses.

The operating profit therefore came to 123.718 million, +21.13%.

Net profits on equity and other investments amounted to 1.630 million, compared with 4.696 million in the prior year, due to the poor performance of certain affiliates. The total includes a profit of 0.010 million on the disposal of property, plant and equipment.

Profit before income taxes therefore totalled 125.348 million, +17.34%. After deducting income taxes of 64.671 million, -2.96%, and the non-controlling interest of 7.644 million, the net profit attributable to the shareholders of the parent bank amounted to 53.033 million, compared with 34.306 million in the prior year, +54.59%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 51.59% compared with 62.39% in the previous year.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the parent bank's financial statements for information on events that took place after 31 December 2013. There is nothing worth noting with regard to Banca Popolare di Sondrio (SUISSE) SA, Factorit spa and Sinergia Seconda srl.

Despite the difficult macroeconomic conditions – which suggest further difficulties for credit quality and, consequently, for the profitability of the banking system – the Group expects to be able to maintain the level of net interest income, even though interest rates remain at historical lows. Credit risk will be continued to be controlled by the application of careful and prudent policies, while the cost of credit should improve, despite remaining high. Once again, the results of financial activities will be conditioned by the markets, which react to imponderables, although the reduction in sovereign risk should be beneficial. Operating costs are expected to grow only moderately, despite the expansion of our structure.

Sondrio, 25 March 2014

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of euro)

	ASSET ITEMS		31-12-2013		31-12-2012
10.	CASH AND BALANCES WITH CENTRAL BANKS		**196,517**		**183,746**
20.	FINANCIAL ASSETS HELD FOR TRADING		**3,154,594**		**2,070,237**
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE		**79,226**		**104,224**
40.	FINANCIAL ASSETS AVAILABLE FOR SALE		**3,375,500**		**2,438,079**
50.	FINANCIAL ASSETS HELD TO MATURITY		**182,621**		**204,644**
60.	DUE FROM BANKS		**733,954**		**1,179,977**
70.	DUE FROM CUSTOMERS		**23,904,559**		**25,308,798**
80.	HEDGING DERIVATIVES		**2,923**		**52**
100.	EQUITY INVESTMENTS		**156,404**		**146,214**
120.	PROPERTY, PLANT AND EQUIPMENT		**245,962**		**232,445**
130.	INTANGIBLE ASSETS		**21,865**		**21,927**
	Of which:				
	- Goodwill	8,959		8,959	
140.	TAX ASSETS		**342,310**		**197,241**
	a) current	33,478		19	
	b) deferred	308,832		197,222	
	of which as per Law 214/2011	269,858		151,545	
160.	OTHER ASSETS		**373,493**		**261,542**
	TOTAL ASSETS		**32,769,928**		**32,349,126**

THE CHAIRMAN
Piero Melazzini

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

EQUITY AND LIABILITY ITEMS			31-12-2013		31-12-2012
10.	DUE TO BANKS		**3,067,978**		**3,204,024**
20.	DUE TO CUSTOMERS		**23,710,352**		**23,250,752**
30.	DEBT SECURITIES IN ISSUE		**2,964,974**		**2,934,560**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**36,550**		**44,336**
60.	HEDGING DERIVATIVES		**27,580**		**45,950**
80.	TAX LIABILITIES		**36,889**		**117,654**
	a) current	662		83,255	
	b) deferred	36,227		34,399	
100.	OTHER LIABILITIES		**720,873**		**624,801**
110.	RESERVE FOR TERMINATION INDEMNITIES		**40,527**		**42,352**
120.	PROVISIONS FOR RISKS AND CHARGES:		**152,593**		**144,660**
	a) post-employment benefits	100,539		95,729	
	b) other provisions	52,054		48,931	
140.	VALUATION RESERVES		**16,782**		**(7,876)**
170.	RESERVES		**794,781**		**771,917**
180.	SHARE PREMIUM RESERVE		**171,450**		**171,450**
190.	SHARE CAPITAL		**924,444**		**924,444**
200.	TREASURY SHARES (-)		**(24,316)**		**(24,316)**
210.	MINORITY INTERESTS		**75,438**		**70,112**
220.	NET PROFIT (LOSS) FOR THE YEAR (+/-)		**53,033**		**34,306**
	TOTAL LIABILITIES AND EQUITY		**32,769,928**		**32,349,126**

THE MANAGING DIRECTOR
AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS			2013		2012
10.	INTEREST INCOME AND SIMILAR REVENUES		1,018,114		1,012,433
20.	INTEREST EXPENSE AND SIMILAR CHARGES		(458,952)		(486,327)
30.	**NET INTEREST INCOME**		**559,162**		**526,106**
40.	COMMISSION INCOME		305,579		308,135
50.	COMMISSION EXPENSE		(22,578)		(24,142)
60.	**NET COMMISSION INCOME**		**283,001**		**283,993**
70.	DIVIDENDS AND SIMILAR INCOME		2,699		2,934
80.	NET TRADING INCOME		111,055		161,241
90.	NET HEDGING GAINS (LOSSES)		(45)		615
100.	GAINS/LOSSES ON DISPOSAL OR REPURCHASE OF:		52,720		9,573
	b) financial assets available for sale	52,518		7,740	
	c) financial assets held to maturity	55		584	
	d) financial liabilities	147		1,249	
110.	NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE		5,387		6,273
120.	**INCOME FROM BANKING ACTIVITIES**		**1,013,979**		**990,735**
130.	NET IMPAIRMENT ADJUSTMENTS TO:		(490,285)		(491,899)
	a) loans	(463,866)		(484,215)	
	b) financial assets available for sale	(12,881)		(5,225)	
	d) other financial transactions	(13,538)		(2,459)	
140.	**BALANCE OF FINANCIAL MANAGEMENT**		**523,694**		**498,836**
170.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**523,694**		**498,836**
180.	ADMINISTRATIVE EXPENSES:		(441,175)		(426,307)
	a) personnel expenses	(219,088)		(217,177)	
	b) other administrative expenses	(222,087)		(209,130)	
190.	NET PROVISIONS FOR RISKS AND CHARGES		(2,850)		(3,167)
200.	NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT		(17,056)		(17,045)
210.	NET ADJUSTMENTS TO INTANGIBLE ASSETS		(12,360)		(12,489)
220.	OTHER OPERATING CHARGES/INCOME		73,465		62,305
230.	**OPERATING COSTS**		**(399,976)**		**(396,703)**
240.	SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS		1,620		4,416
270.	PROFIT/LOSS FROM DISPOSAL OF INVESTMENTS		10		280
280.	**PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES**		**125,348**		**106,829**
290.	INCOME TAXES ON CURRENT OPERATIONS		(64,671)		(66,646)
300.	**PROFIT (LOSS) ON CURRENT OPERATIONS AFTER INCOME TAXES**		**60,677**		**40,183**
320.	**NET PROFIT (LOSS) FOR THE YEAR**		**60,677**		**40,183**
330.	NET PROFIT (LOSS) FOR THE YEAR PERTAINING TO MINORITY INTERESTS		(7,644)		(5,877)
340.	**NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT BANK**		**53,033**		**34,306**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items		2013	2012
10.	**Net profit (loss) for the year**	**60,677**	**40,183**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	(1,639)	(14,402)
60.	Share of valuation reserves of equity investments valued at net equity	(130)	(133)
	Other income items net of income taxes that will not be reclassified to profit or loss		
100.	Financial assets available for sale	25,441	50,437
120.	Share of valuation reserves of equity investments valued at net equity	986	11,744
130.	**Total other income items net of income taxes**	**24,658**	**47,646**
140.	**Comprehensive income (item 10+130)**	**85,335**	**87,829**
150.	Consolidated comprehensive income pertaining to minority interests	(7,677)	(5,795)
160.	**Consolidated comprehensive income pertaining to the Parent Bank**	**77,658**	**82,034**

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2012	Change in opening balances	Opening balance at 1.1.2013	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Change in reserves
Share capital						
a) ordinary shares	958,019	–	958,019	–	–	–
c) other shares	–	–	–	–	–	–
Share premium reserve	**175,807**	**–**	**175,807**	**–**	**–**	**–**
Reserves						
a) from earnings	793,088	–	793,088	27,693	–	(1,270)
c) other	5,186	–	5,186	–	–	–
Valuation reserves	**(7,930)**	**–**	**(7,930)**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(24,316)**	**–**	**(24,316)**	**–**	**–**	**–**
Net profit for the year	**40,183**	**–**	**40,183**	**(27,693)**	**(12,490)**	**–**
Equity attributable to the group	**1,869,925**	**–**	**1,869,925**	**–**	**(10,139)**	**(1,270)**
Equity attributable to minority interests	**70,112**	**–**	**70,112**	**–**	**(2,351)**	**–**

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2011	Change in opening balances	Opening balance at 1.1.2012	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Change in reserves
Share capital						
a) ordinary shares	958,019	–	958,019	–	–	–
b) other shares	–	–	–	–	–	–
Share premium reserve	**176,868**	**–**	**176,868**	**–**	**–**	**–**
Reserves						
a) from earnings	741,555	–	741,555	47,889	–	3,644
b) other	5,186	–	5,186	–	–	–
Valuation reserves	**(44,329)**	**–**	**(44,329)**	**–**	**–**	**(11,247)**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(26,079)**	**–**	**(26,079)**	**–**	**–**	**–**
Net profit for the year	**77,372**	**–**	**77,372**	**(47,889)**	**(29,483)**	**–**
Equity attributable to the group	**1,822,663**	**–**	**1,822,663**	**–**	**(27,871)**	**(7,603)**
Equity attributable to minority interests	**65,929**	**–**	**65,929**	**–**	**(1,612)**	**–**

Changes during the year								
Equity transactions								
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives of treasury shares	Stock options	Comprehensive income	attributable to the group at 31.12.2013	to minority interests at 31.12.2013
–	–	–	–	–	–	–	924,444	33,575
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	171,450	4,357
–	–	–	–	–	–	–	791,552	27,959
–	–	–	–	–	–	–	3,229	1,957
–	–	–	–	–	–	24,658	16,782	(54)
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(24,316)	–
–	–	–	–	–	–	60,677	53,033	7,644
–	–	–	–	–	–	77,658	1,936,174	–
–	–	–	–	–	–	7,677	–	75,438

Changes during the year								
Equity transactions								
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives of treasury shares	Stock options	Comprehensive income	Equity attributable to the group at 31.12.2012	Equity pertaining to minority interests at 31.12.2012
–	–	–	–	–	–	–	924,444	33,575
–	–	–	–	–	–	–	–	-
(1,061)	–	–	–	–	–	–	171,450	4,357
–	–	–	–	–	–	–	768,688	24,400
–	–	–	–	–	–	–	3,229	1,957
–	–	–	–	–	–	47,646	(7,876)	(54)
–	–	–	–	–	–	–	–	–
3,656	(1,893)	–	–	–	–	–	(24,316)	–
–	–	–	–	–	–	40,183	34,306	5,877
2,595	(1,893)	–	–	–	–	82,034	1,869,925	–
–	–	–	–	–	–	5,795	–	70,112

CONSOLIDATED STATEMENT OF CASH FLOWS (Indirect method)

	31-12-2013	31-12-2012
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**616,808**	**649,588**
- net profit for the year (+/-)	53,033	34,306
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (+/-)	(55,972)	(79,760)
- net hedging gains (losses) (-/+)	46	(616)
- net impairment adjustments (+/-)	497,989	509,469
- net adjustments to property, plant and equipment and intangible assets (+/-)	29,415	29,533
- provisions for risks and charges and other costs/revenues (+/-)	27,223	27,920
- unpaid taxes and duties (+)	64,670	66,646
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	404	62,090
2. **Cash generated/absorbed by financial assets**	**(725,543)**	**(3,268,378)**
- financial assets held for trading	(1,011,996)	171,919
- financial assets carried at fair value	28,794	(16,316)
- financial assets available for sale	(929,460)	(1,680,069)
- due from banks: sight	194,680	(141,943)
- due from banks: other receivables	236,671	437,507
- due from customers	872,870	(2,126,344)
- other assets	(117,102)	86,868
3. **Cash generated/absorbed by financial liabilities**	**158,768**	**2,745,247**
- due to banks: sight	(187,414)	140,298
- due to banks: other payables	57,125	(510,413)
- customer deposits	514,489	3,264,166
- debt securities in issue	33,836	189,318
- financial liabilities held for trading	(32,219)	(65,562)
- financial liabilities carried at fair value	–	–
- other liabilities	(227,049)	(272,560)
Net cash generated/absorbed by operating activities	**50,033**	**126,457**

	31-12-2013	31-12-2012
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**48,404**	**27,132**
- sales of equity investments	–	–
- dividends collected from equity investments	14,127	168
- sales and reimbursements of financial assets held to maturity	34,250	26,628
- sales of property, plant and equipment	27	336
- sales of intangible assets	–	–
- sale of subsidiaries and business divisions	–	–
2. **Cash absorbed by**	**(71,982)**	**(62,830)**
- purchases of equity investments	(16,509)	(10,280)
- purchases of financial assets held to maturity	(12,179)	(13,242)
- purchases of property, plant and equipment	(30,966)	(25,467)
- purchases of intangible assets	(12,328)	(13,841)
- purchases of subsidiaries and business divisions	–	–
Net cash generated/absorbed by investing activities	**(23,578)**	**(35,698)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	–	701
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(12,390)	(29,083)
Net cash generated/absorbed by financing activities	**(12,390)**	**(28,382)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**14,065**	**62,377**

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31-12-2013	31-12-2012
Cash and balances with central banks at beginning of year	183,746	121,014
Total net cash generated/absorbed in the year	14,065	62,377
Cash and balances with central banks: effect of change in exchange rates	(1,294)	355
Cash and balances with central banks at end of year	196,517	183,746

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

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

Banca Popolare di Sondrio s.c.p.a. declares that these consolidated financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2013 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

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

The format of the financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by D.Lgs 38/2005 and subsequent updates.

Section 2 *Basis of preparation*

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

1) Going concern. The financial statements have been prepared on a going concern basis and, accordingly, assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations. Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Group's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and

the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.

5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.

6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements.

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

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

Section 3 Scope of consolidation and methodology

The consolidated financial statements represent the economic and financial position of the Banca Popolare di Sondrio banking group as of and for the year ended 31.12.2013; they comprise the financial statements of the parent bank, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.A. and Sinergia Seconda Srl, and those companies in which the parent bank holds, directly or indirectly, the majority of voting rights.

The following companies have been consolidated on a line-by-line basis:

Name	Location	Type of relationship[1]	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 150,000	100	100
FactoritS.p.a.	Milano	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milano	1	60,000	100	100
Pirovano Stelvio S.p.a.	Sondrio	1	2,064	100	100
Immobiliare San Paolo S.r.l.	Tirano	1	10*	100	100
Immobiliare Borgo Palazzo S.r.l.	Tirano	1	10*	100	100

(1) 1 = majority of voting rights at ordinary shareholders' meeting.
* held by Sinergia Seconda S.r.l.

The joint venture shown below is valued at equity (IAS 31):

Name	Location	Type of relationship[1]	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare srl	Sondrio	7	20	50	50

(1) 7 = joint control.

The scope of consolidation also includes the equity investments where the parent bank exercises a significant influence in that the shareholding is between 20% and 50%; or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) it has a representative on the Board of Directors or the equivalent body of the affiliate;

b) it 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:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milano	325,000	20.950
Arca Vita S.p.a.	Verona	208,279	14.837
Banca della Nuova Terra S.p.a.	Milano	50,000	19.609
Unione Fiduciaria S.p.a.	Milano	5,940	24.000
Polis Fondi Srgpa	Milano	5,200	19.600
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milano	75	33.333
Sofipo S.A.	Lugano	(CHF) 2,000*	30
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27
Sifas S.p.a.	Bolzano	1,209**	21.614

* held by Banca Popolare di Sondrio (Suisse) SA

** held by Pirovano Stelvio S.p.a.

With line-by-line consolidation, the book value of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the group.

Companies in which the bank does not have an investment, but for which it has received pledged voting shares are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits.

Translation of financial statements in currencies other than the euro

The financial statements of Banca Popolare di Sondrio (Suisse) SA are translated into euro at the official year-end exchange rate for balance sheet items, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation of the financial statements are booked to reserves.

Section 4 ***Subsequent events***

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 25/3/2014 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 unchanged with respect to those adopted in the previous year, with the sole exception of the entry into force of IFRS 13, endorsed by Regulation (EU) 1255/2012. This new standard provides a new definition of fair value, presents in one IFRS a reference framework for the measurement of fair value, and requires disclosures about the measurements made. IFRS 13 does not expand the application of measurement at fair value, but presents a series of requirements to be met when measuring financial instruments and non-financial assets and liabilities at fair value, as required or allowed by other accounting standards. The most significant aspect is the need to consider counterparty risk when determining the fair value of OTC derivatives. To do this, the related calculation model has been changed to take account of the credit rating of the counterpart (Credit Value Adjustment – CVA) and our own credit rating (Debit Value Adjustment - DVA). The adoption of the new calculation criteria has not had any particular effect on the income statement.

The financial statements, accompanied by the directors' report on operations, consist of the statement of financial position, income statement, statement of changes in equity, statement of cash flows 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 statement of financial position and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Parent Bank and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2013, 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 2013. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a lack of growth and high levels of uncertainty about the prospects for recovery, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the particularly uncertain 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 2013.

The following amendments to international accounting standards were made in 2012:

- Regulation (EU) 475/2012 of 5/6/2012 amended IAS 1 Presentation of Financial Statements - Presentation of items of other comprehensive income and IAS 19 Employee Benefits. The amendments apply from 1 January 2013 (first financial year commencing on or after 1/1/2013).
- Regulation (EU) 1254/2012 of 11/12/2012 relating to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as to amendments to IAS 27 Separate Financial Statements and IAS 28

Investments in Associates and Joint Ventures. The amendments apply from 1 January 2014 (first financial year commencing on or after 1/1/2014).

- Regulation (EU) 1255/2012 of 11/12/2012: IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, IFRS 13 Fair Value Measurement, IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. The amendments apply from 1 January 2013 (first financial year commencing on or after 1/1/2013).
- Regulation (EU) 1256/2012 of 13/12/2012: Amendments to IFRS 7 Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities and to IAS 32 Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities. The amendments apply from 1 January 2013 (first financial year commencing on or after 1/1/2013 for the amendments to IFRS 7) and from 1 January 2014 (first financial year commencing on or after 1/1/2014) for IAS 32).

In the 2nd update to Circular 262 of 21 January 2014, the Bank of Italy adopted the disclosure requirements specified by certain accounting standards that came into force from 2013.

The EU also endorsed various amendments to international accounting standards during 2013, by adopting the following regulations:

- Regulation (EU) 183/2013 of 4 March 2013 which adopted the amendments to IFRS 1 «First-time Adoption of International Financial Reporting Standards» - Government Loans. These amendments to IFRS 1 relate to government loans with below-market rates of interest and their purpose is to exempt first-time adopters from full retrospective application of the requirements at the time of adopting the IFRS. The amendments apply from 1 January 2013.
- Regulation (EU) 301/2013 of 27 March 2013 which adopted the «Annual Improvements to International Financial Reporting Standards – 2009-2011 Cycle». The purpose of these improvements is to deal with inconsistencies found in the IFRS or to clarify terminology, with regard to non-urgent matters discussed by the IASB during the cycle that began in 2009. The amendments apply from 1 January 2013.
- Regulation (EU) 313/2013 of 4 April 2013 which adopted the «Transition Guidance (amendments to IFRS 10, 11 and 12)». The purpose of these amendments is to clarify the intentions of the IASB when the transition guidance for IFRS 10 was first published. The amendments further reduce the comparative information required on transition to IFRS 10, IFRS 11 and IFRS 12. They apply from 1 January 2014.
- Regulation (EU) 1174/2013 of 20 November 2013 which adopted «Investment entities» (Amendments to IFRS 10, 12 and IAS 27). IFRS 10 Consolidated Financial Statements has been amended to require investment entities to measure subsidiaries at fair value through profit or loss, rather than consolidate them, in order to reflect better their business model. IFRS 12 Disclosure of Interests in Other Entities has been amended to require the disclosure of specific information about the subsidiaries of investment entities. The amendments to IAS 27 have eliminated the ability of investment entities to choose between measuring subsidiaries at cost or at fair value in their separate financial statements. The amendments to IFRS 10 and 12 and to IAS 27 also affect IFRS 1, 3 and 7 and IAS 7, 12, 24, 32, 34 and 39. In force from 1/1/2014.
- Regulation (EU) 1374/2013 of 19 December 2013 which adopted «Recoverable amount disclosures for non-financial assets» (amendment to IAS 36). The amendments clarify that the information to be disclosed about the recoverable amount of assets, when that

amount is based on fair value net of disposal costs, only relates to those assets whose value has been impaired. They apply from 1 January 2014.

– Regulation (EU) 1375/2013 of 19 December 2013 which adopted «Novation of derivatives and continuation of hedge accounting» (amendment to IAS 39). The amendments govern situations in which a derivative designated as a hedging instrument is subject to novation from a counterparty to a central counterparty, as a result of regulatory requirements. They apply from 1 January 2014.

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

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

1. Financial assets held for trading

Classification

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

Derecognition

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

2. Financial assets available for sale

Classification

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

Recognition

The assets classified in this caption are recorded on the settlement date. Available-for-sale securities are initially recognised at their fair value, which is usually represented by the fair value of the consideration paid to acquire them.

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

Accounting policies

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

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

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

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

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

Recognition of components affecting the income statement

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

Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; The accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment. Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

Derecognition

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

3. Financial assets held to maturity

Classification

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

Recognition

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

Any assets booked under the terms of the amendment to IAS 39 regarding the application of fair value, as adopted by the European Union with EC Regulation 1004/2008 of 15/10 are measured at their fair value as of 31 July 2008, providing they were on the books as of 1/7/2008; those booked subsequently are shown at their fair value at the date of reclassification.

Accounting policies

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

Recognition of components affecting the income statement

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

Derecognition

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

4. Receivables

4.1 Cash loans and deposits

Classification

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

Recognition

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently.

Loans include the advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them.

The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

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

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

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

Impaired loans comprise:

a) net non-performing loans

b) watchlist loans

c) restructured loans

d) past due loans

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

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

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

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

Loans may be measured on a detailed or an overall basis. Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

a) value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;

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

c) internal rate of return.

Non-performing loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing loans takes the following parameters into account:

a) recoveries forecast by the account managers;

b) expected timing of recoveries based on historical-statistical data;

c) original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

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

Subjective watchlist loans are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

a) recoveries forecast by the offices concerned;

b) expected timing of recoveries based on historical-statistical data;

c) original discounting rates represented by the actual contractual rates applying at the time the loans were added to the watchlist.

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

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

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

a) plans for the recovery and/or restructuring of the loans, considering the assessment made by the offices concerned;

b) discounting rates represented by the actual or contractual interest rates applying prior to reaching agreement with the borrowers.

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

Performing loans that do not show any objective signs of impairment are valued on a collective basis. Such loans aggregated in homogeneous classes with similar characteristics have applied to them impairment coefficients that are estimated on the basis of statistical data and expressed as the probability of default (PD) by the customer and the extent of the loss given default (LGD). The expected loss on these loans (nominal amount of the loan multiplied by the PD and the LGD) is adjusted by the LCP (Loss Confirmation Period), which reflects for the various homogenous classes of loan the delay between the deterioration in the financial situation of the customer and the recognition of that situation by the Group.

Recognition of components affecting the income statement

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

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

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

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

4.2 Endorsement loans

Classification

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

Recognition and measurement

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

Recognition of components affecting the income statement

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

5. Financial assets carried at fair value

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

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

6. Hedging transactions

Classification and recognition

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

The hedging of market risks can take two different forms:

a) fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;

b) cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

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

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

Measurement and recognition of components affecting the income statement

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

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

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

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

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

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

Derecognition

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

7. Equity investments

Classification

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

a) it has a representative on the Board of Directors or the equivalent body of the affiliate;

b) it takes part in the decision-making process, including decisions regarding dividends;

c) there are significant transactions between the parent company and the affiliate;

d) there is an exchange of managers;

e) essential technical information is being provided.

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

Recognition

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

Accounting policies

Investments are subsequently valued at equity, determined with reference to the value indicated in the latest approved financial statements.

The initially-recorded value of each equity investment is increased or decreased in proportion to the net profit or loss for the year of the company concerned, and is reduced by the amount of any dividends collected. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

The negative differences on initial recognition, the interest in net profits or losses for the year, gains and losses on disposal and impairment losses are recorded in the «share of profit/loss of equity investments» caption of the income statement.

Derecognition

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

8. Property, plant and equipment

Classification

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

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

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

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

Derecognition

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

9. Intangible assets

Classification

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

Intangible assets comprise software and goodwill.

Recognition

Intangible assets are recorded at purchase cost 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 asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable value is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

Recognition of components affecting the income statement

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

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

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

10. Non-current assets held for sale and discontinued operations

Non-current assets are only included in this item when it is considered very probable that they will be sold.

They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to equity; in this case, the matching entries are also recorded within equity.

12. Provisions for risks and charges

This caption comprises the following provisions:

a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of the reserve for termination indemnities; once again, the actuarial gains and losses deriving from actuarial estimates are 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) Post-employment benefits. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Parent bank is responsible for any unfunded liabilities.

   2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».

b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined, which can be recognised in the financial statements when:

   1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;

   2) it is likely that settlement of the obligation will involve the use of economic resources;

   3) a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

13. Payables and debt securities in issue

Classification

Amounts due to customers and banks and debt securities in issue comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions and the value of the consideration still to be paid to the assignor in factoring transactions that involve an assignment of receivables with the transfer of the related risks and benefits versus the assignee.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected. Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest expense and similar charges».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses on disposals or repurchases of financial liabilities».

Derecognition

Financial liabilities are derecognised when they expire or are settled.

Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

14. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

15. Financial liabilities at fair value

The financial statements do not include any financial liabilities 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. Long-term investments expressed in foreign currency are converted at the exchange rate ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

Exchange differences on assets defined as available for sale are recorded under valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

17. Termination indemnities

Termination indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out each year by an independent actuary.

As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee.

this has entailed changes in the underlying assumptions used for the actuarial calculation:

in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

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

18. Other information

The Parent Bank and other Group companies have not established any stock option plans.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection.

Dividends are recorded upon collection.

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

Securitisations

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

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)	Book value as of 31.12.2013 (4)	Fair value at 31.12.2013 (5)	Income items without any transfer (pre-tax) Valuation (6)	Income items without any transfer (pre-tax) Others (7)	Income items recorded during the year (pre-tax) Valuation (8)	Income items recorded during the year (pre-tax) Others (9)
A. **Fixed-yield securites**	HFT	AFS	107,851	102,050	1,235	911	1,083	911

Income items include securities service employees' post-employment benefits.

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

A.3.3 Transfer of financial assets held for trading

As in the previous year, the Parent Bank did not carry out any reclassifications of financial assets. A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments. Table A.3.1 shows the profits and losses that would have been made if the Group had not taken advantage of this possibility.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

The information about fair value required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in 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 Parent Bank uses various methodologies to determine the fair value of assets and liabilities.

Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options.

The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

For changes of +/- 1 basis point in the credit spread or changes in the other input parameters (e.g. for convertible bonds, 1% volatility for the calculation of the related options), the fair value of the financial instruments changes by about euro 69 thousand.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets - according the definition of IAS 39 – for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Group.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used. Following the entry into force of IFRS 13, which strengthened the guidelines underlying the classification of financial instruments, the Group revised such classifications during the year and transferred its financial instruments to the most appropriate fair value level.

A.4.4 Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

Financial assets/liabilities carried at fair value	31/12/2013 Level 1	31/12/2013 Level 2	31/12/2013 Level 3	31/12/2012 Level 1	31/12/2012 Level 2	31/12/2012 Level 3
1. Financial assets held for trading	3,059,729	36,810	58,055	1,699,356	368,727	2,154
2. Financial assets carried at fair value	79,226	–	–	30,676	73,548	–
3. Financial assets available for sale	3,257,770	–	117,730	2,221,907	204,917	11,255
4. Hedging derivatives	–	2,923	–	–	52	–
5. Property, plant and equipment	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**6,396,725**	**39,733**	**175,785**	**3,951,939**	**647,244**	**13,409**
1. Financial assets held for trading	29	36,521	–	687	43,649	–
2. Financial liabilities carried at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	27,580	–	–	45,950	–
Total	**29**	**64,101**	**–**	**687**	**89,599**	**–**

Based on the guiding principles for the classification of financial instruments established in IFRS 13, a number of transfers of fair value from Level 2 to Level 1 were recorded during the year. These transferred comprises € 41 million of HFT financial assets, € 76 million of FVTPL financial assets and € 75 million of AFS financial assets.

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

	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Hedging derivates	Property, plant and equipement	Intangible assets
1. **Opening balance**	**2,154**	**–**	**11,255**	**–**	**–**	**–**
2. **Increases**	**58,063**	**–**	**113,291**	**–**	**–**	**–**
2.1. Purchases	–	–	18,810	–	–	–
2.2. Income booked to:	–	–	265	–	–	–
2.2.1. Income statement	–	–	–	–	–	–
of which realized gains	–	–	–	–	–	–
2.2.2. Equity	–	–	265	–	–	–
2.3. Transfers from other levels	58,055	–	92,094	–	–	–
2.4. Other increases	8	–	2,122	–	–	–
3. **Decreases**	**2,162**	**–**	**6,816**	**–**	**–**	**–**
3.1. Sales	–	–	2,027	–	–	–
3.2. Reimbursements	2,125	–	–	–	–	–
3.3. Losses booked to:	–	–	3,080	–	–	–
3.3.1. Income statement	–	–	1,462	–	–	–
of which realized losses	–	–	1,462	–	–	–
3.3.2. Equity	–	–	1,618	–	–	–
3.4. Transfers to other levels	–	–	–	–	–	–
3.5. Other decreases	37	–	1,709	–	–	–
4. **Closing balance**	**58,055**	**–**	**117,730**	**–**	**–**	**–**

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	31/12/2013				31/12/2012			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	182,621	156,305	-	25,358	204,644	14,470	187,086	-
2. Due from banks	733,954	-	-	733,954	1,179,977	-	-	1,179,977
3. Loans to customers	23,904,559	-	-	24,255,913	25,308,798	-	-	25,615,490
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**24,821,134**	**156,305**	**-**	**25,015,225**	**26,693,419**	**14,470**	**187,086**	**26,795,467**
1. Due to banks	3,067,978	-	-	3,067,978	3,204,024	-	-	3,204,024
2. Customer deposits	23,710,352	-	-	23,710,352	23,250,752	-	-	23,250,752
3. Securities issued	2,964,974	-	2,985,293	-	2,934,560	-	2,931,855	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**29,743,304**	**-**	**2,985,293**	**26,778,330**	**29,389,336**	**-**	**2,931,855**	**26,454,776**

Key:
BV = book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IAS 39 para. AG. 76 derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B Information on the statement of financial position

Assets

Section 1 Cash and cash equivalents - line item 10

1.1 Cash and balances with central banks: analysis

	31/12/2013	31/12/2012
a) Cash	122,491	128,734
b) Unrestricted deposits with central banks	74,026	55,012
Total	**196,517**	**183,746**

Section 2 Financial assets held for trading - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2013			31/12/2012		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	2,990,507	–	58,055	1,652,935	313,053	2,154
1.1 Structured securities	116,639	–	9,035	36,299	12,181	–
1.2 Other fixed-yield securities	2,873,868	–	49,020	1,616,636	300,872	2,154
2. Variable-yield securities	42,369	–	–	38,854	1,819	–
3 Mutual funds	25,976	–	–	6,939	9,441	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**3,058,852**	**–**	**58,055**	**1,698,728**	**324,313**	**2,154**
B. **Derivatives**						
1. Financial derivatives:	877	36,810	–	628	44,414	–
1.1 for trading	877	36,810	–	628	44,414	–
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	**877**	**36,810**	**–**	**628**	**44,414**	**–**
Total (A+B)	**3,059,729**	**36,810**	**58,055**	**1,699,356**	**368,727**	**2,154**

The other fixed-yield securities included in Level 3 principally comprise capital accumulation certificates, carried at cost, and bonds deriving from the securitisation of loans, measured using price information received from external infoproviders and for which the market cannot be considered active.

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

Items/Amounts	31/12/2013	31/12/2012
A. **Cash assets**		
1. Fixed-yield securities	3,048,562	1,968,142
a) Governments and central banks	2,833,795	1,641,010
b) Other public entities	22	2,547
c) Banks	161,113	264,376
d) Other issuers	53,632	60,209
2. Variable-yield securities	42,369	40,673
a) Banks	13,570	15,166
b) Other issuers:	28,799	25,507
- insurance companies	1,103	1,576
- financial companies	2,544	859
- non-financial companies	25,152	23,072
- other	–	–
3. Mutual funds	25,976	16,380
4. Loans	–	–
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**3,116,907**	**2,025,195**
B. **Derivatives**		
a) Banks	8,339	6,666
- Fair value	8,339	6,666
b) Customers	29,348	38,376
- Fair value	29,348	38,376
Total B	**37,687**	**45,042**
Total (A + B)	**3,154,594**	**2,070,237**

Mutual funds are made up of: funds and sicavs for € 25.535 million and real estate funds for € 0.441 million.

2.3 Cash financial assets held for trading: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
A. **Opening balance**	**1,968,142**	**40,673**	**16,380**	**–**	**2,025,195**
B. **Additions**	**8,567,353**	**196,301**	**119,600**	**–**	**8,883,254**
B.1 Purchases	8,447,856	189,098	116,233	–	8,753,187
B.2 Positive changes in fair value	43,412	1,482	1,825	–	46,719
B.3 Other changes	76,085	5,721	1,542	–	83,348
C. **Decreases**	**7,486,933**	**194,605**	**110,004**	**–**	**7,791,542**
C.1 Disposals	7,133,862	192,575	109,271	–	7,435,708
C.2 Reimbursements	314,750	–	–	–	314,750
C.3 Negative changes in fair value	903	1,919	667	–	3,489
C.4 Transfer to other portfolios	–	–	–	–	–
C.5 Other changes	37,418	111	66	–	37,595
D. **Closing balance**	**3,048,562**	**42,369**	**25,976**	**–**	**3,116,907**

Section 3 Financial assets carried at fair value - line item 30

3.1 Financial assets carried at fair value: breakdown by sector

	31/12/2013			31/12/2012		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**493**	**–**	**–**	**29,768**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	493	–	–	29,768	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**78,733**	**–**	**–**	**908**	**73,548**	**–**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total	**79,226**	**–**	**–**	**30,676**	**73,548**	**–**
Cost	**74,438**	**–**	**–**	**28,284**	**69,036**	**–**

This portfolio includes all securities, other than those booked to the trading portfolio, which the Parent Bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

3.2 Financial assets carried at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2013	31/12/2012
1. **Fixed-yield securities**	**493**	**29,768**
a) Governments and central banks	493	29,768
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**	**78,733**	**74,456**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**79,226**	**104,224**

Mutual funds are made up of: bond funds and sicavs for € 38.720 million, funds and sicavs for € 33.613 million, real estate funds for € 1.103 million and flexible funds for € 5.297 million.

3.3 Financial assets carried at fair value: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	**Total 31/12/2013**
A. **Opening balance**	**29,768**	**–**	**74,456**	**–**	**104,224**
B. **Additions**	**1,544**	**–**	**5,168**	**–**	**6,712**
B.1 Purchases	–	–	–	–	–
B.2 Positive changes in fair value	15	–	5,168	–	5,183
B.3 Other changes	1,529	–	–	–	1,529
C. **Decreases**	**30,819**	**–**	**891**	**–**	**31,710**
C.1 Disposals	30,124	–	–	–	30,124
C.2 Reimbursements	–	–	–	–	–
C.3 Negative changes in fair value	–	–	891	–	891
C.4 Other changes	695	–	–	–	695
D. **Closing balance**	**493**	**–**	**78,733**	**–**	**79,226**

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

4.1 Financial assets available for sale: breakdown by sector

	31/12/2013			31/12/2012		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**3,181,707**	**–**	**53,229**	**2,208,373**	**77,415**	**–**
1.1 Structured securities	303,187	–	3,000	41,447	–	–
1.2 Other fixed-yield securities	2,878,520	–	50,229	2,166,926	77,415	–
2. **Variable-yield securities**	**13,862**	**–**	**53,440**	**13,534**	**65,869**	**–**
2.1 Carried at fair value	13,862	–	–	13,534	2,574	–
2.2 Carried at cost	–	–	53,440	–	63,295	–
3. **Mutual funds**	**62,201**	**–**	**11,061**	**–**	**61,633**	**11,255**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**3,257,770**	**–**	**117,730**	**2,221,907**	**204,917**	**11,255**

Unlisted equities remain at cost, adjusted if necessary for impairment, because of the problems involved in establishing their fair value at the year end.

A comparison between the cost and net equity of these unlisted equities based on the latest available financial statements only identified impairment losses in relation to Release spa.

Variable-yield securities include € 4.270 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 € 9.192 million, an open-end bond fund for € 62.201 million and a real estate fund for € 1.869 million. These instruments have been valued at the price communicated by the fund managers, which represents the fund’s net asset value (NAV).

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	31/12/2013	31/12/2012
1. **Fixed-yield securities**	**3,234,936**	**2,285,788**
a) Governments and central banks	3,171,722	2,208,373
b) Other public entities	1,307	1,307
c) Banks	40,609	65,628
d) Other issuers	21,298	10,480
2. **Variable-yield securities**	**67,302**	**79,403**
a) Banks	15,826	16,468
b) Other issuers:	51,476	62,935
- insurance companies	1,937	1,556
- financial companies	33,695	48,366
- non-financial companies	15,842	13,011
- other	2	2
3. **Mutual funds**	**73,262**	**72,888**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**3,375,500**	**2,438,079**

4.4 Financial assets available for sale: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	**Total 31/12/2013**
A. **Opening balance**	**2,285,788**	**79,403**	**72,888**	**–**	**2,438,079**
B. **Increases**	**3,540,818**	**14,379**	**66,931**	**–**	**3,622,128**
B.1 Purchases	3,357,522	4,072	64,642	–	3,426,236
B.2 Positive changes in fair value	58,835	1,886	304	–	61,025
B.3 Write-backs	–	–	–	–	–
- booked to income statement	–	–	–	–	–
- booked to equity	–	–	–	–	–
B.4 Transfers from other portfolios	–	–	–	–	–
B.5 Other changes	124,461	8,421	1,985	–	134,867
C. **Decreases**	**2,591,670**	**26,480**	**66,557**	**–**	**2,684,707**
C.1 Disposals	2,293,430	6,193	61,911	–	2,361,534
C.2 Reimbursements	225,000	–	–	–	225,000
C.3 Negative changes in fair value	1,813	115	93	–	2,021
C.4 Writedowns - from impairment	–	11,418	1,462	–	12,880
- booked to income statement	–	11,418	1,462	–	12,880
- booked to equity	–	–	–	–	–
C.5 Transfer to other portfolios	–	3,840	–	–	3,840
C.6 Other changes	71,427	4,914	3,091	–	79,432
D. **Closing balance**	**3,234,936**	**67,302**	**73,262**	**–**	**3,375,500**

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

The principal increases include the purchase di fixed-yield securities for € 3,357.522 million, additional holdings in Unione Fiduciaria spa, € 1.119 million, Campus Bio Medico, € 0.393 million, and Banca Popolare dell'Etruria, € 0.310 million, purchase of equities, € 2.249 million, and € 64.642 million, the purchase of mutual fund; positive changes in fair value of € 61.025 million, while the other increases of € 134.867 million derive mainly from various items of accrued interest that have been accounted for. The decreases include sales of fixed-yield securities of € 2,293.430 million and variable-yield securities of € 6.193 million, repayment of fixed-yield securities of € 225 million, negative changes in fair value of € 2.021 million, while writedowns for impairment of variable-yield securities and mutual funds amounted to € 12.880 million. Lastly, other decreases total € 79.432 million and reflect the collection of coupons € 49.097 million, reclassifications from equity on disposals, € 20.227 million, and from amortised cost, € 2.103 million, the elimination of profit-sharing agreements, € 2.630 million, reclassifications from equity and other operations, € 2.284 million, redemption of mutual funds and other operations, € 1.223 million, and other reclassifications from equity, € 1.868 million.

Section 5 *Financial assets held to maturity - line item 50*

5.1 Financial assets held to maturity: breakdown by sector

	31/12/2013				31/12/2012			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**182,621**	**156,305**	**–**	**25,358**	**204,644**	**14,470**	**187,086**	**–**
- structured	16,795	–	–	16,104	16,696	–	15,739	–
- other	165,826	156,305	–	9,254	187,948	14,470	171,347	–
2. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

In 2008 the Parent Bank transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

If the securities transferred, which are currently in portfolio at an amount of € 109.372 million at par, had been measured at fair value at the date of the financial statements, they would have been worth € 107.851 million with a loss of € 5.801 million.

5.2 Financial assets held to maturity: breakdown by debtor/issuer

Type of transaction/Amounts	**31/12/2013**	**31/12/2012**
1. **Fixed-yield securities**	**182,621**	**204,644**
a) Governments and central banks	22,366	14,240
b) Other public entities	–	–
c) Banks	68,390	76,848
d) Other issuers	91,865	113,556
2. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**182,621**	**204,644**
Total fair value	**181,663**	**201,556**

5.4 Financial assets held to maturity: changes during the year

	Fixed-yield securities	Loans	Total
A. **Opening balance**	**204,644**	**–**	**204,644**
B. **Additions**	**17,905**	**–**	**17,905**
B.1 Purchases	12,179	–	12,179
B.2 Write-backs	–	–	–
B.3 Transfer from other portfolios	–	–	–
B.4 Other changes	5,726	–	5,726
C. **Decreases**	**39,928**	**–**	**39,928**
C.1 Disposals	–	–	–
C.2 Reimbursements	34,250	–	34,250
C.3 Adjustments	–	–	–
C.4 Transfer to other portfolios	–	–	–
C.5 Other changes	5,678	–	5,678
D. **Closing balance**	**182,621**	**–**	**182,621**

Other increases concern interest coupons and premiums and the positive element of amortised cost.

Other decreases consist of collected coupons and the negative element of amortised cost.

Item C2. relates to the repayment of securities expired.

Section 6 *Due from banks - line item 60*

6.1 Due from banks: breakdown by sector

Type of transaction/Amounts	31/12/2013 Book Value	31/12/2013 Fair Value Level 1	31/12/2013 Fair Value Level 2	31/12/2013 Fair Value Level 3	31/12/2012 Book Value	31/12/2012 Fair Value Level 1	31/12/2012 Fair Value Level 2	31/12/2012 Fair Value Level 3
A. Deposits with central banks	**107,438**	**-**	**-**	**107,438**	**259,560**	**-**	**-**	**259,560**
1. Time deposits	-	-	-	-	-	-	-	-
2. Compulsory reserve	105,504	-	-	-	259,560	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-
4. Other	1,934	-	-	-	-	-	-	-
B. Due from banks	**626,516**	**-**	**-**	**626,516**	**920,417**	**-**	**-**	**920,417**
1. Loans	626,516	-	-	626,516	920,405	-	-	920,405
1.1 Current accounts and sight deposits	236,810	-	-	-	436,013	-	-	-
1.2 Time deposits	361,215	-	-	-	433,249	-	-	-
1.3 Other loans:	28,491	-	-	-	51,143	-	-	-
- Repurchase agreements	-	-	-	-	10,427	-	-	-
- Financial leases	-	-	-	-	-	-	-	-
- Other	28,491	-	-	-	40,716	-	-	-
2. Fixed-yield securities	-	-	-	-	12	-	-	12
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other fixed-yield securities	-	-	-	-	12	-	-	-
Total	**733,954**	**-**	**-**	**733,954**	**1,179,977**	**-**	**-**	**1,179,977**

These receivables are not specifically hedged.
Their fair value is equal to their book value as they are short-term loans repayable on demand.

Section 7 *Due from customers - line item 70*

7.1 Due from customers: breakdown by sector

Type of transaction/Amounts	31/12/2013 Book value Performing	31/12/2013 Book value Impaired Purchased	31/12/2013 Book value Impaired Other	31/12/2013 Fair Value L1	31/12/2013 Fair Value L2	31/12/2013 Fair Value L3	31/12/2012 Book value Performing	31/12/2012 Book value Impaired Purchased	31/12/2012 Book value Impaired Other	31/12/2012 Fair Value L1	31/12/2012 Fair Value L2	31/12/2012 Fair Value L3
Loans	**22,066,085**	**-**	**1,838,474**	**-**	**-**	**24,255,913**	**24,003,912**	**-**	**1,304,886**	**-**	**-**	**25,615,490**
1. Current accounts	5,915,644	-	853,997	-	-	-	6,667,733	-	555,942	-	-	-
2. Repurchase agreements	49,412	-	-	-	-	-	485,863	-	-	-	-	-
3. Mortgage loans	10,834,442	-	778,848	-	-	-	10,917,540	-	559,918	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	163,229	-	11,112	-	-	-	143,129	-	9,101	-	-	-
5. Financial lease	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	1,606,170	-	51,844	-	-	-	1,763,037	-	60,153	-	-	-
7. Other loans	3,497,188	-	142,673	-	-	-	4,026,610	-	119,772	-	-	-
Fixed-yield securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**22,066,085**	**-**	**1,838,474**	**-**	**-**	**24,255,913**	**24,003,912**	**-**	**1,304,886**	**-**	**-**	**25,615,490**

Part of these receivables are specifically hedged, as shown in table 7.3.

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 € 1,326 million of performing residential mortgages, which were the subject of a securitisation carried out by the Parent Bank. This transaction involved the sale without recourse of mortgage loans to the SPV Centro delle Alpi RMBS S.r.l., whose senior and junior securities issued in connection with this operation were purchased by the Parent Bank. Given that the Parent Bank maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

7.2 Loans and advances to customers: breakdown by debtor/issuer

	31/12/2013			31/12/2012		
	Performing	Impaired		Performing	Impaired	
Type of transaction/Amounts		Purchased	Other		Purchased	Other
1. **Fixed-yield securities:**						
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	–	–	–	–	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	–	–	–	–	–	–
- insurance companies	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. **Loans to:**						
a) Governments	78	–	9,983	19,878	–	10,555
b) Other public entities	93,258	–	291	99,861	–	427
c) Other parties	21,972,749	–	1,828,200	23,884,173	–	1,293,904
- non-financial companies	14,439,679	–	1,438,380	16,048,168	–	980,450
- financial companies	1,647,259	–	32,694	2,095,820	–	15,829
- insurance companies	3,064	–	–	2,653	–	–
- other	5,882,747	–	357,126	5,737,532	–	297,625
Total	**22,066,085**	**–**	**1,838,474**	**24,003,912**	**–**	**1,304,886**

7.3 Due from customers: covered by micro hedges

	31/12/2013	31/12/2012
1. **Loans covered by micro fair-value hedges**	**1,325,501**	**1,255,063**
a) interest rate risks	1,325,501	1,255,063
b) exchange risk	–	–
c) credit risk	–	–
d) multiple risks	–	–
2. **Loans covered by micro cash-flow hedges**	**–**	**–**
a) interest rate risks	–	–
b) exchange risk	–	–
c) Expected transactions	–	–
d) Other hedged assets	–	–
Total	**1,325,501**	**1,255,063**

Section 8 *Hedging derivatives - line item 80*

8.1 Hedging derivatives: breakdown by type of hedge and by level

	Fair Value 31/12/2013			Nominal Value	Fair Value 31/12/2012			Nominal Value
	Level 1	Level 2	Level 3	**31/12/2013**	Level 1	Level 2	Level 3	**31/12/2012**
A. **Financial derivatives**	**–**	**2,923**	**–**	**408,521**	**–**	**52**	**–**	**78,860**
1) Fair value	–	2,923	–	408,521	–	52	–	78,860
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**–**	**2,923**	**–**	**408,521**	**–**	**52**	**–**	**78,860**

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

	Fair Value						Financial flows		
	Micro								
Transaction/Type of hedge	interest rate risk	exchange risk	credit risk	price risk	multiple risk	Macro	Micro	Macro	Foreign investments
1. Financial assets available for sale	–	–	–	–	–	–	–	–	–
2. Loans	2,923	–	–	–	–	–	–	–	–
3. Financial assets held to maturity	–	–	–	–	–	–	–	–	–
4. Portfolio	–	–	–	–	–	–	–	–	–
5. Other transactions	–	–	–	–	–	–	–	–	–
Total assets	**2,923**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–

Section 10 *Equity investments - line item 100*

10.1 Investments in companies under joint control (valued at equity) and companies subject to significant influence: disclosures

Name	Location	Type of relationship	Type of investment	
			Parent company	% held
B. **Enterprises**				
ALBA LEASING SPA	Milan	8	Banca Popolare di Sondrio SCPA	20.950
ARCA VITA SPA	Verona	8	Banca Popolare di Sondrio SCPA	14.837
BANCA DELLA NUOVA TERRA SPA	Milan	8	Banca Popolare di Sondrio SCPA	19.609
UNIONE FIDUCIARIA SPA	Milan	8	Banca Popolare di Sondrio SCPA	24.000
POLIS FONDI SGRPA	Milan	8	Banca Popolare di Sondrio SCPA	19.600
RAJNA IMMOBILIARE SRL	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000
SOFIPO SA	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000

Key:
1 = control as per art. 2359 C.C., para. 1, no. 1 (majority of voting rights at ordinary shareholders' meetings).
2 = control as per art. 2359 D.C., para. 1, no. 2 (dominant influence at the ordinary shareholders' meeting).
3 = control as per art. 23 T.U., para. 2, no. 1 (agreements with other shareholders).
4 = other forms of control.
5 = single management as per art. 26 of Decree 87/92.
6 = single management as per art. 26 of Decree 87/92.
7 = joint control.
8 = associated company.

10.2 Investments in companies under joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Equity	Book value	Fair value
A. **Under joint control**						
1. RAJNA IMMOBILIARE S.r.l.	911	137	52	896	448	–
C. **Subject to significant influence**						
1. ALBA LEASING S,p,A,	4,522,259	98,886	(13,954)	366,869	76,859	–
2. ARCA VITA S,p,A,	5,080,722	1,018,843	39,380	400,732	59,457	–
3. BANCA DELLA NUOVA TERRA S,p,A,	438,240	16,657	(8,591)	46,305	9,080	–
4. UNIONE FIDUCIARIA S,p,A,	62,487	31,407	920	31,931	7,664	–
5. POLIS FONDI SGR PA	12,112	5,730	1,035	9,574	1,874	–
6. SOFIPO SA	4,455	2,722	(243)	2,183	654	–

The fair value is not shown for companies that are not listed on active markets.

10.3 Equity investments: changes during the year

	31/12/2013	31/12/2012
A. **Opening balance**	**146,214**	**128,375**
B. **Additions**	**22,573**	**20,091**
B.1 Purchases	15,390	10,279
B.2 Write-backs	7	19
B.3 Revaluations	–	–
B.4 Other changes	7,176	9,793
C. **Decreases**	**12,383**	**2,252**
C.1 Disposals	–	–
C.2 Adjustments	–	–
C.3 Other changes	12,383	2,252
D. **Closing balance**	**156,404**	**146,214**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(229)**	**(229)**

This item passes from € 146.214 million to € 156.404 million.

Purchases comprise:

- an increase of € 14.665 million for the increase in capital of Alba Leasing spa;
- an increased of € 0.725 million on the purchase of shares in Unione Fiduciaria spa.

Other increases for € 3.099 million relate to the transfer of the interest in Unione Fiduciaria spa from the «Financial assets available for sale» portfolio and from measurement of affiliates under the equity method, whereas other decreases come from measurement under the equity method.

10.4 - 10.5 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Parent Bank has made a specific risk provision.

Section 12 Property, plant and equipment - line item 120

12.1 Property, plant and equipment: analysis of assets valued at cost

Assets/Values	31/12/2013	31/12/2012
A. **Assets used in business**		
1. owned	216,083	201,606
a) land	60,462	53,453
b) buildings	131,337	121,631
c) furniture	8,294	8,983
d) IT equipment	5,490	6,707
e) other	10,500	10,832
2. purchased under finance leases	29,879	30,839
a) land	6,803	6,803
b) buildings	23,076	24,036
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**245,962**	**232,445**

12.5 Property, plant and equipment used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Other	**Total 31/12/2013**
A. **Opening gross amount**	**60,338**	**228,226**	**30,936**	**30,350**	**57,769**	**407,619**
A.1 Total net reductions in value	82	82,559	21,953	23,643	46,937	175,174
A.2 Opening net amount	60,256	145,667	8,983	6,707	10,832	232,445
B. **Additions**	**7,049**	**15,676**	**1,713**	**1,115**	**5,413**	**30,966**
B.1 Purchases	7,049	13,494	1,713	1,115	5,413	28,784
B.2 Capitalised improvement expenditure	–	2,182	–	–	–	2,182
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**	**40**	**6,929**	**2,402**	**2,332**	**5,746**	**17,499**
C.1 Disposals	–	–	–	–	27	27
C.2 Depreciation	–	6,727	2,377	2,248	5,704	17,056
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	40	202	25	84	15	366
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) assets related to discontinued operations	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**67,265**	**154,414**	**8,294**	**5,490**	**10,499**	**245,962**
D.1 Total net reductions in value	82	89,006	24,093	25,767	52,366	191,314
D.2 Closing gross amount	67,347	243,420	32,387	31,257	62,865	437,276
E. **Valuation at cost**	**67,265**	**154,414**	**8,294**	**5,490**	**10,499**	**245,962**

Section 13 *Intangible assets - line item 130*

13.1 Intangible assets: breakdown by type

Assets/Values	31/12/2013 Specified duration	31/12/2013 Unspecified duration	31/12/2012 Specified duration	31/12/2012 Unspecified duration
A.1 **Goodwill**	**–**	**8,959**	**–**	**8,959**
A.1.1 attributable to the banking group	–	8,959	–	8,959
A.1.2 pertaining to minority interests	–	–	–	–
A.2 **Other intangible assets**	**12,906**	**–**	**12,968**	**–**
A.2.1 Carried at cost:	12,906	–	12,968	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	12,906	–	12,968	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**12,906**	**8,959**	**12,968**	**8,959**

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

Goodwill booked for € 8.959 million refers to the acquisition of Factorit SpA. The accounting treatment is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

The amount is made up of:

- € 7.847 million relates to the acquisition of control of Factorit Spa in 2010. Based on IFRS 3, the allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned.

  It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. The Parent Bank therefore booked a provisional figure of € 7.847 million, which was the difference between the price paid and the book net equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date. From a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the values attributed at the time of the acquisition, which meant that there was no need to adjust the value of goodwill booked on a provisional basis.

  No impairment of goodwill has been recorded as the tests carried out in accordance with IAS 36, which requires annual impairment testing for goodwill to identify any impairment loss, did not show any loss in value. In this case we have used the Dividend Discount Model (DDM), which assumes that the economic value of a financial intermediary is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period. We assumed a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 10.01%. The value in use was approximately € 158 million with an excess of the carrying amount of € 55 million.

– € 1.112 million is the goodwill generated by the merger in 1999 of Factorit Spa with In Factor Spa. Also for this goodwill, we are of the opinion that there is no cause for impairment based on an estimate of the revenue flows coming from the customers acquired at the time of the merger and/or subsequently under commercial agreements deriving from it.

13.2 Intangible assets: change during the year

		Other intangible assets generated internally		Other intangible assets: other		
	Goodwill	Specified	Unspecified	Specified	Unspecified	**Total 31/12/2013**
A. **Opening gross amount**	**8,959**	**–**	**–**	**101,307**	**–**	**110,266**
A.1 Total net reductions in value	–	–	–	88,339	–	88,339
A.2 Opening net amount	8,959	–	–	12,968	–	21,927
B. **Additions**	**–**	**–**	**–**	**12,327**	**–**	**12,327**
B.1 Purchases	–	–	–	12,327	–	12,327
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**	**–**	**–**	**–**	**12,389**	**–**	**12,389**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	12,360	–	12,360
- Amortisation and depreciation	–	–	–	12,360	–	12,360
- 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	–	–	–	29	–	29
C.6 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**8,959**	**–**	**–**	**12,906**	**–**	**21,865**
D.1 Total net reductions in value	–	–	–	100,699	–	100,699
E. **Closing gross amount**	**8,959**	**–**	**–**	**113,605**	**–**	**122,563**
F. **Valuation at cost**	**8,959**	**–**	**–**	**12,906**	**–**	**21,865**

Key
Def: finite life
Indef: indefinite life

Section 14 *Tax assets and liabilities - asset line item 140 and liability line item 80*

14.1 Deferred tax assets: breakdown

	31/12/2013	31/12/2012
- Loan writedowns	269,903	151,575
- Provisions for risks and charges	19,671	16,005
- Deferred charges	10,205	16,071
- Securities and equity investments	2,193	6,575
- Administrative expenses	5,415	5,675
- Amortisation and depreciation	1,445	1,321
Total	**308,832**	**197,222**

14.2 Deferred tax liabilities: breakdown

	31/12/2013	31/12/2012
- Owned buildings	5,899	5,884
- Accelerated depreciation	2,555	2,605
- Leased buildings	1,886	1,937
- Revaluation of securities and gains	17,316	9,283
- Administrative expenses	954	1,556
- Loans	7,617	13,134
Total	**36,227**	**34,399**

14.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2013	31/12/2012
1. **Opening balance**	**185,266**	**92,291**
2. **Increases**	**168,830**	**103,206**
2.1 Deferred tax assets arising during the year	168,785	103,092
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	168,785	103,092
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	45	114
3. **Decreases**	**52,624**	**10,231**
3.1 Deferred tax assets eliminated during the year	52,390	10,231
a) reversals	52,390	10,231
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	234	–
a) transformation into tax credits as per Law 214/2011	–	–
b) other	234	–
4. **Closing balance**	**301,473**	**185,266**

14.3.1 Change in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2013	31/12/2012
1. **Opening balance**	**151,545**	**60,484**
2. **Increases**	**158,072**	**94,702**
3. **Decreases**	**39,759**	**3,641**
3.1 Reversals	39,759	3,641
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**269,858**	**151,545**

14.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2013	31/12/2012
1. **Opening balance**	**23,468**	**27,028**
2. **Increases**	**87**	**262**
2.1 Deferred tax liabilities arising during the year	87	168
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	87	168
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	94
3. **Decreases**	**7,012**	**3,822**
3.1 Deferred tax liabilities eliminated during the year	5,768	527
a) reversals	5,768	295
b) due to changes in accounting policies	–	–
c) other	–	232
3.2 Reduction in tax rates	–	–
3.3 Other decreases	1,244	3,295
4. **Closing balance**	**16,543**	**23,468**

14.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2013	31/12/2012
1. **Opening balance**	**11,956**	**21,955**
2. **Increases**	**1,453**	**5,568**
2.1 Deferred tax assets arising during the year	1,453	5,568
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,453	5,568
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**6,050**	**15,567**
3.1 Deferred tax assets eliminated during the year	5,010	15,567
a) reversals	4,978	15,567
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	32	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	1,040	–
4. **Closing balance**	**7,359**	**11,956**

This amount relates for € 2.150 million to losses on securities available for sale booked to equity, and for € 5.209 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.

14.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2013	31/12/2012
1. **Opening balance**	**10,931**	**2,084**
2. **Increases**	**9,695**	**10,570**
2.1 Deferred tax liabilities arising during the year	9,695	8,520
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	9,695	8,520
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	2,050
3. **Decreases**	**942**	**1,723**
3.1 Deferred tax liabilities eliminated during the year	942	1,723
a) reversals	942	1,723
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**19,684**	**10,931**

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

	31/12/2013	31/12/2012
Advances paid to tax authorities	31,768	20,166
Withholdings on interest due to customers	6,360	8,889
Tax credits and related interest	16,611	8,776
Current account cheques drawn on third parties	26,208	40,684
Current account cheques drawn on Group banks	14,051	17,964
Transactions in customers' securities	1,488	7,499
Inventories	11,880	10,984
Costs pertaining to the subsequent year	1,559	1,150
Advances to suppliers	732	685
Advances to customers awaiting collections	17,371	15,618
Miscellaneous debits in transit	32,581	33,532
Liquid assets serving post-employment benefits	16,924	19,415
Accrued income not allocated	28,629	24,802
Prepayments not allocated	6,974	6,735
Guarantee deposits for the purchase of property	–	11,054
Differences on elimination	873	1,596
Residual items	159,484	31,993
Total	**373,493**	**261,542**

Liabilities and equity

Section 1 *Due to banks - line item 10*

1.1 Due to banks: breakdown by type

Type of transaction/Members of the Group	31/12/2013	31/12/2012
1. **Due to central banks**	**1,851,122**	**1,838,354**
2. **Due to banks**	**1,216,856**	**1,365,670**
2.1 Current accounts and sight deposits	239,938	427,359
2.2 Time deposits	606,036	608,112
2.3 Loans	364,300	323,884
2.3.1 Repurchase agreements	–	–
2.3.2 Other	364,300	323,884
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	6,582	6,315
Total	**3,067,978**	**3,204,024**
Fair value - level 1	**–**	**–**
Fair value - level 2	**–**	**–**
Fair value - level 3	**3,067,978**	**3,204,024**
Total Fair value	**3,067,978**	**3,204,024**

These payables are not specifically hedged. Amounts due to central banks include two loans of € 1,800 million from the ECB as part of 36-month Long-Term Refinancing Operations (LTRO) carried out between December 2011 and February 2012. These loans are secured by bonds, mainly Government bonds, securities issued in connection with the securitisation carried out by the Parent Bank, and loans.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.5 Payables for finance leases

	31/12/2013	31/12/2012
- Payables for finance leases	1,977	4,047

Section 2 *Due to customers - line item 20*

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2013	31/12/2012
1. **Current accounts and sight deposits**	**18,951,820**	**17,403,969**
2. **Time deposits**	**4,430,611**	**5,254,287**
3. **Loans**	**283,142**	**551,483**
3.1 Repurchase agreements	210,968	533,811
3.2 Other	72,174	17,672
4. **Payables for commitments to repurchase own equity instruments**	–	–
5. **Other payables**	**44,779**	**41,013**
Total	**23,710,352**	**23,250,752**
Fair value - Level 1	–	–
Fair value - Level 2	–	–
Fair value - Level 3	**23,710,352**	**23,250,752**
Fair value	**23,710,352**	**23,250,752**

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

	31/12/2013	31/12/2012
- Payables for finance leases	3,724	4,222

Section 3 *Securities issued - line item 30*

3.1 Debt securities in issue: breakdown by sector

	31/12/2013				31/12/2012			
	Book	Fair Value			Book	Fair Value		
Type of security/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	2,881,231	–	2,901,550	–	2,829,808	–	2,827,103	–
1.1 structured	–	–	–	–	–	–	–	–
1.2 other	2,881,231	–	2,901,550	–	2,829,808	–	2,827,103	–
2. Other securities	83,743	–	83,743	–	104,752	–	104,752	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	83,743	–	83,743	–	104,752	–	104,752	–
Total	**2,964,974**	**–**	**2,985,293**	**–**	**2,934,560**	**–**	**2,931,855**	**–**

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 «Debt securities in issue»: subordinated securities

Subordinated securities amount to € 694.235 million and are made up of the two loans indicated below:

- loan of € 290.893 million from 26/2/2010 and maturity on 26/2/2017 with an annual repayment of 20% from 26/2/2013. This was issued with an interest rate of 4% which will gradually rise to 5%; the coupon current at year end is 4.25%;
- loan of € 403.342 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%.

They belong to the Lower Tier II category of bonds, i.e. those that according to the regulations can be included in capital for supervisory purposes.

Section 4 Financial liabilities held for trading - line item 40

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/ Members of the Group	31/12/2013					31/12/2012				
		Fair Value					Fair Value			
	VN	Level 1	Level 2	Level 3	FV*	VN	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Customer deposits	-	-	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Structured	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. **Derivatives**										
1. Financial derivatives	-	29	36,521	-	-	-	687	43,649	-	-
1.1 for trading	-	29	36,521	-	-	-	687	43,649	-	-
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	**-**	**29**	**36,521**	**-**	**-**	**-**	**687**	**43,649**	**-**	**-**
Total A+B	**-**	**29**	**36,521**	**-**	**-**	**-**	**687**	**43,649**	**-**	**-**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
VN = Nominal or notional value

Section 6 *Hedging derivatives - line item 60*

6.1 Hedging derivatives: breakdown by type of hedge and by level

	Fair Value 31/12/2013			Nominal Value	Fair Value 31/12/2012			Nominal Value
	Level 1	Level 2	Level 3	31/12/2013	Level 1	Level 2	Level 3	31/12/2012
A. **Financial derivatives**	**–**	**27,580**	**–**	**895,528**	**–**	**45,950**	**–**	**1,133,532**
1) Fair value	–	27,580	–	895,528	–	45,950	–	1,133,532
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**–**	**27,580**	**–**	**895,528**	**–**	**45,950**	**–**	**1,133,532**

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

	Fair Value						Financial flows		
	Micro								
Transaction/Type of hedge	interest rate risk	exchange risk	credit risk	price risk	multiple risk	Macro	Micro	Macro	Foreign investments
1. Financial assets available for sale	–	–	–	–	–	–	–	–	–
2. Loans	27,580	–	–	–	–	–	–	–	–
3. Financial assets held to maturity	–	–	–	–	–	–	–	–	–
4. Portfolio	–	–	–	–	–	–	–	–	–
5. Other transactions	–	–	–	–	–	–	–	–	–
Total assets	**27,580**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–

Section 8 *Tax liabilities*

The line item amounts to € 36.889 million and relates for € 0.662 million to current taxes and for € 36.227 million to deferred taxes. Current taxes are net of advances paid

As regards the composition and amount of deferred taxes, please read Assets Section 14 of these notes.

The Parent Bank's tax years up to 2005 have been closed. For 2006, 2007 and 2008 the Parent Bank received notices of assessment from the Tax Authorities relating to IRES and IRAP concerning the deductibility of interest paid to customers and banks resident in countries that are considered tax havens. The appeals relating to the assessments regarding the 2006 and 2007 tax years are currently pending before the Milan Provincial Tax Commission, while lawyers have been appointed in relation to the 2008 assessment. For the same years, the Parent Bank received notices of assessment for VAT purposes for not applying VAT on the commissions received as a custodian bank. The years contested are 2006/2007/2008. Penalties and interest have been requested in relation to 2006 and 2007 assessments, while there are none in relation to 2008, as explained below. This last type of dispute is considered complex and open to numerous doubts about the interpretation of the law. In particular, the dispute raised with all financial intermediaries providing custodian bank services represents a radical change with respect to long-established practice in the sector; accordingly, by Resolution 97/E of 17 December 2013, the Tax Authorities have formalised a compromise that envisages the partial, flat-rate taxation of such commissions for VAT purposes, without the application of penalties in relation to the prior years subject to assessment. The 2008 assessment reflects the content of this resolution. After considering carefully the above resolution, the Parent Bank will settle the 2008 VAT assessment by paying the amount requested, and will arrange to settle the related 2006 and 2007 disputes in the light of this resolution, without the payment of penalties and with a reduction in the amount requested. Assessments were received during the year in relation to the flat-rate taxation of syndicated medium/long-term loans, the contracts for which were signed abroad. By contrast with previous guidance, the Tax Authorities now state that such contracts were prepared in Italy, even if signed abroad, and are therefore subject to flat-rate taxation. In almost all cases, such contracts envisage recharge of the additional taxation to the financed counterparties. The Parent Bank has appointed lawyers to file the related appeals, following consultation with the other banks in the syndicate and the beneficiaries of the loans.

The litigation concerning a property subsidiary is still pending after a favourable judgment at 1st and 2nd grade as the Tax Authorities have appealed.

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2013	31/12/2012
Amounts at the disposal of third parties	309,843	100,470
Taxes to be paid on behalf of third parties	51,465	57,941
Taxes to be paid	9,841	9,055
Employee salaries and contributions	14,587	28,919
Suppliers	12,994	10,411
Transit accounts for sundry entities	10,663	683
Invoices to be received	10,839	8,557
Credits in transit for financial transactions	132	335
Value date differentials on portfolio transactions	135,442	136,082
Directors’ and statutory auditors’ emoluments	999	1,001
Loans disbursed to customers to be finalised	9,705	12,248
Miscellaneous credit items being settled	68,521	171,765
Accrued expenses not allocated	7,162	5,913
Deferred income not allocated	14,820	13,548
Allowance for risks on guarantees and commitments	20,606	10,487
Differences on elimination	4,287	6,236
Residual items	38,967	51,150
Total	**720,873**	**624,801**

Section 11 *Termination indemnities - line item 110*

11.1 Termination indemnities: change in the year

	2013	2012
A. **Opening balance**	**42,352**	**38,067**
B. **Additions**	**7,502**	**12,321**
B.1 Provisions	7,441	8,236
B.2 Other changes	61	4,085
C. **Decreases**	**9,327**	**8,036**
C.1 Payments made	821	1,549
C.2 Other changes	8,506	6,487
D. **Closing balance**	**40,527**	**42,352**

Section 12 *Provisions for risks and charges - line item 120*

12.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2013	31/12/2012
1. **Post-employment benefits**	**100,539**	**95,729**
2. **Other provisions for risks and charges**	**52,054**	**48,931**
2.1 Legal disputes	34,993	33,280
2.2 personnel expenses	15,116	14,595
2.3 Other	1,945	1,056
Total	**152,593**	**144,660**

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	Post-employment benefits	Other provisions
A. **Opening balance**	**95,729**	**48,931**
B. **Additions**	**11,201**	**22,039**
B.1 Provisions	2,323	20,659
B.2 Changes due to the passage of time	–	88
B.3 Changes due to variations in the discount rate	2,990	-
B.4 Other changes	5,888	1,292
C. **Decreases**	**6,391**	**18,916**
C.1 Utilisations during the year	3,522	15,920
C.2 Changes due to variations in the discount rate	–	46
C.3 Other changes	2,869	2,950
D. **Closing balance**	**100,539**	**52,054**

12.3 Defined-benefit pension plans

12.3.1. Characteristics of the plans and related risks

The Parent Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the 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 428 employees and 236 pensioners.

Since 28/04/1993, employees have been given the chance to join other supplementary pension schemes as laid down by law and by contract. 2,019 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 liabilities (assets) and redemption rights

	2013	2012
At 1 January	95,729	77,831
service cost	1,984	1,855
interest cost	3,358	3,697
actuarial gains/losses	2,990	15,858
payments	(3,522)	(3,512)
At 31 December	**100,539**	**95,729**

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the pension plan are summarised in the following table:

	2013	2012
Fixed-yield securities	74,769	68,834
Variable-yield securities	515	1,106
Mutual funds invested in shares	7,890	6,011
Mutual funds invested in property	441	363
Other assets	16,924	19,415
Total	**100,539**	**95,729**

The amount of the fund increases by € 4.810 million, +5.02%.

Payments of benefits amount to € 3.522 million compared with € 3.512 million. The contributions paid by the employees totalled € 0.231 million (€ 0.249 million in the prior year).

12.3.4 Defined-benefit pension plans – Description of the principal actuarial assumptions

	2013	2012
Discount rate	3.00%	3.50%
Expected increase in salaries	2.00%	2.00%
Rate of inflation	1.50%	1.50%
Underlying rate of pension increases	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	31/12/2013	31/12/2012
Provision for legal disputes	34,993	33,280
Provision for personnel expenses	15,116	14,595
Other provisions	1,945	1,056
Total	**52,054**	**48,931**

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 31/12/2013 as the discount rate.

This increase of € 3.123 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. The total increase came to € 0.521 million, + 3.57%.

Other provisions include the provision for charitable donations consisting of an allocation of net profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2012 net profit, while the reduction of € 0.189 million was a consequence of payments made during the year.

Section 15 *Group equity - Items 140, 150, 170, 180, 190, 200 e 220*

15.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 308,147,985 issued and fully-paid ordinary shares, par value € 3 each, totalling € 924.444 million. Shares in circulation have dividend and voting rights from 1/1/2013. At the year-end, the Parent Bank held treasury shares with a carrying value of € 24.316 million.

15.2 Share capital - Number of shares of the parent bank: change during the year

	Ordinary	Other
A. **Shares at the beginning of the year**	**308,147,985**	**–**
- fully paid	308,147,985	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,020,000)	–
A.2 **Shares in circulation: opening balance**	**305,127,985**	**–**
B. **Additions**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- other	–	–
- 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**	**305,127,985**	**–**
D.1 Treasury shares (+)	(3,020,000)	–
D.2 Shares in existence at the end of the year	308,147,985	–
- fully paid	308,147,985	–
- not fully paid	–	–

15.3 Share capital: other information

Share premium reserve

This caption amounts to € 171.450 million, unchanged with respect to the prior 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 € 791.552 million and increase by € 22.864 million, + 2.97%. Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 93.000 million (it has been used for € 24.316 million).

There are also Euro 3.229 million of reserves from capital contributions.

Section 16 *Equity pertaining to minority interests - Line item 210*

16.1 Equity instruments: breakdown and change in year

The line item equity of minority interests amounts to € 75.438 million and is made up of the share capital of € 33.575 million, the share premium reserve of € 4.357 million, reserves of € 29.916 million, valuation reserves of € - 0.054 million and profits of € 7.644 million.

Other information

1. Guarantees given and commitments

Operations	31/12/2013	31/12/2012
1) **Financial guarantees**	**533,268**	**519,042**
a) Banks	115,417	96,879
b) Customers	417,851	422,163
2) **Commercial guarantees**	**3,674,562**	**3,489,725**
a) Banks	78,689	51,516
b) Customers	3,595,873	3,438,209
3) **Irrevocable commitments to make loans**	**1,081,813**	**1,319,147**
a) Banks	46,589	39,659
i) certain to be called on	34,523	28,180
ii) not certain to be called on	12,066	11,479
b) Customers	1,035,224	1,279,488
i) certain to be called on	216,615	255,801
ii) not certain to be called on	818,609	1,023,687
4) **Commitments underlying credit derivatives: protection sold**	–	–
5) **Assets lodged to guarantee the commitments of third parties**	**26,162**	**27,265**
6) **Other commitments**	**28,247**	**38,204**
Total	**5,344,052**	**5,393,383**

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2013	31/12/2012
1. Financial assets held for trading	1,123,846	1,129,834
2. Financial assets carried at fair value	–	29,289
3. Financial assets available for sale	1,139,554	917,880
4. Financial assets held to maturity	12,833	27,131
5. Due from banks	–	–
6. Due from customers	432,798	–
7. Property, plant and equipment	–	–

Assets held for trading mainly comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances; financial assets carried at fair value comprise the guarantee deposit paid in relation to the issue of bankers' drafts.

Assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances. These securities are not subject to structured repurchase agreements.

The financial assets held to maturity are to guarantee the advances received from the Bank of Italy.

In addition, securities (senior tranche) of € 1,385.4 million deriving from the securitisation of residential mortgage loans sold to Centro delle Alpi RMBS srl, the vehicle company, have also been given in guarantee.

The amount due from customers comprises the residential mortgages used to guarantee the loans obtained from the ECB.

5. Management and intermediation for third parties

Type of service	Amount
1. **Execution of orders on behalf of customers**	
a) Purchases	1,066,905
1. settled	1,065,768
2. not settled	1,137
b) Sales	942,979
1. settled	941,895
2. not settled	1,084
2. **Portfolio management**	
a) Individual	1,826,861
b) Collective	–
3. **Custody and administration of securities**	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	654,981
1. Securities issued by consolidated companies	–
2. Other securities	654,981
b) Third-party securities on deposit (excluding portfolio management): other	18,152,590
1. Securities issued by consolidated companies	3,457,660
2. Other securities	14,694,930
c) Third-party securities on deposit with third parties	19,285,798
d) Own securities on deposit with third parties	6,756,066
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 31/12/2013 (f = c-d-e)**	**Net amount at 31/12/2012**
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	7,414	–	7,414	–	53	7,361	–
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/13	**7,414**	**–**	**7,414**	**–**	**53**	**7,361**	**–**
Total 31/12/12	**–**	**–**	**–**	**–**	**–**	**–**	**–**

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 31/12/2013 that is not correlated with deposits received in guarantee amounts to € 7.361 million. This amount principally derives from the fact that the margin calls on deposits given in guarantee are made weekly.

Given that fair value changes daily, there may be situations intraweek in which fair value is not fully covered or in which the deposits given in guarantee exceed the value of the related derivatives.

When the «third pillar» of the EMIR regulation (obligatory collateralisation of the Mark-to-Market adjustment of derivative products via a Central Counterparty) becomes operational (the exact date is not yet known), the amount of these differences will diminish considerably, tending to zero, since the CSA margin calls will made daily.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

Comparative information is not provided since this is optional.

7. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial 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 31/12/2013 (f = c-d-e)**	**Net amount at 31/12/2012**
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	47,928	–	47,928	–	44,064	3,864	–
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/13	**47,928**	**–**	**47,928**	**–**	**44,064**	**3,864**	**–**
Total 31/12/12	**–**	**–**	**–**	**–**	**–**	**–**	**–**

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 31/12/2013**	**Total 31/12/2012**
1. Financial assets held for trading	42,391	–	–	42,391	52,803
2. Financial assets carried at fair value	434	–	–	434	1,151
3. Financial assets available for sale	71,570	–	–	71,570	49,002
4. Financial assets held to maturity	2,017	–	–	2,017	3,023
5. Due from banks	–	11,192	–	11,192	12,705
6. Due from customers	–	890,508	–	890,508	892,237
7. Hedging derivatives	–	–	–	–	1,512
8. Other assets	–	–	2	2	-
Total	**116,412**	**901,700**	**2**	**1,018,114**	**1,012,433**

1.2 Interest and similar income: differentials on hedging transactions

Items	**31/12/2013**	**31/12/2012**
A. Positive differentials on hedging transactions	–	1,512
B. Negative differentials on hedging transactions	–	-
C. **Net total (A-B)**	**–**	**1,512**

1.3 Interest income and similar revenues: other information

1.3.1 Interest income and similar revenue on foreign currency assets

Items	**31/12/2013**	**31/12/2012**
Interest income and similar revenue on foreign currency assets	101,484	106,014

1.4 Interest expense and similar charges: breakdown

Items/technical forms	Payables	Securities	Other liabilities	**Total 31/12/2013**	**Total 31/12/2012**
1. Due to central banks	(10,270)	–	–	(10,270)	(16,418)
2. Due to banks	(15,334)	–	–	(15,334)	(23,200)
3. Due to customers	(328,302)	–	–	(328,302)	(341,926)
4. Securities issued	–	(90,147)	–	(90,147)	(87,366)
5. Financial liabilities held for trading	–	–	–	–	(2)
6. Financial liabilities carried at fair value	–	–	–	–	-
7. Other liabilities and funds	–	–	–	–	(40)
8. Hedging derivatives	–	–	(14,899)	(14,899)	(17,375)
Total	**(353,906)**	**(90,147)**	**(14,899)**	**(458,952)**	**(486,327)**

1.5 Interest expense and similar charges: differentials on hedging transactions

Items	31/12/2013	31/12/2012
A. Positive differentials on hedging transactions	–	–
B. Negative differentials on hedging transactions	(14,899)	(17,375)
C. **Net total (A-B)**	**(14,899)**	**(17,375)**

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense and similar charges on foreign currency liabilities

	31/12/2013	31/12/2012
Interest expense and similar charges on foreign currency liabilities	(35,993)	(42,366)

1.6.2 Interest expense on finance lease transactions

	31/12/2013	31/12/2012
Interest expense on finance lease transactions	(60)	(148)

Section 2 Commissions - line items 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31/12/2013	31/12/2012
a) **guarantees given**	**26,977**	**21,694**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**80,615**	**79,204**
1. trading in financial instruments	17,175	17,707
2. trading in foreign currencies	8,226	7,161
3. portfolio management	5,767	5,636
3.1. individual	5,767	5,636
3.2. collective	–	–
4. custody and administration of securities	9,549	9,162
5. custodian bank	1,137	3,864
6. placement of securities	13,446	11,707
7. order receipt and transmission	12,114	11,416
8. consultancy	65	49
8.1 investments	–	–
8.2 corporate finance	65	49
9. distribution of third-party services	13,136	12,502
9.1 portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2 insurance products	8,449	7,135
9.3 other products	4,687	5,367
d) **collection and payment services**	**62,892**	**59,093**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**30,631**	**36,963**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**30,697**	**30,785**
j) **other services**	**73,767**	**80,396**
Total	**305,579**	**308,135**

The sub-item «other services» is essentially made up of loan commissions and commissions generated by the foreign currency exchange activities.

2.2 Commission expense: breakdown

Services/Amounts	31/12/2013	31/12/2012
a) **guarantees received**	**(255)**	**(3.142)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(4,213)**	**(3,357)**
1. trading in financial instruments	(2,765)	(1,581)
2. trading in foreign currencies	–	–
3. portfolio management	–	–
3.1 own	–	–
3.2 delegated by third parties	–	–
4. custody and administration of securities	(1,448)	(1,776)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,600)**	**(9,363)**
e) **other services**	**(8,510)**	**(8,280)**
Total	**(22,578)**	**(24,142)**

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2013		31/12/2012	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,105	122	1,049	175
B. Financial assets available for sale	1,303	–	1,469	228
C. Financial assets carried at fair value	–	–	–	–
D. Equity investments	169	–	13	–
Total	**2,577**	**122**	**2,531**	**403**

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
1. **Financial assets held for trading**	**55,120**	**54,976**	**(4,411)**	**(934)**	**104,751**
1.1 Fixed-yield securities	43,412	33,940	(903)	(730)	75,719
1.2 Variable-yield securities	1,470	5,457	(1,893)	(59)	4,975
1.3 Mutual funds	226	1,477	(636)	(145)	922
1.4 Loans	–	–	–	–	–
1.5 Other	10,012	14,102	(979)	–	23,135
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**	**–**	**–**	**–**	**–**	**(56)**
4. **Derivatives**	**4,345**	**13,756**	**(3,359)**	**(8,421)**	**6,360**
4.1 Financial derivatives:	4,345	13,756	(3,359)	(8,421)	6,360
- On debt securities and interest rates	3,110	7,373	(3,033)	(6,619)	831
- On equities and equity indices	945	5,303	(30)	(799)	5,419
- On currency and gold	–	–	–	–	39
- Other	290	1,080	(296)	(1,003)	71
4.2 Credit derivatives	–	–	–	–	–
Total	**59,465**	**68,732**	**(7,770)**	**(9,355)**	**111,055**

Net trading income passes from € 161.241 million to € 111.055 million. The level of realised and unrealised gains on securities was good, due to continuation of the recovery in the financial markets, albeit less than in the prior year, which followed a year in which considerable unrealised losses were recognised.

The income from trading in «other financial assets» is made up of exchange gains.

This table does not include the result of the securities in the pension fund, which is shown under another item.

Section 5 *Net hedging gains (losses) - line item 90*

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31/12/2013	31/12/2012
A. **Income from:**		
A.1 Fair value hedging derivatives	20,406	1,212
A.2 Hedged financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Cash-flow hedges	–	–
A.5 Assets and liabilities in foreign currency	–	–
Total income from hedging activities (A)	**20,406**	**1,212**
B. **Charges from:**		
B.1 Derivatives hedging fair value	–	–
B.2 Hedged financial assets (fair value)	(20,451)	(597)
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Cash-flow hedges	–	–
B.5 Assets and liabilities in foreign currency	–	–
Total charges from hedging activities (B)	**(20,451)**	**(597)**
C. **Net hedging gains (losses) (A – B)**	**(45)**	**615**

Costs include € 20.451 million for the valuation at fair value of the loans being hedged, versus a positive valuation of hedging derivatives of €20.406 million at fair value. The net result of measuring the hedging structure at fair value is a negative balance of € 0.045 million.

Section 6 *Gains (losses) on disposals/repurchases - line item 100*

6.1 Gains (losses) on disposals/repurchases - breakdown

	31/12/2013			31/12/2012		
Items/income items	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. **Due from banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Due from customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Financial assets available for sale**	**52,747**	**(229)**	**52,518**	**7,813**	**(73)**	**7,740**
3.1 Fixed-yield securities	48,152	–	48,152	7,798	(73)	7,725
3.2 Variable-yield securities	2,684	(87)	2,597	15	–	15
3.3 Mutual funds	1,911	(142)	1,769	–	–	–
3.4 Loans	–	–	–	–	–	–
4. **Financial assets held to maturity**	**55**	**–**	**55**	**700**	**(116)**	**584**
Total assets	**52,802**	**(229)**	**52,573**	**8,513**	**(189)**	**8,324**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Customer deposits	–	–	–	–	–	–
3. Securities issued	538	(391)	147	1,311	(62)	1,249
Total liabilities	**538**	**(391)**	**147**	**1,311**	**(62)**	**1,249**

Section 7 *Net change in financial assets and liabilities carried at fair value - line item 110*

7.1 Net change in financial assets/liabilities carried at fair value: breakdown

Items/income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net result [(A+B)-(C+D)] **31/12/2013**
1. **Financial assets**	**5,183**	**1,095**	**(395)**	**–**	**5,883**
1.1 Fixed-yield securities	15	1,095	–	–	1,110
1.2 Variable-yield securities	–	–	–	–	–
1.3 Mutual funds	5,168	–	(395)	–	4,773
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**	**–**	**–**	**–**	**–**	**(496)**
4. **Credit and financial derivatives**	**–**	**–**	**–**	**–**	**–**
Total	**5,183**	**1,095**	**(395)**	**–**	**5,387**

The gains and losses recognised mainly concern mutual funds and Italian government securities.

Section 8 *Net impairment adjustments - line item 130*

8.1 Net impairment adjustments to loans: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)					
	Type			Type		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B	**Total 31/12/2013**	**Total 31/12/2012**
A. **Due from banks**									
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
B. **Due from customers**	**(6,840)**	**(520,576)**	**(22,108)**	**666**	**45,940**	**–**	**39,052**	**(463,866)**	**(484,215)**
Purchased impaired loans									
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
Other receivables	(6,840)	(520,576)	(22,108)	666	45,940	–	39,052	(463,866)	(484,215)
- Loans	(6,840)	(520,576)	(22,108)	666	45,940	–	39,052	(463,866)	(484,215)
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
C. **Total**	**(6,840)**	**(520,576)**	**(22,108)**	**666**	**45,940**	**–**	**39,052**	**(463,866)**	**(484,215)**

Key:
A = Interest
B = Other write-backs

8.2 Net impairment adjustments to available for sale financial assets: breakdown

	Adjustments (1)		Write-backs (2)			
	Type		Type		**Total**	**Total**
Transactions/Income items	Write-offs	Other	A	B	**31/12/2013**	**31/12/2012**
A. Fixed-yield securities	–	–	–	–	–	–
B. Variable-yield securities	–	(11,419)	–	–	(11,419)	(4,588)
C. Mutual funds	–	(1,462)	–	–	(1,462)	(637)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. **Total**	**–**	**(12,881)**	**–**	**–**	**(12,881)**	**(5,225)**

Key:
A = Interest
B = Other write-backs

8.4 Net impairment adjustments on other financial transactions: breakdown

	Adjustments (1)			Write-backs (2)					
Transactions/Income	Type			Type		Portfolio		**Total**	**Total**
items	Write-offs	Other	Portfolio	A	B	A	B	**31/12/2013**	**31/12/2012**
A. Guarantees given	–	(5,687)	(5,405)	–	1,446	–	–	(9,646)	(2,459)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to make loans	–	–	–	–	–	–	–	–	–
D. Other transactions	–	(3,892)	–	–	–	–	–	(3,892)	–
E. **Total**	**–**	**(9,579)**	**(5,405)**	**–**	**1,446**	**–**	**–**	**(13,538)**	**(2,459)**

Key:
A = Interest
B = Other write-backs

Section 11 *Administrative expenses - line item 180*

11.1 Personnel expenses: breakdown

Type of expenses/Sectors	31/12/2013	31/12/2012
1) **Employees**	**(213,057)**	**(211,345)**
a) Wages and salaries	(140,628)	(139,667)
b) Social security contributions	(33,737)	(32,062)
c) Termination indemnities	(16)	(17)
d) Pension expenses	(3,392)	(3,855)
e) Provision for employee termination indemnities	(7,451)	(8,238)
f) Provision for post-employment benefits and similar commitments:	(5,606)	(5,662)
- defined contribution	–	–
- defined benefits	(5,606)	(5,662)
g) Payments to external supplementary pension funds:	(3,028)	(2,875)
- defined contribution	(3,028)	(2,875)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(19,199)	(18,969)
2) **Other working personnel**	**(3,206)**	**(3,206)**
3) **Directors and Statutory auditors**	**(2,825)**	**(2,626)**
4) **Retired personnel**	**–**	**–**
Total	**(219,088)**	**(217,177)**

11.2 Average number of employees by category

	31/12/2013	31/12/2012
Employees	**3,078**	**3,080**
a) Managers	32	30
b) Officials	708	713
c) Other employees	2,338	2,337
Other personnel	**95**	**93**

	31/12/2013	31/12/2012
Actual number of employees		
- Employees	3,061	3,073
- Other personnel	91	92

11.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2013	31/12/2012
Service cost	1,984	1,855
Interest cost	3,358	3,697
Contributions from employees	(231)	(249)
Reductions and payments	495	359
Total charge to income statement (A)	**5,606**	**5,662**
Portion of yield from assets servicing the fund (B)	3,681	3,792
Total charge (A-B)	1,925	1,870

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements.

The cost for the Parent Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. These contributions amounted to € 1.925 million. An additional provision of € 3.681 million was also made. However, a provision of € 2.990 million to cover the actuarial loss has not been charged to the income statement, but instead deducted from equity in accordance with IAS 19, as reported in the statement of comprehensive income.

11.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

11.5 Other administrative expenses: breakdown

	31/12/2013	31/12/2012
Telephone, post and data transmission	(15,135)	(14,869)
Maintenance of property, plant and equipment	(9,616)	(9,619)
Rent of buildings	(27,471)	(27,333)
Security	(6,395)	(6,490)
Transportation	(4,097)	(4,320)
Professional fees	(16,421)	(14,701)
Office materials	(2,906)	(2,739)
Electricity, heating and water	(6,260)	(5,901)
Advertising and entertainment	(3,961)	(4,485)
Legal	(12,147)	(10,827)
Insurance	(1,835)	(1,994)
Company searches and information	(4,896)	(4,432)
Indirect taxes and dues	(49,560)	(42,499)
Software and hardware rental and maintenance	(12,583)	(12,443)
Data entry by third parties	(1,948)	(1,388)
Cleaning	(5,357)	(5,370)
Membership fees	(2,105)	(1,990)
Services received from third parties	(3,210)	(3,162)
Outsourced activities	(19,124)	(19,145)
Deferred charges	(4,389)	(2,802)
Goods and services for employees	(1,105)	(1,216)
Other	(11,566)	(11,405)
Total	**(222,087)**	**(209,130)**

Section 12 Net provisions for risks and charges - line item 190

12.1 Net provisions for risks and charges: breakdown

The line item amounts to € 2.850 million.

Section 13 Net adjustments to property, plant and equipment - line item 200

13.1 Net adjustments to property, plant and equipment: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2013**
A. **Property, plant and equipment**				
A.1 Owned	(16,037)	–	–	(16,037)
- For business purposes	(16,037)	–	–	(16,037)
- For investment purposes	–	–	–	–
A.2 Acquired under finance leases	(1,019)	–	–	(1,019)
- For business purposes	(1,019)	–	–	(1,019)
- For investment purposes	–	–	–	–
Total	**(17,056)**	**–**	**–**	**(17,056)**

Section 14 *Net adjustments to intangible assets - line item 210*

14.1 Net adjustments to intangible assets: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2013**
A. **Intangible assets**				
A.1 Owned	(12,360)	–	–	(12,360)
- Internally generated	–	–	–	–
- Other	(12,360)	–	–	(12,360)
A.2 Acquired under finance leases	–	–	–	–
Total	**(12,360)**	**–**	**–**	**(12,360)**

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

	31/12/2013	**31/12/2012**
Out-of-period expense	(3,900)	(3,819)
Other	(249)	(1,659)
Consolidation differences	(1,592)	(386)
Total	**(5,741)**	**(5,864)**

15.2 Other operating income: breakdown

	31/12/2013	**31/12/2012**
Recovery of charges on deposits and overdrafts	48	50
Recovery of expenses	1,302	1,403
Rental income from buildings	1,351	1,367
Recovery of taxes	41,211	34,354
Financial income of post-employment benefits plan	5,889	4,566
Out-of-period income - other	2,211	11,310
Out-of-period income - overprovisions	363	–
Other	26,583	14,897
Consolidation differences	248	222
Total	**79,206**	**68,169**

Section 16 *Share of profit (loss) of equity investments - line item 240*

16.1 Share of profit (loss) of equity investments: breakdown

Income item/Segments	31/12/2013	31/12/2012
1) **Joint-ventures**		
A. Income	26	–
1. Revaluations	26	–
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. Charges	–	–
1. Write-downs	–	–
2. Impairment write-downs	–	–
3. Loss from disposals	–	–
4. Other charges	–	–
Net result	**26**	**–**
2) **Associated companies**		
A. Income	6,274	7,359
1. Revaluations	6,267	7,341
2. Gains on disposal	–	–
3. Write-backs	7	18
4. Other income	–	–
B. Charges	(4,680)	(2,943)
1. Write-downs	(4,680)	(2,943)
2. Impairment write-downs	–	–
3. Loss from disposals	–	–
4. Other charges	–	–
Net result	**1,594**	**4,416**
Total	**1,620**	**4,416**

Section 19 *Gains (losses) on disposal of investments - line item 270*

19.1 Gains (losses) on disposal of investments: breakdown

Income items/Segments	31/12/2013	31/12/2012
A. **Buildings**	**–**	**271**
- Gains on disposal	–	271
- Losses on disposal	–	–
B. **Other assets**	**10**	**9**
- Gains on disposal	20	28
- Losses on disposal	(10)	(19)
Net result	**10**	**280**

Section 20 *Income taxes on current operations - line item 290*

20.1 Income taxes on current operations: breakdown

Income items/Segments	31/12/2013	31/12/2012
1. Current taxes (-)	(187,803)	(170,642)
2. Change in prior period income taxes (+/-)	–	7,980
3. Reduction in current taxes (+)	–	–
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4. Change in deferred tax assets (+/-)	116,207	92,844
5. Change in deferred tax liabilities (+/-)	6,925	3,172
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(64,671)	(66,646)

The IRES (corporate income taxes) tax rate has increased from 27.50% to 36% following the additional 8.5 points added by art. 2 para. 2 of Decree 133 of 30 November 2013, as converted with amendments into Law 5 of 29 January 2014. The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 51.59% compared with 62.39%.

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	125,348	(44,716)
Tax credit	–	–
Increases	578,414	(174,479)
Decreases	(190,017)	67,861
Effective tax burden	513,745	(151,334)

IRAP (Regional business tax)	Tax base	Tax
Theoretical tax burden	121,804	(6,787)
Tax credit	–	–
Increases	667,168	(37,741)
Decreases	(145,074)	8,059
Effective tax burden	653,898	(36,469)
Total effective tax burden	**–**	**(187,803)**

Section 24 *Earnings per share*

24.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in net profit is unchanged with respect to the prior year.

	31/12/2013	31/12/2012
number of shares	308.147.985	308.147.985

24.2 Other information

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the net profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted and there are no activities to be sold for which basic and diluted EPS must be stated separately.

	31/12/2013	31/12/2012
earnings per share - €	0.172	0.112

PART D *Consolidated comprehensive income*

Analytical statement of consolidated comprehensive income

Items/Amounts	Gross amount	Income taxes	Net amount
10. **Net profit (loss) for the year**	**–**	**–**	**60,677**
Other items of comprehensive income that will not be reclassified to profit or loss			
20. **Property, plant and equipment**	**–**	**–**	**–**
30. **Intangible assets**	**–**	**–**	**–**
40. **Defined-benefit plans**	**(837)**	**(802)**	**(1.639)**
50. **Non-current assets held for sale and discontinued operations**	**–**	**–**	**–**
60. **Share of valuation reserves of equity investments valued at net equity**	**(203)**	**73**	**(130)**
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. **Financial assets available for sale:**	**37,965**	**(12,524)**	**25,441**
a) changes in fair value	18,730	(5,731)	12,999
b) transfer to income statement	19,235	(6,793)	12,442
- adjustments for impairment	(522)	98	(424)
- gains/losses on disposals	19,757	(6,891)	12,866
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	1,537	(551)	986
b) transfer to income statement	–	–	–
- adjustments for impairment	–	–	–
- gains/losses on disposals	–	–	–
c) other changes	–	–	–
130. **Total other income items**	**38,462**	**(13,804)**	**24,658**
140. **ReddComprehensive income (item 10+130)**	**–**	**–**	**85,335**
150. **Consolidated comprehensive income pertaining to minority interests**	**–**	**–**	**(7,677)**
160. **Consolidated comprehensive income pertaining to the Parent Bank**	**–**	**–**	**77,658**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Section IV, Chapter 1 of the New Supervisory instructions for Banks is provided by the required deadlines in the «Corporate Information» section of the Parent Bank's website.

Introduction

The Parent Bank has the task of ensuring effective risk management through proper articulation of the roles and responsibilities of key decision-making departments, as well as the integrity and completeness of the Group's system of controls. This principle involves the centralisation of essential choices in terms of risk management, in order to ensure the harmonisation of all systems of risk assessment and control developed within the Group and to implement a risk management policy that is as integrated and consistent as possible.

The strategic guidelines for risk exposure are established by the governing bodies of the Parent Bank, evaluating the overall operations of the Group and the actual risks that it runs, based on the specific type of operations and risk profiles of each company. The decisions are supported by mechanisms for monitoring and control inherent in the evolution of the various risks assumed within the perimeter of the Group and their compatibility with respect to the pursuit of sound and prudent management.

The governing bodies of subsidiaries, according to each one's powers, are responsible for implementing the risk management policies defined by the Parent Bank in a manner that is consistent with their company's situation,ensuring the functioning of suitable internal control procedures and a constant flow of information to the Parent Bank on individual cases of significant risk.

Section 1 *Risks of the Banking Group*

1.1 Credit risk

QUALITATIVE INFORMATION

1. General matters

The Parent Bank manages and coordinates the activities of the Swiss subsidiary, thereby ensuring harmonisation of credit policies at group level and a standard approach to risk management.

As outlined in the equivalent section of the notes to the Parent Bank's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration. These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market in question.

2. Credit risk management policies

2.1 Organisational aspects

The process of credit risk management adopted by the parent bank and the structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the Parent Bank, allowing for differences in size and the area in which they operate.

2.2 Systems for managing, measuring and monitoring

As part of its coordination activities, the Parent Bank requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank.

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which it applies to customer loans. This system is based entirely on the subjective assessment and discretion of the credit and loans department: this approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed.

2.3 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Bank requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained.

This risk is controlled by the subsidiary Banca Popolare di Sondrio (SUISSE) SA by means of monitoring tools that are substantially similar to those of the Parent Bank, as described in the corresponding Section in the explanatory notes. Note that lending with mortgage backing or financial collateral is long-standing practice in Switzerland: to confirm this, please note that about 80% of loans to customers provided by the subsidiary relate to residential mortgage transactions.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind.

2.4 Impaired financial assets

As part of its functions of coordination and control, the parent bank requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the parent bank, as explained in the corresponding section of the notes on the Bank.

Impaired loans have never been acquired from third parties.

QUANTITATIVE INFORMATION

Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

	Banking group						Other businesses		
Portfolio/quality	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures, impaired	Past due exposures, not impaired	Other assets	Impaired	Other assets	**Total 31/12/2013**
1. Financial assets held for trading	5	339	1	24	–	3,085,880	–	–	3,086,249
2. Financial assets available for sale	–	–	–	–	–	3,234,937	–	–	3,234,937
3. Financial assets held to maturity	–	–	–	–	–	182,621	–	–	182,621
4. Due from banks	–	–	–	–	–	733,954	–	–	733,954
5. Due from customers	460,681	899,133	42,818	435,838	1,049,469	21,016,473	–	147	23,904,559
6. Financial assets measured at fair value	–	–	–	–	–	493	–	–	493
7. Financial assets being sold	–	–	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	2,923	–	–	2,923
Total 31/12/2013	**460,686**	**899,472**	**42,819**	**435,862**	**1,049,469**	**28,257,281**	**–**	**147**	**31,145,736**
Total 31/12/2012	**290,747**	**521,191**	**48,347**	**445,646**	**1,090,026**	**28,626,195**	**–**	**59**	**31,022,211**

The word exposures is understood as excluding equities and mutual funds.

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Impaired assets Gross exposure	Impaired assets Specific adjustments	Impaired assets Net exposure	Performing Gross exposure	Performing General portfolio adjustments	Performing Net exposure	**Total net exposure**
A. **Banking group**							
1. Financial assets held for trading	432	63	369	3,085,880	–	3,085,880	3,086,249
2. Financial assets available for sale	–	–	–	3,234,937	–	3,234,937	3,234,937
3. Financial assets held to maturity	–	–	–	182,621	–	182,621	182,621
4. Due from banks	–	–	–	733,955	1	733,954	733,954
5. Due from customers	3,024,910	1,186,438	1,838,472	22,210,557	144,618	22,065,939	23,904,411
6. Financial assets valutate al fair value	–	–	–	493	–	493	493
7. Financial assets measured at fair value	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	2,923	–	2,923	2,923
Total A	**3,025,342**	**1,186,501**	**1,838,841**	**29,451,366**	**144,619**	**29,306,747**	**31,145,588**
B. **Other consolidated companies**							
1. Financial assets held for trading	–	–	–	–	–	–	–
2. Financial assets available for sale	–	–	–	–	–	–	–
3. Financial assets held to maturity	–	–	–	–	–	–	–
4. Due from banks	–	–	–	–	–	–	–
5. Due from customers	–	–	–	147	–	147	147
6. Financial assets valutate al fair value	–	–	–	–	–	–	–
7. Financial assets measured at fair value	–	–	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–	–	–
Total B	**–**	**–**	**–**	**147**	**–**	**147**	**147**
Total 31/12/2013	**3,025,342**	**1,186,501**	**1,838,841**	**29,451,513**	**144,619**	**29,306,894**	**31,145,735**
Total 31/12/2012	**1,996,473**	**690,542**	**1,305,931**	**29,891,492**	**175,212**	**29,716,280**	**31,022,211**

With reference to financial assets held for trading, those at fair value and hedging derivatives, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial writeoffs recorded over the years in relation to the above portfolios total € 114.498 million, reflecting the non-performing loans still held on the books.

The following analysis of «Loans to customers, performing» distinguishes between the exposures subject to renegotiation under collective agreements (e.g. «2013 lending agreement» signed by ABI and the Business Associations) and other exposures, indicating the ageing of any past due amounts.

A.1.2.1 Distribution of renegotiated and unrenegotiated performing loans by portfolio

Loans to customers, of which:	Net exposure	Past due up to 3 months	Past due from 3 to 6 months	Past due from 6 to 12 months	Past due for over 1 year	Not past due
Subject to renegotiation under collective agreements	354,185	16,409	3,435	–	–	334,341
Other receivables	21,711,755	732,756	195,738	94,498	6,632	20,682,131

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

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**				
a) Non-performing loans	–	–	–	–
b) Watchlist loans	–	–	–	–
c) Restructured exposures	–	–	–	–
d) Impaired past due exposures	–	–	–	–
e) Other assets	1,004,068	–	1	1,004,067
Total A	**1,004,068**	**–**	**1**	**1,004,067**
B. **Off-balance sheet exposures**				
a) Impaired	–	–	–	–
b) Other	241,254	–	–	241,254
Total B	**241,254**	**–**	–	**241,254**
TOTAL A+B	**1,245,322**	**–**	**1**	**1,245,321**

Cash exposures include the amounts due from banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

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

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**				
a) Non-performing loans	1,179,509	718,822	–	460,687
b) Watchlist loans	1,305,666	406,531	–	899,135
c) Restructured exposures	51,162	8,344	–	42,818
d) Impaired past due exposures	488,578	52,740	–	435,838
e) Other assets	28,410,978	–	144,618	28,266,360
Total A	**31,435,893**	**1,186,437**	**144,618**	**30,104,838**
B. **Off-balance sheet exposures**				
a) Impaired	86,001	14,791	–	71,210
b) Other	5,064,281	–	5,878	5,058,403
Total B	**5,150,282**	**14,791**	**5,878**	**5,129,613**
Total A+B	**36,586,175**	**1,201,228**	**150,496**	**35,234,451**

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. **Opening gross exposure**	**689,918**	**745,279**	**60,343**	**499,893**
- of which: sold but not eliminated from the balance sheet	857	2,710	–	8,832
B. **Increases**	**592,307**	**1,044,510**	**40,717**	**491,846**
B.1 transfers from performing loans	165,514	723,597	13,817	457,687
B.2 transfers from other categories of impaired exposure	383,760	269,359	24,129	7,552
B.3 other increases	43,033	51,554	2,771	26,607
C. **Decreases**	**102,716**	**484,123**	**49,898**	**503,161**
C.1 transfers to performing loans	–	30,097	7	86,770
C.2 write-offs	24,183	257	–	–
C.3 collections	76,548	100,079	8,064	101,113
C.4 proceeds from disposals	–	–	–	–
C.4 bis Loss from disposals	–	–	–	–
C.5 transfers to other categories of impaired exposure	483	338,670	41,827	305,696
C.6 other decreases	1,502	15,020	–	9,582
D. **Closing gross exposure**	**1,179,509**	**1,305,666**	**51,162**	**488,578**
- of which: sold but not eliminated from the balance sheet	3,750	14,799	–	22,693

A.1.8 Banking group - Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
A. **Total opening adjustments**	**399,171**	**224,488**	**12,004**	**54,879**
- of which: sold but not eliminated from the balance sheet	213	292	–	581
B. **Increases**	**372,240**	**307,669**	**5,376**	**34,162**
B.1 adjustments	258,554	272,839	2,293	33,168
B.1 bis Loss from disposals	–	–	–	–
B.2 transfers from other categories of impaired exposure	113,593	34,552	3,040	954
B.3 other increases	93	278	43	40
C. **Decreases**	**52,589**	**125,626**	**9,036**	**36,301**
C.1 write-backs on valuation	21,380	13,743	141	706
C.2 write-backs due to collections	4,937	289	–	245
C.2 bis Profit from disposals	–	–	–	–
C.3 write-offs	24,181	585	–	–
C.4 transfers to other categories of impaired exposure	380	107,989	8,895	34,875
C.5 other decreases	1,711	3,020	–	475
D. **Total closing adjustments**	**718,822**	**406,531**	**8,344**	**52,740**
- of which: sold but not eliminated from the balance sheet	1,073	2,612	–	1,818

A.2 Classification of exposures based on external and internal ratings

A.2.1 Banking Group - Distribution of cash loans and off-balance sheet items by external rating class

	External rating classes							Total
Exposure	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	31/12/2013
A. **Cash exposures**	**6,075,173**	**182,440**	**389,513**	**385,926**	**15**	**5,081**	**24,245,314**	**31,283,462**
B. **Derivatives**	**30**	**6,843**	**1,444**	**108**	**–**	**–**	**32,186**	**40,611**
B.1 Financial derivatives	30	6,843	1,444	108	–	–	32,186	40,611
B.2 Credit derivatives	–	–	–	–	–	–	–	-
C. **Guarantees given**	**31,008**	**43,196**	**182,607**	**141,167**	**–**	**–**	**3,817,848**	**4,215,826**
D. **Commitments to make loans**	**10,616**	**–**	**19,660**	**102,102**	**–**	**–**	**982,052**	**1,114,430**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
Total	**6,116,827**	**232,479**	**593,224**	**629,303**	**15**	**5,081**	**29,077,400**	**36,654,329**

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 (see Circular no. 263 of 27.12.2006 «New supervisory instructions for banks»).

The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and Fitch Ratings 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	da BBBH to BBBL	From BBH to BBL	From BH to BL	CCC
Standard &Poor's Rating Services	From AAA to AA-	From A+ to A-	da BBB+ to BBB-	From BB+ to BB	From B+ to B-	from CCC+ down
FitchRatings	From AAA to AA-	From A+ to A-	da BBB+ to BBB-	From BB+ to BB-	From B+ to B-	from CCC+ down

A.2.2 Banking Group - Distribution of cash loans by internal rating class

BANCA POPOLARE DI SONDRIO - PRIVATE CUSTOMERS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**471,035**	**111,558**	**123,468**	**473,382**	**708,089**	**514,011**	**189,489**
B. **Derivatives**	**42**	**1**	**–**	**188**	**320**	**700**	**517**
B.1 Financial derivatives	42	1	–	188	320	700	517
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**2,816**	**150**	**74**	**18,802**	**17,491**	**11,906**	**1,664**
D. **Commitments to make loans**	**139**	**1,238**	**225**	**3,264**	**3,423**	**1,815**	**441**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**474,032**	**112,947**	**123,767**	**495,636**	**729,323**	**528,432**	**192,111**

BANCA POPOLARE DI SONDRIO - SMALL BUSINESS Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**6,597**	**346,860**	**111,656**	**231,134**	**1,000,045**	**287,845**	**181,974**
B. **Derivatives**	**–**	**12**	**16**	**17**	**242**	**221**	**76**
B.1 Financial derivatives	–	12	16	17	242	221	76
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**565**	**4,404**	**4,842**	**10,814**	**43,896**	**31,425**	**4,776**
D. **Commitments to make loans**	**160**	**1,825**	**321**	**706**	**5,724**	**2,670**	**2,339**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**7,322**	**353,101**	**116,835**	**242,671**	**1,049,907**	**322,161**	**189,165**

BANCA POPOLARE DI SONDRIO - MICRO-ENTERPRISES - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**18,995**	**52,657**	**81,270**	**212,105**	**837,734**	**773,102**	**839,862**
B. **Derivatives**	**28**	**32**	**160**	**100**	**1,720**	**658**	**247**
B.1 Financial derivatives	28	32	160	100	1,720	658	247
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**11,078**	**98,163**	**335,373**	**493,919**	**523,463**	**62,607**	**233,882**
D. **Commitments to make loans**	**–**	**320**	**1,379**	**4,700**	**16,984**	**23,726**	**35,708**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**30,101**	**151,172**	**418,182**	**710,824**	**1,379,901**	**860,093**	**1,109,699**

BANCA POPOLARE DI SONDRIO - PMI - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**4,783**	**12,404**	**37,093**	**116,369**	**813,234**	**921,127**	**520,250**
B. **Derivatives**	**14**	**–**	**71**	**58**	**1,279**	**1,523**	**645**
B.1 Financial derivatives	14	–	71	58	1,279	1,523	645
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**5,672**	**9,957**	**5,299**	**36,248**	**224,186**	**149,942**	**57,368**
D. **Commitments to make loans**	**–**	**–**	**184**	**700**	**16,743**	**36,541**	**20,737**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**10,469**	**22,361**	**42,647**	**153,375**	**1,055,442**	**1,109,133**	**599,000**

08	09	10	11	12	13	Insolvent	Total 31/12/2013
120,942	**131,608**	**52,194**	**29,831**	**24,678**	**91,590**	**300,455**	**3,342,330**
406	**466**	**4**	**11**	**2**	**4**	**153**	**2,814**
406	466	4	11	2	4	153	2,814
–	–	–	–	–	–	–	–
503	**615**	**195**	**346**	**30**	**616**	**970**	**56,178**
256	**32**	**174**	**155**	**–**	**54**	**303**	**11,519**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
122,107	**132,721**	**52,567**	**30,343**	**24,710**	**92,264**	**301,881**	**3,412,841**

08	09	10	11	12	13	Insolvent	Total 31/12/2013
166,486	**76,403**	**37,116**	**42,174**	**28,693**	**73,218**	**222,673**	**2,812,874**
12	**2**	**6**	**–**	**1**	**5**	**25**	**635**
12	2	6	–	1	5	25	635
–	–	–	–	–	–	–	–
4,344	**2,037**	**1,388**	**709**	**836**	**2,517**	**3,327**	**115,880**
1,512	**1,062**	**58**	**129**	**125**	**209**	**2,882**	**19,722**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
172,354	**79,504**	**38,568**	**43,012**	**29,655**	**75,949**	**228,907**	**2,949,111**

08	09	10	11	12	13	Insolvent	Total 31/12/2013
664,526	**254,090**	**148,587**	**53,710**	**57,069**	**128,092**	**704,414**	**4,826,213**
117	**105**	**20**	**25**	**–**	**40**	**136**	**3,388**
117	105	20	25	–	40	136	3,388
–	–	–	–	–	–	–	–
83,173	**67,834**	**–**	**854**	**7,089**	**13,592**	**7,564**	**1,938,591**
17,720	**7,528**	**3,888**	**80**	**577**	**1,614**	**1,291**	**115,515**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
765,536	**329,557**	**152,495**	**54,669**	**64,735**	**143,338**	**713,405**	**6,883,707**

08	09	10	11	12	13	Insolvent	Total 31/12/2013
433,914	**377,212**	**114,149**	**112,138**	**72,273**	**97,922**	**409,728**	**4,042,596**
125	**224**	**7**	**9**	**9**	**9**	**53**	**4,026**
125	224	7	9	9	9	53	4,026
–	–	–	–	–	–	–	–
56,214	**27,982**	**12,444**	**5,157**	**1,515**	**7,371**	**17,454**	**616,809**
7,251	**6,055**	**1,195**	**–**	**8,838**	**9**	**707**	**98,960**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
497,504	**411,473**	**127,795**	**117,304**	**82,635**	**105,311**	**427,942**	**4,762,391**

BANCA POPOLARE DI SONDRIO - LARGE AND PUBLIC ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. **Cash exposures**	**867**	**78,977**	**142,149**	**608,271**	**312,952**	**155,006**	**139,666**
B. **Derivatives**	**–**	**3,599**	**23**	**7,609**	**687**	**565**	**127**
B.1 Financial derivatives	–	3,599	23	7,609	687	565	127
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**11,078**	**98,163**	**335,373**	**493,919**	**523,463**	**62,607**	**233,881**
D. **Commitments to make loans**	**–**	**100**	**3,396**	**17,992**	**7,054**	**2,317**	**94,361**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**11,945**	**180,839**	**480,941**	**1,127,791**	**844,156**	**220,495**	**468,035**

BANCA POPOLARE DI SONDRIO BANCHE - Exposure	Internal rating classes			
	01	02	03	04
A. **Cash exposures**	**–**	**–**	**12,406**	**10,953**
B. **Derivatives**	**–**	**–**	**–**	**211**
B.1 Financial derivatives	–	–	–	211
B.2 Credit derivatives	–	–	–	–
C. **Guarantees given**	**–**	**–**	**53,043**	**686**
D. **Commitments to make loans**	**–**	**–**	**100**	**484**
E. **Other**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**65,549**	**12,334**

BANCA POPOLARE DI SONDRIO (SUISSE) - CUSTOMERS - Exposure	Internal rating classes			
	R1	R2	R3	R3G
A. **Cash exposures**	**–**	**–**	**370,499**	**388,055**
Total	**–**	**–**	**370,499**	**388,055**

Banca Popolare di Sondrio (SUISSE) SA has its own customer rating system, which it only applies to customer loans. This system splits the loan book into 10 different risk categories. The first category identifies customers with the lowest risk, while the categories from R6 to R8 indicate various levels of insolvency, depending on how serious it is. Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

08	09	10	11	12	13	Insolvent	Total 31/12/2013
146,447	**192,313**	**5,087**	**22,337**	**52,019**	**31,561**	**78,872**	**1,966,524**
851	**95**	**–**	**–**	**–**	**–**	**1**	**13,557**
851	95	–	–	–	–	1	13,557
–	–	–	–	–	–	–	–
83,173	**67,834**	**–**	**854**	**7,089**	**13,592**	**7,564**	**1,938,590**
232	**1,246**	**19**	**40**	**–**	**–**	**9,058**	**135,815**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
230,703	**261,488**	**5,106**	**23,231**	**59,108**	**45,153**	**95,495**	**4,054,486**

05	06	07	08	09	Insolvent	Total 31/12/2013
39,140	**36,556**	**1,853**	**–**	**–**	**–**	**100,908**
5	**24**	**1**	**–**	**–**	**–**	**241**
5	24	1	–	–	–	241
–	–	–	–	–	–	–
1,295	**526**	**4,447**	**–**	**–**	**–**	**59,997**
414	**–**	**–**	**–**	**–**	**–**	**998**
–	**–**	**–**	**–**	**–**	**–**	**–**
40,854	**37,106**	**6,301**	**–**	**–**	**–**	**162,144**

R4	R4G	R5	R6	R7	R8	Total 31/12/2013
1,614,511	**239,430**	**52,584**	**22,081**	**1,164**	**–**	**2,688,324**
1,614,511	**239,430**	**52,584**	**22,081**	**1,164**	**–**	**2,688,324**

A.3 Banking group - Guaranteed cash exposure to customers

Cash loans shown in the «Net exposure! column are stated net of specific and portfolio adjustments The guarantees are split on the basis of this exposure.

The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed. This is especially true for the guarantees represented by properties, for which the value of the assets pledged can significantly exceed the balance of the loan still outstanding, as can the value of the mortgage originally registered.

A.3.1 Banking group - Guaranteed cash exposure to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**51,080**	**–**	**–**	**–**	**–**
1.1 fully guaranteed	44,079	–	–	–	–
- of which: impaired	–	–	–	–	–
1.2 partially guaranteed	7,001	–	–	–	–
- of which: impaired	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**12,060**	**–**	**–**	**–**	**–**
2.1 fully guaranteed	12,000	–	–	–	–
- of which: impaired	–	–	–	–	–
2.2 partially guaranteed	60	–	–	–	–
- of which: impaired	–	–	–	–	–

A.3.2 Banking group - Guaranteed cash exposure to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**16,129,515**	**32,728,152**	**–**	**523,761**	**353,425**
1.1. fully guaranteed	15,213,506	32,722,389	–	423,147	327,513
- of which: impaired	1,418,691	4,480,849	–	20,913	21,813
1.2. partially guaranteed	916,009	5,763	–	100,614	25,912
- of which: impaired	93,997	1,858	–	5,706	610
2. **Guaranteed off-balance sheet exposures:**	**1,585,195**	**1,136,825**	**–**	**66,975**	**66,948**
2.1. fully guaranteed	1,298,286	1,136,825	–	57,447	60,744
- of which: impaired	33,669	830,009	–	698	3,113
2.2. partially guaranteed	286,909	–	–	9,528	6,204
- of which: impaired	1,080	–	–	104	25

Personal guarantees (2)										
Credit derivatives										
	Other derivatives				Guarantees given					
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2013**
–	**–**	**–**	**–**	**–**	**5,458**	**–**	**57,033**	**–**	**62,491**
–	–	–	–	–	5,458	–	51,039	–	56,497
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	5,994	–	5,994
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**12,043**	**–**	**–**	**–**	**12,043**
–	–	–	–	–	12,000	–	–	–	12,000
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	43	–	–	–	43
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives									
	Other derivatives				Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2013**
–	**–**	**–**	**–**	**–**	**35,894**	**60,551**	**141,484**	**9,729,060**	**43,572,327**
–	–	–	–	–	10,051	55,104	135,341	9,210,975	42,884,520
–	–	–	–	–	689	2,244	823	1,535,382	6,062,713
–	–	–	–	–	25,843	5,447	6,143	518,085	687,807
–	–	–	–	–	1,264	658	–	89,893	99,989
–	**–**	**–**	**–**	**–**	**50,137**	**9,133**	**137,539**	**1,320,050**	**2,787,607**
–	–	–	–	–	4,366	9,133	135,661	1,174,799	2,578,975
–	–	–	–	–	1,500	–	–	62,901	898,221
–	–	–	–	–	45,771	–	1,878	145,251	208,632
–	–	–	–	–	–	–	–	721	850

B. Distribution and concentration of exposure

For the purposes of this section, net exposure is defined in the manner envisaged for Tables A.1.3 and A.1.6. This excludes the counterparty risk relating to the giving or taking of securities or goods on loan.

B.1 Banking group - Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	Government			Other public entities		
Exposures/Counterparties	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. **Cash exposures**						
A.1 Non-performing loans	–	–	–	–	276	–
A.2 Watchlist loans	9,983	2,904	–	159	183	–
A.3 Restructured exposures	–	–	–	–	–	–
A.4 Past due exposures	–	–	–	132	13	–
A.5 Other exposures	6,028,453	–	–	94,587	–	37
Total A	**6,038,436**	**2,904**	**–**	**94,878**	**472**	**37**
B. **Off-balance sheet exposures**						
B.1 Non-performing loans	–	–	–	–	–	–
B.2 Watchlist loans	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–
B.4 Other exposures	71,384	–	–	31,789	–	–
Total B	**71,384**	**–**	**–**	**31,789**	**–**	**–**
Total (A+B) 31/12/2013	**6,109,820**	**2,904**	**–**	**126,667**	**472**	**37**
Total (A+B) 31/12/2012	**3,985,023**	**2,332**	**–**	**141,057**	**410**	**36**

B.2 Banking group - Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	446,564	698,645	14,123	20,163
A.2 Watchlist loans	867,586	389,877	31,509	16,646
A.3 Restructured exposures	42,818	8,344	–	–
A.4 Past due exposures	434,138	52,581	1,681	157
A.5 Other exposures	25,029,844	131,484	3,143,498	12,890
Total A	**26,820,950**	**1,280,931**	**3,190,811**	**49,856**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	15,081	7,130	–	–
B.2 Watchlist loans	40,680	7,623	–	–
B.3 Other impaired assets	12,707	12	50	–
B.4 Other exposures	4,566,051	5,039	490,312	839
Total B	**4,634,519**	**19,804**	**490,362**	**839**
Total A+B 31/12/2013	**31,455,469**	**1,300,735**	**3,681,173**	**50,695**
Total A+B 31/12/2012	**30,856,985**	**832,009**	**3,641,120**	**43,671**

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
3,146	10,557	–	–	–	–	367,340	622,824	–	90,201	85,165	–
28,639	23,577	–	–	–	–	706,376	339,480	–	153,978	40,387	–
–	–	–	–	–	–	42,205	8,340	–	613	4	–
915	95	–	–	–	–	322,458	41,474	–	112,333	11,158	–
1,750,661	–	9,083	24,428	–	22	14,485,415	–	101,178	5,882,816	–	34,298
1,783,361	**34,229**	**9,083**	**24,428**	**–**	**22**	**15,923,794**	**1,012,118**	**101,178**	**6,239,941**	**136,714**	**34,298**
–	59	–	–	17	–	14,891	6,870	–	190	183	–
18	3	–	–	–	–	42,510	7,567	–	844	80	–
–	–	–	–	–	–	11,111	11	–	1,646	1	–
328,154	–	192	11,268	–	17	4,305,021	–	5,264	310,586	–	405
328,172	**62**	**192**	**11,268**	**17**	**17**	**4,373,533**	**14,448**	**5,264**	**313,266**	**264**	**405**
2,111,533	**34,291**	**9,275**	**35,696**	**17**	**39**	**20,297,327**	**1,026,566**	**106,442**	**6,553,207**	**136,978**	**34,703**
2,469,191	**15,317**	**21,405**	**23,693**	**17**	**17**	**21,668,045**	**588,174**	**119,216**	**6,341,142**	**94,779**	**34,538**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	14	–	–	–	–
–	–	39	8	1	–
–	–	–	–	–	–
–	–	13	1	6	1
73,955	140	17,216	91	1,847	13
73,955	**154**	**17,268**	**100**	**1,854**	**14**
–	–	–	–	–	–
–	–	2,692	27	–	–
–	–	–	–	–	–
1,607	–	69	–	170	–
1,607	**–**	**2,761**	**27**	**170**	**–**
75,562	**154**	**20,029**	**127**	**2,024**	**14**
87,866	**325**	**24,794**	**234**	**17,387**	**2**

B.3 Banking group - Distribution by sector of the cash and off-balance sheet exposures to banks (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	–	–	–	–
A.2 Watchlist loans	–	–	–	–
A.3 Restructured exposures	–	–	–	–
A.4 Past due exposures	–	–	–	–
A.5 Other exposures	773,211	1	166,968	–
Total	**773,211**	**1**	**166,968**	**–**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	–	–	–	–
B.2 Watchlist loans	–	–	–	–
B.3 Other impaired assets	–	–	–	–
B.4 Other exposures	162,950	–	65,572	–
Total	**162,950**	**–**	**65,572**	**–**
Total 31/12/2013	**936,161**	**1**	**232,540**	**–**
Total 31/12/2012	**1,417,806**	**–**	**281,222**	**–**

B.4 Significant risks

	31/12/2013	**31/12/2012**
Number of positions	10	9
Nominal exposure	9,659,812	7,209,079
Risk position	2,580,531	2,440,929

The exposure limit of 10% of capital for supervisory purposes – the threshold for inclusion of a counterparty in the category of «significant risks» – has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers.

On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
33,560	–	24,677	–	5,651	–
33,560	**–**	**24,677**	**–**	**5,651**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
291	–	10,965	–	1,476	–
291	**–**	**10,965**	**–**	**1,476**	**–**
33,851	**–**	**35,642**	**–**	**7,127**	**–**
46,833	**–**	**20,025**	**–**	**3,431**	**–**

C. Securitisation transactions and disposal of assets

C.2 Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

C.2.1 Banking group - Financial assets sold and not eliminated from the balance sheet: book value and full value

	Financial assets held for trading			Financial assets carried at fair value			Financial assets available for sale		
Technical forms/Portfolio	A	B	C	A	B	C	A	B	C
A. **Cash assets**	**27,120**	**–**	**–**	**–**	**–**	**–**	**184,074**	**–**	**–**
1. Fixed-yield securities	27,120	–	–	–	–	–	184,074	–	–
2. Variable-yield securities	–	–	–	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total 31/12/2013	**27,120**	**–**	**–**	**–**	**–**	**–**	**184,074**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–
Total 31/12/2012	**263,075**	**–**	**–**	**–**	**–**	**–**	**275,287**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–

Key:

A = financial assets sold and recognised in full (book value)
B = financial assets sold and recognised in part (book value)
C = financial assets sold and recognised in part (full value)

These are securities sold under repurchase agreements.

C.2.2 Banking group - Financial liabilities associated with assets sold and not eliminated from the balance sheet: book value

Liabilities/Portfolio of assets	Financial assets held for trading	Financial assets carried at fair value	Financial assets carried for sale	Financial assets held to maturity	Due from banks	Due from customers	**Total 31/12/2013**
1. **Due to customers**	**27,120**	**–**	**183,847**	**–**	**–**	**–**	**210,967**
a) for assets recognised in part	27,120	–	183,847	–	–	–	210,967
b) a fronte di attività recognised in full	–	–	–	–	–	–	–
2. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in part	–	–	–	–	–	–	–
b) for assets recognised recognised in full	–	–	–	–	–	–	–
3. **Securities issued**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in part	–	–	–	–	–	–	–
b) for assets recognised recognised in full	–	–	–	–	–	–	–
Total 31/12/2013	**27,120**	**–**	**183,847**	**–**	**–**	**–**	**210,967**
Total 31/12/2012	**262,330**	**–**	**271,481**	**–**	**–**	**–**	**533,811**

Financial assets held to maturity			Due from banks			Due from customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2013	31/12/2012
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**211,194**	**538,362**
–	–	–	–	–	–	–	–	–	211,194	538,362
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**211,194**	**–**
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**538,362**
–	–	–	–	–	–	–	–	–	–	–

C.2.3 Disposals with recourse limited solely to the assets sold: fair value

	Financial assets held for trading		Financial assets carried at fair value		Financial assets available for sale	
Technical forms/Portfolio	A	B	A	B	A	B
A. **Cash assets**	**27,120**	**–**	**–**	**–**	**184,074**	**–**
1. Fixed-yield securities	27,120	–	–	–	184,074	–
2. Variable-yield securities	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**27,120**	**–**	**–**	**–**	**184,074**	**–**
C. **Associated liabilities**	**27,120**	**–**	**–**	**–**	**183,848**	**–**
1. Due to customers	27,120	–	–	–	183,848	–
2. Due to banks	–	–	–	–	–	–
Total liabilities	**27,120**	**–**	**–**	**–**	**183,848**	**–**
Net value 31/12/2013	**–**	**–**	**–**	**–**	**226**	**–**
Net value 31/12/2012	**745**	**–**	**–**	**–**	**3,806**	**–**

Key:
A = financial assets sold and recognised in full
B = financial assets sold and recognised in part

1.2 1.2 Banking group - Market risk

1.2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

Factorit s.p.a. and Sinergia Seconda S.r.l. are not exposed to rate and price risk related to the trading portfolio.

The interest rate risk deriving from Banca Popolare di Sondrio (Suisse) SA's trading portfolio relates to investments in fixed-yield securities.

These are for both investment purposes – the positions are held until their natural maturity – and trading purposes in a strict sense.

The portfolio mainly comprises prime fixed-yield securities with a definite life.

The price risk deriving from the subsidiary's trading portfolio relates to investments in variable-yield securities of prime issuers, above all, in mutual funds managed by the Group (Popso (Suisse) Investment Fund Sicav).

These are mainly held as an investment, for the long term, rather than for trading in the strictest sense.

The subsidiary's accounting department performs a monthly valuation in order to reflect any adverse price changes in the income statement, while the Asset Management office monitors the situation during the month, consistent with the procedure followed in relation to customer assets under administration.

The subsidiary's General Management presents a report on the status of the trading portfolio to its Board of Directors every month.

Financial assets held to maturity (fair value)		Due from banks (fair value)		Due from customers (fair value)		Total	
A	B	A	B	A	B	31/12/2013	31/12/2012
–	**–**	**–**	**–**	**–**	**–**	**211,194**	**538,362**
–	–	–	–	–	–	211,194	538,362
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**211,194**	**538,362**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**210,968**	**533,811**
–	**–**	**–**	**–**	**–**	**–**	**226**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**4,551**

B. Management and measurement of interest rate risk and price risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

The parent bank assesses the subsidiary's degree of market risk (measurement of VaR) based on information provided by the company's own risk management unit.

The approach adopted for analysing the sensitivity to interest rate risk – solely in relation to fixed-yield securities held at year end – and to price risk – limited to variable-yield securities, mutual funds and changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties and relating to period end – essentially reflect the internal model used by the Parent Bank to calculate Value at Risk (VaR), as described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the Parent Bank's trading portfolio for supervisory purposes: as for interest rate risk, fixed-yield securities of the Parent Bank or of the subsidiary; as for the price risk, variable-yield securities and mutual funds included in the trading portfolio for supervisory purposes of the Parent Bank; moreover, the variable-yield securities and mutual funds of the subsidiary, excluding equity investments and the two variable-yield securities classified as `financial assets available for sale», included in the bank book. The price risk on foreign currency mutual funds also includes exchange risk.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The policies and procedures for the ex post comparison of the model's results with the actual results («back testing») are only applied to the variable-yield securities and mutual funds held by the Parent Bank in its trading portfolio for supervisory purposes.

The internal policies and procedures for stress testing include, with reference to the standard methodology used for ICAAP (Internal Capital Adequacy Assessment Process) purposes, the tests described below.

General risk on fixed-yield securities: change in market rates

With regard to the risk position in fixed-yield securities, consideration is given to greater adverse changes in interest rates than those implicit in the weightings of the regulatory algorithm.

Specific risk on fixed-yield securities: downgrading of issuers.

The effect on internal capital of a downgrade in the rating of counterpart issuers is estimated by applying the next worse weighting factor.

With regard to the general risk on fixed-yield securities, different intensities of shock were applied to the various maturity bands: the increase in rates by 200 basis points is in line with that suggested in the regulations for stress tests carried out using the simplified model for the interest-rate risk on the bank book.

Further stress tests applied the same intensity of shock (100 basis points) to all maturity/ repricing bands, or acted separately on a single maturity band, leaving other bands subject to the normal weighting. These analyses indicate over time the sensitivity of the portfolio to changes affecting different maturities along the rate curve.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 months	5 to 10 months	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**947,736**	**1,329,231**	**362,394**	**403,457**	**25,067**	**6,005**	**–**
1.1 Fixed-yield securities	–	898,324	1,329,231	362,394	403,457	25,067	6,005	–
- with early repayment option	–	34,597	–	–	91	–	–	–
- other	–	863,727	1,329,231	362,394	403,366	25,067	6,005	–
1.2 Other assets	–	49,412	–	–	–	–	–	–
2. **Cash liabilities**	**3**	**27,118**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	3	27,118	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,956,207**	**789,645**	**238,381**	**494,303**	**162,434**	**49,791**	**–**
3.1 With underlying security	–	26,812	3,357	850	–	–	20,731	–
- Options	–	5,255	3,357	850	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	5,255	3,357	850	–	–	–	–
- Other	–	21,557	–	–	–	–	20,731	–
+ Long positions	–	10,787	–	–	–	–	10,362	–
+ Short positions	–	10,770	–	–	–	–	10,369	–
3.2 Without underlying security	–	2,929,395	786,288	237,531	494,303	162,434	29,060	–
- Options	–	22,936	8,589	27,260	162,080	154,050	22,308	–
+ Long positions	–	11,477	4,396	13,540	81,040	77,025	11,154	–
+ Short positions	–	11,459	4,193	13,720	81,040	77,025	11,154	–
- Other	–	2,906,459	777,699	210,271	332,223	8,384	6,752	–
+ Long positions	–	1,726,888	387,806	103,301	166,580	4,192	3,376	–
+ Short positions	–	1,179,571	389,893	106,970	165,643	4,192	3,376	–

Currency: US DOLLAR

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 months	5 to 10 months	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**10**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	10	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	10	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,528,311**	**129,595**	**72,013**	**24,588**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,528,311	129,595	72,013	24,588	–	–	–
- Options	–	19,663	3,679	15,580	722	–	–	–
+ Long positions	–	9,834	1,839	7,790	361	–	–	–
+ Short positions	–	9,829	1,840	7,790	361	–	–	–
- Other	–	1,508,648	125,916	56,433	23,866	–	–	–
+ Long positions	–	821,708	64,749	27,662	11,933	–	–	–
+ Short positions	–	686,940	61,167	28,771	11,933	–	–	–

Currency: SWISS FRANC

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 months	5 to 10 months	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**204**	**3,144**	**397**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	204	3,144	397	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	204	3,144	397	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,051,938**	**95,879**	**58,025**	**5,218**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,051,938	95,879	58,025	5,218	–	–	–
- Options	–	698	–	–	–	–	–	–
+ Long positions	–	349	–	–	–	–	–	–
+ Short positions	–	349	–	–	–	–	–	–
- Other	–	1,051,240	95,879	58,025	5,218	–	–	–
+ Long positions	–	164,720	40,701	30,894	2,610	–	–	–
+ Short positions	–	886,520	55,178	27,131	2,608	–	–	–

Currency: JAPANESE YEN

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 months	5 to 10 months	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**149,525**	**601**	**2,584**	**1,382**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	149,525	601	2,584	1,382	–	–	–
- Options	–	1,228	–	–	–	–	–	–
+ Long positions	–	614	–	–	–	–	–	–
+ Short positions	–	614	–	–	–	–	–	–
- Other	–	148,297	601	2,584	1,382	–	–	–
+ Long positions	–	70,855	264	1,290	691	–	–	–
+ Short positions	–	77,442	337	1,294	691	–	–	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 months	5 to 10 months	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**355,691**	**50,639**	**87,697**	**15,697**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	355,691	50,639	87,697	15,697	–	–	–
- Options	–	2,888	–	9,636	–	–	–	–
+ Long positions	–	1,444	–	4,818	–	–	–	–
+ Short positions	–	1,444	–	4,818	–	–	–	–
- Other	–	352,803	50,639	78,061	15,697	–	–	–
+ Long positions	–	199,459	31,685	39,479	7,393	–	–	–
+ Short positions	–	153,344	18,954	38,582	8,304	–	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	Italy	United States	United Kingdom	Japan	Germany	Other	
A. **Equities**							
- long positions	28,611	719	974	–	4,132	7,932	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	251	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							
- long positions	9,384	–	–	–	–	78	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities of the Parent Bank	1,458.8
Fixed-yield securities BPS Suisse	5.1
Total interest rate risk	**1,461.0**
Variable-yield securities and mutual funds Parent Bank	1,644.2
Variable-yield securities and mutual funds BPS Suisse	15.7
Total Price risk	**1,655.9**
Total Interest rate risk and price risk	**2,068.2**

1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

For Factorit Spa, interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

The principal source of interest rate risk for the subsidiary derives from fixed-rate lending (mortgage loans).

The General Management of the subsidiary is assisted by the AL.CO. (Asset & Liability Management Committee) which, each month, analyses the gaps by duration in order to monitor risk trends and make the appropriate decisions.

The subsidiary's board of directors has established prudent gap limits in order to minimise risk and receives a specific quarterly report from General Management, which is signed off by the Internal Audit Department.

In accordance with the relevant Swiss regulations, a quarterly gap analysis and duration analysis is performed, covering the entire balance sheet exposure (including therefore both the trading and the investment portfolios), in order to measure the impact on profits and equity of a change of 100 basis points over a twelve-month period in relation to the principal balance sheet currencies.

The measurement and control of interest rate risk essentially consists of an internal model for strategic Asset & Liability Management (ALM) regarding the Parent Bank, as described in the corresponding section of the notes to the separate financial statements, and a model for the subsidiary bank. In addition to the official report on the overall position of the subsidiary bank, mentioned above, this model reports each month on gaps with a duration of more than one year deriving from fixed-rate funding and lending transactions involving the bank book.

In addition, stress tests are performed on a quarterly basis in order to measure the effect on profits and equity of anomalous and unexpected changes in the rate curve for the principal balance sheet currencies.

As for price risk, the Parent Bank assesses the price risk exposure (measurement of VaR) of the subsidiary using information provided by the latter.

The analysis of sensitivity to price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties and relating to period end – essentially involves application of an internal model of the parent bank for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the Parent Bank's investment book, excluding investment in Banca Popolare di Sondrio (SUISSE) SA Factorit s.p.a. and Sinergia Seconda s.r.l.; in addition, this includes the variable-yield security held by the subsidiary and classified as «financial assets available for sale» and the one classified under «equity investments», as well as the two variable-yield securities belonging to Sinergia Seconda S.r.l., also classified under «equity investments».

These last three unlisted securities were measured at consolidated book value in the VaR calculation. The price risk on foreign currency mutual funds also includes exchange risk.

The stress tests used as part of the strategies to govern the interest-rate risk (but not the price risk) on the bank book include, with reference to the standard methodology used for ICAAP (Internal Capital Adequacy Assessment Process) purposes, those described below.

Parallel shift in rates by more than that indicated in the prudential regulations

With regard to the risk position, consideration is given to parallel adverse interest-rate shifts by more than those envisaged in the regulatory model proposed by the Supervisory Authorities. In particular, the impact of shift of 300 basis points in assessed.

Non-parallel change in rates

With regard to the risk position, consideration is given to different adverse changes in interest rates for each currency and for each maturity band. Shifts of +200 basis points are considered when the net position of the Group for the individual currency and maturity band is positive (excess of interest-earning assets over interest-paying liabilities), while the shifts of –200 basis points are considered in the case of net liabilities.

With specific regard to the «Non-parallel change in rates», the size of the additional capital requirement derives from the inability to net the weighted net positions of the different maturity bands, while such netting is implicit in the regulatory model adopted.

B. Fair value hedges

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (SUISSE) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Bank.

C. Cash flow hedges

The Group has not arranged any cash-flow hedges.

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: SWISS FRANC

Type/Residual duration	Sight	up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**–**	**703,731**	**743,077**	**96,285**	**757,006**	**307,592**	**407**	**–**
3.1 With underlying security								
Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	703,731	743,077	96,285	757,006	307,592	407	–
Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	703,731	743,077	96,285	757,006	307,592	407	–
+ Long positions	–	625,000	679,049	–	–	–	–	–
+ Short positions	–	78,731	64,028	96,285	757,006	307,592	407	–
4. **Other off-balance sheet transactions**	**47,243**	**46,644**	**600**	**–**	**–**	**–**	**–**	**–**
+ Long positions	46,554	90	600	–	–	–	–	–
+ Short positions	689	46,554	–	–	–	–	–	–

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Interest rate risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

The data supplied by the subsidiary Banca Popolare di Sondrio (Suisse) SA are reported below (including data related to the trading portfolio).

Effect on profits of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-2.283	1.793	0.060
average	-2.113	1.685	0.597
maximum	-2.420	1.838	0.986
minimum	-1.793	1.270	0.060

Effect on equity of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-15.352	5.613	0.083
average	-15.514	5.496	1.525
maximum	-18.129	6.218	2.354
minimum	-14.045	4.275	0.083

Price risk

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank (excluding the equity investments Suisse, Factorit and Sinergia)	5,841.6
BPS Suisse	10.7
Sinergia Seconda	202.5
Total	**6,047.4**

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

Exchange risk is marginal for Factorit s.p.a., given the company's policy of systematic hedging of foreign currency amounts. This risk exists principally, though for limited volumes, in the case of: fee and interest income not offset by interest expense in a currency other than the euro; guarantees in foreign currencies versus operations in euro. Sinergia Seconda S.r.l. is not exposed to exchange risk, as it does not own assets and liabilities in foreign currency.

Except with regard to securities held in the trading portfolio, Banca Popolare di Sondrio (Suisse) SA enters into currency transactions to satisfy customer requirements and to cover transitory treasury mismatches, which in any case are contained within the prudent limits established by the subsidiary's Board of Directors and General Management.

The measurement and control of exchange risk – with reference to the situation at year end – essentially involves application of the Parent Bank's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to exchange risk included in the parent bank's investment book, excluding financial derivatives (in a strict sense) traded by the Exchange Centre, other than forward contracts on exchange rates and excluding all balances with Banca Popolare di Sondrio (Suisse) SA and the investment in it; it also covers all of the assets and liabilities in foreign currency (excluding gold and currencies other than those taken into consideration by the parent bank), on and off the balance sheet, pertaining to the subsidiary, which are shown on table 1 below, excluding mutual funds in foreign currency, whose exchange risk is included in the price risk. Forward contracts on exchange rates of the parent bank and fixed and variable-yield securities are treated analytically, whereas the overall difference by individual currency of the other items is treated as a deposit (positive or negative) with a due date of one day.

The Bank does not envisage the use of stress tests as part of the strategies to govern exchange-rate risk.

B. Hedging of exchange risk

Information on the parent bank is provided in the corresponding section of the notes to the separate financial statements.

The activities of the subsidiary are consistent with those of the parent bank.

The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Canadian Dollars	Swiss Francs	Other currencies
A. **Financial assets**	**632,253**	**13,812**	**18,624**	**4,293**	**3,179,520**	**13,654**
A.1 Fixed-yield securities	10	–	–	–	3,745	–
A.2 Variable-yield securities	12,116	974	–	–	4,930	–
A.3 Loans to banks	67,086	9,504	8,021	3,485	15,242	12,901
A.4 Loans to customers	553,041	3,334	10,603	808	3,155,603	753
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**2,939**	**1,131**	**164**	**117**	**105,179**	**1,102**
C. **Financial liabilities**	**767,979**	**40,274**	**12,585**	**6,704**	**2,304,437**	**44,524**
C.1 Due to banks	346,476	3,171	265	360	436,812	1,164
C.2 Due to customers	421,503	37,103	12,320	6,344	1,743,475	43,360
C.3 Fixed-yield securities	–	–	–	–	124,150	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**2,680**	**681**	**17**	**104**	**136,188**	**61**
E. **Financial derivatives**	**1,756,128**	**224,032**	**154,092**	**3,848**	**1,211,061**	**281,843**
- Options	39,643	–	1,228	–	698	12,524
+ Long positions	19,824	–	614	–	349	6,262
+ Short positions	19,819	–	614	–	349	6,262
- Other derivatives	1,716,485	224,032	152,864	3,848	1,210,363	269,319
+ Long positions	926,863	124,604	73,100	3,200	238,925	150,211
+ Short positions	789,622	99,428	79,764	648	971,438	119,108
Total assets	**1,581,879**	**139,547**	**92,502**	**7,610**	**3,523,973**	**171,229**
Total liabilities	**1,580,100**	**140,383**	**92,980**	**7,456**	**3,412,412**	**169,955**
Net balance (+/-)	**(1,779)**	**836**	**478**	**(154)**	**(111,561)**	**(1,274)**

2. Internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank (net of eliminations)	924.3
BPS Suisse (net of eliminations)	581.1
Factorit (net of eliminations)	305.5
Total	**382.1**
Details of the principal currencies	
US Dollars	28.7
Sterling	6.2
Japanese Yen	5.6
Swiss Francs	370.6
Canadian Dollars	1.9
Other currencies	6.6
Total	**382.1**

1.2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

	Total 31/12/2013		**Total 31/12/2012**	
Underlying assets/Type of derivative	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**638,851**	**–**	**712,250**	**–**
a) Options	46,023	–	87,674	–
b) Swaps	592,828	–	624,576	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**67,865**	**–**	**61,981**
a) Options	–	67,865	–	61,981
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**3,262,418**	**–**	**3,712,145**	**–**
a) Options	95,774	–	82,956	–
b) Swaps	–	–	–	–
c) Forwards	3,166,644	–	3,629,189	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**14,003**	**–**	**12,795**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**3,915,272**	**67,865**	**4,437,190**	**61,981**
Averages	**4,176,231**	**64,923**	**5,982,419**	**30,990**

A.2 Bank book: notional amounts at period end and averages

A.2.1 For hedging

Portfolio/Type of derivatives	Total 31/12/2013		Total 31/12/2012	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**1,304,049**	**–**	**1,212,392**	**–**
a) Options	–	–	–	–
b) Swaps	1,304,049	–	1,212,392	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Altri	–	–	–	–
3. **Currency and gold**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**1,304,049**	**–**	**1,212,392**	**–**
Averages	**1,258,220**	**–**	**1,135,894**	**–**

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

	POSITIVE FAIR VALUE			
	Total 31/12/2013		**Total 31/12/2012**	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Tranding portfolio for supervisory purposes**	**36,810**	**877**	**44,414**	**565**
a) Options	1,761	877	1,238	565
b) Interest rate swaps	13,604	–	22,321	–
c) Cross currency swaps	–	–	–	–
d) Equity Swaps	–	–	–	–
e) Forwards	21,003	–	20,699	–
f) Futures	–	–	–	–
g) Other	442	–	156	–
B. **Bank book - for hedging purposes**	**2,923**	**–**	**52**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	2,923	–	52	–
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	**39,733**	**877**	**44,466**	**565**

A.4 Financial derivatives: gross negative fair value - breakdown by product

	NEGATIVE FAIR VALUE			
	Total 31/12/2013		**Total 31/12/2012**	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**36,520**	**29**	**43,646**	**528**
a) Options	1,702	29	1,207	528
b) Interest rate swaps	12,249	–	20,247	–
c) Cross currency swaps	–	–	–	–
d) Equity Swaps	–	–	–	–
e) Forwards	22,151	–	22,067	–
f) Futures	–	–	–	–
g) Other	418	–	125	–
B. **Bank book - for hedging purposes**	**27,580**	**–**	**45,950**	**–**
a) Options	–	–	–	–
b) Interest rate swaps	27,580	–	45,950	–
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	**64,100**	**29**	**89,596**	**528**

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-yeld securities and interest rates**							
- notional value	–	–	369,426	22,134	–	234,798	12,494
- positive fair value	–	–	446	41	–	12,890	458
- negative fair value	–	–	12,306	9	–	155	2
- future exposure	–	–	1,182	1	–	474	41
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	–	–	2,049,280	32,167	491	856,252	324,228
- positive fair value	–	–	7,876	306	7	10,917	3,427
- negative fair value	–	–	17,453	667	–	3,467	2,045
- future exposure	–	–	21,215	480	5	9,163	3,249
4. **Other assets**							
- notional value	–	–	7,002	–	–	7,002	–
- positive fair value	–	–	17	–	–	425	–
- negative fair value	–	–	405	–	–	13	–
- future exposure	–	–	718	–	–	718	–

A.7 OTC financial derivatives – bank book: notional values, gross positive and negative fair values for counterparties – contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. **Fixed-yield securities and interest rates**							
- notional value	–	–	1,304,049	–	–	–	–
- positive fair value	–	–	2,923	–	–	–	–
- negative fair value	–	–	27,580	–	–	–	–
- future exposure	–	–	8,405	–	–	–	–
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
4. **Other assets**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–

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

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	**Total**
A. **Trading portfolio for supervisory purposes**	**3,334,118**	**420,789**	**160,365**	**3,915,272**
A.1 Financial derivatives on fixed-yield securities and interest rates	107,121	371,365	160,365	638,851
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on exchange rates and gold	3,214,804	47,614	–	3,262,418
A.4 Financial derivatives on other instruments	12,193	1,810	–	14,003
B. **Bank book**	**239,044**	**757,006**	**307,999**	**1,304,049**
B.1 Financial derivatives on fixed-yield securities and interest rates	239,044	757,006	307,999	1,304,049
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 31/12/2013	**3,573,162**	**1,177,795**	**468,364**	**5,219,321**
Total 31/12/2012	**4,181,140**	**1,206,120**	**262,322**	**5,649,582**

1.3 Banking group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, consists of giving priority to liquidity objectives rather than profitability, always taking a prudent approach.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds.

In this context, the Parent Bank acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The Parent Bank monitors this type of risk at consolidated level, on a daily basis in the short term as well as from a structural point of view in the long-term.

The subsidiaries control this type of risk by using adequate monitoring tools according to the type of operations that they carry on; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5 of the parent bank's financial statements, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 to 12 years	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**7,116,803**	**371,265**	**365,069**	**1,239,180**	**1,436,322**	**1,004,817**	**1,718,939**	**9,630,165**	**4,953,105**	**105,509**
A.1 Government securities	2,975	–	–	–	108,287	268,022	710,648	4,714,011	307,075	–
A.2 Other fixed-yield securities	4,307	5	1,987	8,184	17,039	38,828	40,131	243,998	119,570	5
A.3 Mutual funds	161,470	–	–	–	–	–	–	–	–	–
A.4 Loans	6,948,051	371,260	363,082	1,230,996	1,310,996	697,967	968,160	4,672,156	4,526,460	105,504
- Banks	160,266	4,555	16,049	260,498	24,075	28,874	13,538	5,005	–	105,504
- Customers	6,787,785	366,705	347,033	970,498	1,286,921	669,093	954,622	4,667,151	4,526,460	–
Cash liabilities	**17,276,279**	**598,828**	**531,402**	**505,170**	**1,348,678**	**1,374,511**	**1,085,585**	**3,595,099**	**238,032**	**32,048**
B.1 Deposits and current accounts	17,147,369	354,783	526,917	484,660	1,046,457	1,165,438	663,323	20,972	–	–
- Banks	78,817	18,506	48,550	14,512	62,345	50,000	4,005	–	–	–
- Customers	17,068,552	336,277	478,367	470,148	984,112	1,115,438	659,318	20,972	–	–
B.2 Fixed-yield securities	85,108	1,406	2,143	3,653	274,261	201,760	408,219	1,676,691	169,733	–
B.3 Other liabilities	43,802	242,639	2,342	16,857	27,960	7,313	14,043	1,897,436	68,299	32,048
Off-balance sheet transactions	**564,255**	**345,147**	**431,308**	**659,032**	**1,373,474**	**319,740**	**427,057**	**60,639**	**131,679**	**–**
C.1 Financial derivatives with exchange of capital	–	336,815	416,356	593,685	1,291,048	249,584	192,429	48,308	20,000	–
- Long positions	–	147,108	297,725	365,463	779,703	122,073	93,965	24,623	10,000	–
- Short positions	–	189,707	118,631	228,222	511,345	127,511	98,464	23,685	10,000	–
C.2 Financial derivatives without exchange of capital	27,019	–	–	–	–	–	–	–	–	–
- Long positions	14,202	–	–	–	–	–	–	–	–	–
- Short positions	12,817	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	536,356	8,310	14,891	65,347	82,167	69,716	233,524	9,531	110,804	–
- Long positions	75,050	1,166	14	28,882	1,782	30,027	183,122	9,364	110,804	–
- Short positions	461,306	7,144	14,877	36,465	80,385	39,689	50,402	167	–	–
C.5 Financial guarantees issued	880	22	61	–	259	440	1,104	2,800	875	–
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 amounts due from banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Group for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

Currency: US DOLLAR

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 to 12 years	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**69,595**	**30,779**	**81,532**	**134,294**	**291,177**	**9,268**	**2,761**	**10,713**	**9,053**	**-**
A.1 Government securities	-	-	-	-	-	-	-	10	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	13,158	-	-	-	-	-	-	-	-	-
A.4 Loans	56,437	30,779	81,532	134,294	291,177	9,268	2,761	10,703	9,053	-
- Banks	45,333	1,308	682	4,344	5,169	3,536	-	-	6,764	-
- Customers	11,104	29,471	80,850	129,950	286,008	5,732	2,761	10,703	2,289	-
Cash liabilities	**548,696**	**29,371**	**91,671**	**30,041**	**61,675**	**3,918**	**2,615**	**-**	**-**	**-**
B.1 Deposits and current accounts	548,693	29,371	91,616	29,709	58,915	3,918	2,564	-	-	-
- Banks	162,612	28,063	73,099	28,073	51,210	-	229	-	-	-
- Customers	386,081	1,308	18,517	1,636	7,705	3,918	2,335	-	-	-
B.2 Fixed-yield securities	3	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	55	332	2,760	-	51	-	-	-
Off-balance sheet transactions	**26,079**	**150,299**	**268,808**	**475,123**	**659,449**	**132,646**	**71,831**	**24,588**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	146,673	251,760	474,848	655,802	129,005	71,831	24,588	-	-
- Long positions	-	68,050	174,377	265,005	324,111	66,588	35,452	12,294	-	-
- Short positions	-	78,623	77,383	209,843	331,691	62,417	36,379	12,294	-	-
C.2 Financial derivatives without exchange of capital	146	-	-	-	-	-	-	-	-	-
- Long positions	74	-	-	-	-	-	-	-	-	-
- Short positions	72	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	3,771	3,626	145	-	-	-	-	-	-	-
- Long positions	3,771	-	-	-	-	-	-	-	-	-
- Short positions	-	3,626	145	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	22,162	-	16,903	275	3,647	3,641	-	-	-	-
- Long positions	-	-	16,008	50	2,027	3,641	-	-	-	-
- Short positions	22,162	-	895	225	1,620	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency: SWISS FRANC

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 to 12 years	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**205,305**	**43,754**	**39,052**	**85,061**	**293,698**	**146,964**	**208,119**	**1,165,495**	**1,004,214**	**-**
A.1 Government securities	–	–	–	–	–	–	397	1,451	–	–
A.2 Other fixed-yield securities	–	–	–	–	204	–	–	1,693	–	–
A.3 Mutual funds	2,875	–	–	–	–	–	–	–	–	–
A.4 Loans	202,430	43,754	39,052	85,061	293,494	146,964	207,722	1,162,351	1,004,214	–
- Banks	12,512	2,436	–	163	131	–	–	–	–	–
- Customers	189,918	41,318	39,052	84,898	293,363	146,964	207,722	1,162,351	1,004,214	–
Cash liabilities	**1,441,620**	**263,639**	**22,468**	**43,483**	**238,371**	**109,358**	**125,128**	**58,703**	**1,645**	**-**
B.1 Deposits and current accounts	1,440,666	263,615	22,415	43,259	213,386	92,313	104,203	427	–	–
- Banks	4,168	209,476	10,221	24,439	126,271	12,318	49,914	–	–	–
- Customers	1,436,498	54,139	12,194	18,820	87,115	79,995	54,289	427	–	–
B.2 Fixed-yield securities	954	24	53	224	24,985	17,045	20,925	58,276	1,645	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**47,243**	**424,824**	**352,382**	**239,805**	**111,079**	**87,800**	**61,034**	**7,288**	**-**	**-**
C.1 Financial derivatives with exchange of capital	–	387,895	351,610	236,400	98,360	79,449	52,127	5,219	–	–
- Long positions	–	83,110	10,710	18,419	52,830	40,701	30,894	2,610	–	–
- Short positions	–	304,785	340,900	217,981	45,530	38,748	21,233	2,609	–	–
C.2 Financial derivatives without exchange of capital	–	272	772	482	2,492	5,537	7,308	–	–	–
- Long positions	–	–	–	–	–	–	29	–	–	–
- Short positions	–	272	772	482	2,492	5,537	7,279	–	–	–
C.3 Deposits and loans to be received	46,554	36,657	–	–	9,897	–	–	–	–	–
- Long positions	46,554	–	–	–	–	–	–	–	–	–
- Short positions	–	36,657	–	–	9,897	–	–	–	–	–
C.4 Irrevocable commitments to make loans	689	–	–	2,923	330	2,712	1,599	2,069	–	–
- Long positions	–	–	–	2,923	330	2,712	1,599	2,069	–	–
- Short positions	689	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	102	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Currency: JAPANESE YEN

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 to 12 years	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**5,036**	**789**	**2,833**	**4,428**	**5,102**	**443**	**8**	**41**	**55**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	5,036	789	2,833	4,428	5,102	443	8	41	55	-
- Banks	4,873	622	1,902	-	271	356	-	-	-	-
- Customers	163	167	931	4,428	4,831	87	8	41	55	-
Cash liabilities	**12,357**	**-**	**-**	**228**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	12,357	-	-	228	-	-	-	-	-	-
- Banks	37	-	-	228	-	-	-	-	-	-
- Customers	12,320	-	-	-	-	-	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**1,081**	**66,270**	**9,311**	**7,789**	**67,346**	**552**	**2,534**	**1,382**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	66,126	9,000	7,158	67,339	552	2,534	1,382	-	-
- Long positions	-	30,628	4,257	3,368	33,216	264	1,290	691	-	-
- Short positions	-	35,498	4,743	3,790	34,123	288	1,244	691	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	1,081	144	311	631	7	-	-	-	-	-
- Long positions	-	-	311	560	-	-	-	-	-	-
- Short positions	1,081	144	-	71	7	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 month	3 to 6 month	6 to 12 years	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**23,120**	**2,586**	**940**	**2,994**	**971**	**685**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	468	–	–	–	–	–	–	–	–	–
A.4 Loans	22,652	2,586	940	2,994	971	685	–	–	–	–
- Banks	20,533	2,441	758	2,163	–	–	–	–	–	–
- Customers	2,119	145	182	831	971	685	–	–	–	–
Cash liabilities	**62,458**	**3,049**	**1,266**	**3,330**	**939**	**17,000**	**3,476**	**–**	**–**	**–**
B.1 Deposits and current accounts	62,446	3,049	1,266	3,330	939	17,000	3,456	–	–	–
- Banks	872	2,923	133	742	26	–	–	–	–	–
- Customers	61,574	126	1,133	2,588	913	17,000	3,456	–	–	–
B.2 Fixed-yield securities	12	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	20	–	–	–
Off-balance sheet transactions	**857**	**59,234**	**37,998**	**58,079**	**209,610**	**49,786**	**80,310**	**15,697**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	58,416	37,970	58,066	209,480	49,786	80,310	15,697	–	–
- Long positions	–	29,353	37,031	25,905	108,615	31,685	44,297	7,393	–	–
- Short positions	–	29,063	939	32,161	100,865	18,101	36,013	8,304	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	857	818	28	13	130	–	–	–	–	–
- Long positions	–	818	–	13	–	–	–	–	–	–
- Short positions	857	–	28	–	130	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

2 Information about committed assets recognised in the balance sheet

	Committed		Not committed		Total	Total
Technical forms	BV	FV	BV	FV	**31/12/2013**	**31/12/2012**
1. Cash and balances with central banks	–	–	196,517	–	196,517	183,746
2. Fixed-yield securities	2,276,233	2,275,730	4,190,379	4,189,924	6,466,612	4,488,342
3. Variable-yield securities	–	–	109,671	109,671	109,671	120,076
4. Loans	1,758,703	–	22,879,810	–	24,638,513	26,488,775
5. Other financial assets	–	–	218,581	–	218,581	208,818
6. Non-financial assets	–	–	1,140,034	–	1,140,034	859,369
Total 31/12/2013	**4,034,936**	**2,275,730**	**28,734,992**	**4,299,595**	**32,769,928**	**-**
Total 31/12/2012	**3,585,862**	**2,102,867**	**28,763,264**	**2,502,463**	**-**	**32,349,126**

Key:
BV = book value
FV = fair value

3. Information about committed assets not recognised in the balance sheet

Technical forms	Committed	Not committed	**31/12/2013**	**31/12/2012**
1. **Financial assets**	**1,071,994**	**394,182**	**1,466,176**	**2,064,561**
- Securities	1,071,994	394,182	1,466,176	2,064,561
- Other	–	–	–	–
2. **Non-financial assets**	**–**	**–**	**–**	**–**
Total 31/12/2013	**1,071,994**	**394,182**	**1,466,176**	**-**
Total 31/12/2012	**1,253,383**	**811,178**	**-**	**2,064,561**

Securitisation transactions and disposal of assets

Securitisation transactions

A securitisation was carried out by the Parent Bank in April 2012 as part of its funding policies. The transaction consisted of the sale without recourse under Law 130/1999 of € 1,630 million of performing residential mortgage loans to Centro delle Alpi RMBS srl, an SPV specifically set up for this purpose.

The SPV issued securities for € 1,678 million, made up of € 1,385 million of «Senior» securities and € 293 million of «Junior» securities, all of which were purchased by the Parent Bank. The Senior securities are listed on the Luxembourg Stock Exchange and are considered «eligible» for the European Central Bank. These securities were pledged as collateral for refinancing granted by the ECB. In accordance with IAS 39, given that the conditions for derecognition do not exist because the Bank has retained all of the risks and rewards, the securitised loans have been maintained in balance sheet item 70 «Loans to customers», whereas the Junior and Senior securities and the loan to the SPV do not feature. The asset-backed securities have been assigned credit ratings by Standard & Poor's and Moody's; these ratings will be monitored throughout the operation.

The Group acts as servicer on behalf of Centro delle Alpi RMBS srl, which means that it handles the management, administration and collection of the loans; it acts on behalf of the SPV, but is the only counterparty of the customers. It receives a fee for performing this service. Quarterly reports are prepared, highlighting the various flows of the operation, which are sent to the offices and corporate bodies involved so that they can constantly assess its results.

1.4 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The notes to the Bank's separate financial statements explains the system used to identify losses and to monitor operational risk.

This system is also used by the subsidiaries, albeit with a few adjustments to adapt it to the local operating context.

QUANTITATIVE INFORMATION

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements; as regards the subsidiaries, it has been seen that the largest loss events are due to errors in day-to-day activities and, as for the Parent Bank, they are generally recovered.

We would observe that the loss events recorded by Factorit, given the nature of the subsidiary, all relate to risks that arose in the granting and management of credit; the Swiss subsidiary's exposure is, in any case, extremely limited due to the way internal control is organised, with the presence of specialists and action directly at operating unit level.

The following table summarises the banking group's losses from risk events that took place in the last three years.

The extent of recoveries, amounting to about 55% of the total, demonstrates the action taken to minimise or transfer the losses incurred.

Sources of losses from 01/01/2011 to 31/12/2013

	No. of events	% of events	Gross loss	% of total	Net loss	% of total	% recovered
Fraud	279	29.19%	2,462,260	14.25%	1,721,909	22.26%	30.07%
Settlements and legal disputes	105	10.98%	3,063,903	17.74%	2,784,561	36.01%	9.12%
Damage to fixed assets	124	12.97%	711,206	4.12%	503,956	6.52%	29.14%
Errors in carrying out transactions	409	42.78%	10,696,948	61.93%	2,435,729	31.49%	77.23%
Other	39	4.08%	338,579	1.96%	287,644	3.72%	15.04%
Total	**956**	**100.00%**	**17,272,896**	**100.00%**	**7,733,799**	**100.00%**	**55.23%**

(Amounts in euro)

Key:

Fraud = bank robberies, theft, false instructions, cloning debit and credit cards, forging cheques, disloyalty.

Settlements and legal disputes = settlements reached with customers, transactions contrary to the rules of proper conduct and prudent provisions for legal disputes.

Errors in carrying out transactions = errors in day-to-day operations, in the execution of processes, in relations with vendors or suppliers.

Damage to fixed assets = accidents, damage caused to third parties, structural failures and breakdowns.

Other = violations of the regulations on lending, safety in the workplace and system breakdowns.

Information on exposure to sovereign debt

CONSOB with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard we communicate that the overall exposure of the Group as at 31/12/2013 amounted to € 6,650 million and was structured as follows:

a) Italian Government securities: € 6,024 million;

b) Other issuers securities: € 29 million;

c) Loans to public administrations: € 10 million;

d) Loans to local administrations: € 46 million;

e) Loans to local or state-owned enterprises: € 365 million;

f) Loans to other public administrations and other entities: € 176 million.

PART F Information on equity

Section 1 Consolidated capital

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects their reputation.

The need for capital adequacy has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. Indeed, 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 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 the Group features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases – the latest dating back to 2007 – have always been taken up en masse, as reflected in the total number of shareholders that we have reached.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The 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. Accordingly, the Bank has now decided to prepare for a capital increase given the lowering of market tensions and the need to strengthen the level of capitalisation that might derive from the ECB's assessment of the banking system, as well as from the subsequent stress tests that all banks supervised by the ECB must undergo during the year. On 28 February 2014, the Board of Directors resolved to propose a combined bonus and rights issue to an extraordinary general meeting of the shareholders. The EGM would authorise the Board to complete the operation during the current year by issuing shares for payment totalling up to 350 million, including any premium, and making a bonus issue of up to a total nominal amount of 100 million by transfer of the related amounts from the «share premium reserve» to «share capital». The Chairman's Committee would also be authorised to reach agreement, on the terms and conditions usual in such cases, with an underwriting syndicate of leading institutions that would subscribe for any rights not taken up on expiry of the offer for payment.

In addition, again with a view to strengthening its capital for supervisory purposes, the Parent Bank has also authorised the issue of a subordinated bond for 500 million with characteristics suitable for inclusion in the supervisory capital of the Bank.

Given the above, the 2014 consolidated Common Equity Tier 1 ratio is estimated to increase to 9.45%.

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. We 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 31/12/2013. 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 (2013-2017), 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 9.21%. The test carried out by the Corporate Finance Department in conjunction with the Planning and Control Department showed that the Group was worth more than its consolidated equity.

The Group's value in use amounted to € 2,065 million, with a surplus over its consolidated equity of € 129 million.

B. QUANTITATIVE INFORMATION

The component parts and size of the Group's capital and equity are described in Part B, Section 15 of these notes to the financial statements.

B.1 Consolidated equity broken down by type of businesses

Equity items	Banking group	Insurance companies	Other businesses	Consolidated eliminations and adjustments	**Total**
1. **Share capital**	**958,019**	**–**	**–**	**–**	**958,019**
2. **Share premium reserve**	**175,807**	**–**	**–**	**–**	**175,807**
3. **Reserves**	**801,210**	**–**	**268**	**23,219**	**824,697**
4. **Equity instruments**	**–**	**–**	**–**	**–**	**–**
5. **Treasury shares (-)**	**(24,316)**	**–**	**–**	**–**	**(24,316)**
6. **Valuation reserve**	**15,316**	**–**	**192**	**1,220**	**16,728**
- Financial assets available for sale	32,313	–	–	–	32,313
- Property, plant and equipment	–	–	–	–	–
- Intangible assets	–	–	–	–	–
- Hedges of foreign investments	–	–	–	–	–
- Cash-flow hedges	–	–	–	–	–
- Exchange differences	–	–	–	–	–
- Non-current assets held for sale and discontinued operations	–	–	–	–	–
- Actuarial profits (losses) on defined-benefit plans	(16,997)	–	–	–	(16,997)
- Share of valuation reserves of equity investments valued at net equity	–	–	–	1,220	1,220
- Special revaluation regulations	–	–	192	–	192
7. **Net profit for the year**	**66,897**	**–**	**(433)**	**(5,787)**	**60,677**
Equity	**1,992,933**	**–**	**27**	**18,652**	**2,011,612**

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

	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		**Total 31/12/2013**	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	**Positive reserve**	**Negative reserve**
1. Fixed-yield securities	33,277	(4,225)	–	–	–	–	–	–	33,277	(4,225)
2. Variable-yield securities	2,654	(202)	–	–	–	–	–	–	2,654	(202)
3. Mutual funds	912	(103)	–	–	–	–	–	–	912	(103)
4. Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2013	**36,843**	**(4,530)**	**–**	**–**	**–**	**–**	**–**	**–**	**36,843**	**(4,530)**
Total 31/12/2012	**20,188**	**(13,316)**	**–**	**–**	**–**	**–**	**–**	**–**	**20,188**	**(13,316)**

B.3 Valuation reserves for financial assets available for sale: change in the year

	Fixed yield securities	Variable yield securities	Mutual funds	Loans
1. **Opening balance**	**2,660**	**2,343**	**1,869**	**–**
2. **Positive changes**	**28,875**	**1,756**	**253**	**–**
2.1 Increases in fair value	13,692	1,756	203	–
2.2 Release to the income statement of negative reserves	15,183	–	50	–
- from impairment	–	–	–	–
- from disposals	15,183	–	50	–
2.3 Other changes	–	–	–	–
3. **Negative changes**	**2,483**	**1,647**	**1,313**	**–**
3.1 Reductions in fair value	2,483	107	63	–
3.2 Impairment write-downs	–	267	157	–
3.3 Transfer to income statement from positive reserves: from disposals	–	1,273	1,093	–
3.4 Other changes	–	–	–	–
4. **Closing balance**	**29,052**	**2,452**	**809**	**–**

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 € 16.997 million; the amount has increased by a total of € 1.639 million following the recognition of unrealised gains and losses of € 2.153 million and € 2.990 million respectively, and the recognition of taxation totalling € 0.802 million.

Section 2 *Capital and capital adequacy ratios*

2.2 Capital for supervisory purposes

A. QUALITATIVE INFORMATION

Capital for supervisory purposes is determined in accordance with the rules laid down by the Bank of Italy in its 15th update of Circular Letter 155 «Instructions for the reporting of capital and capital ratios».

This is the main point of reference for the Supervisory Body when assessing the stability of the banking Group and of the system. The principal prudent control mechanisms all make reference to capital for supervisory purposes: the requirements to cover market risk and the rules governing the concentration of risk. It consists of the sum of Tier 1 capital, which is included in the calculation without any limitation, and Tier 2 capital that is included up to the equivalent of the Tier 1 capital. The amounts foreseen in the regulations applicable at 31.12.2013 are then deducted from this aggregate.

1. Tier 1 capital

The positive elements of Tier 1 capital comprise share capital, the share premium reserve, other reserves and part of the net profit for 2013, on the assumption that the shareholders will approve the proposed allocations to reserves; the negative elements, consisting of treasury shares (line item 200 of liabilities), intangible assets (line item 130 of assets) and other elements to be deducted in application of the «prudential filters» made up of negative balances among valuation reserves and negative ones relating to fixed-yield securities classified in the «financial assets available for sale» portfolio and the negative balance of «actuarial profits (losses) on defined-benefit pension plans».

From Tier 1 capital calculated in this way get deducted 50% of any equity investments in excess of 10% in non-consolidated banks and financial companies, the combination of any equity investments equal to or higher than 10% in banks and financial companies and subordinated instruments that exceed 10% of «Tier 1 and Tier 2 capital, both gross of the elements to be deducted».

Bank of Italy Circular 285 of 17 December 2013 «Prudential supervision instructions» came into force on 1 January 2014, which implement the CRR Regulation and the CRD IV Directive following adoption by the European Union of the standards defined by the Basel Committee (Basel 3). The «Transitional instructions regarding own funds» section of this circular allows banks an option to exclude from their own funds any unrealised gains or losses on exposures to central administrations classified as «financial assets available for sale» pursuant to IAS 39. This option had to be exercised by 31 January 2014. The Bank has opted not to include in its own funds the positive and negative reserves arising on exposures to central administrations that are classified as «Financial assets available for sale», consistent with the approach adopted pursuant to the Bank of Italy instruction dated 18 May 2010. This has led to the non-recognition for supervisory purposes of unrealised gains of about 33 million, net of tax effect.

2. Tier 2 capital

Tier 2 capital is made up of positive reserves on the measurement of shareholdings classified as «assets available for sale» and subordinated loans net of negative elements consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

The subordinated loans of € 694.235 million consist of the following bonds:

- loan of € 290.893 million from 26/2/2010 and maturity on 26/2/2017 with an annual repayment of 20% from 26/2/2013. This was issued with an interest rate of 4% which will gradually rise to 5%; the coupon current at year end is 4.25%;
- loan of € 403.342 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%.

This bond loan has the characteristics required by the regulations for inclusion in capital for supervisory purposes. The subordination clause consists of the bond owner's right to be reimbursed in the event of liquidation after all the other creditors have been satisfied.

The positive elements of Tier 2 capital are represented by after-tax gains on shareholdings and mutual funds classified as «assets available for sale». It is made up of the positive reserves deriving from after-tax gains on securities available for sale, cut by 50% for the application of the prudential filters and reduced by the negative elements, consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

3. Tier 3 capital

There are no elements of equity to be included in Tier 3 capital.

B. QUANTITATIVE INFORMATION

	31/12/2013	31/12/2012
A. **Tier 1 before the application of prudential filters**	**1,932,587**	**1,909,007**
B. **Prudential filters of Tier 1 capital:**	**(3,936)**	**(20,170)**
B.1 Positive IFRS prudential filters (+)	–	–
B.2 Negative IFRS prudential filters (-)	(3,936)	(20,170)
C. **Tier 1 capital gross of the elements to be deducted (A+B)**	**1,928,651**	**1,888,837**
D. **Elements to be deducted from tier 1 capital**	**53,478**	**46,083**
E. **Total Tier 1 capital (C-D)**	**1,875,173**	**1,842,754**
F. **Tier 2 capital before the application of prudential filters**	**682,150**	**753,935**
G. **Prudential filters for tier 2 capital:**	**(1,631)**	**(2,106)**
G.1 Positive IFRS prudential filters (+)	–	–
G.2 Negative IFRS prudential filters (-)	(1,631)	(2,106)
H. **Tier 2 capital gross of the elements to be deducted (F+G)**	**680,519**	**751,829**
I. **Elements to be deducted from tier 2 capital**	**53,478**	**46,083**
L. **Total tier 2 capital (H-I)**	**627,041**	**705,746**
M. **Items to be deducted from tier 1 and tier 2 capital**	**–**	**–**
N. **Capital for supervisory purposes (E + L - M)**	**2,502,214**	**2,548,500**
O. **Tier 3 capital**	**–**	**–**
P. **Capital for supervisory purposes including tier 3 (N + O)**	**2,502,214**	**2,548,500**

2.3 Capital adequacy

A. QUALITATIVE INFORMATION

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and protect against risk. The Group is subject to the capital adequacy requirements according to the rules adopted by the Bank of Italy. Based on these rules, at enterprise level the ratio between capital and total risk-weighted risk assets has to be at least 8%. On an individual basis, the minimum capital requirement is reduced by 25% as foreseen by the current rules of Basel II for banks forming part of banking groups. Compliance with these requirements is checked on a quarterly basis when preparing the periodic reports to be sent to the Supervisory Authority.

The annual ICAAP report on the Group's capital adequacy sent to the Bank of Italy outlines the checks carried out on the degree of risk inherent in the various items. This requisite is expressed by the ratio between capital for supervisory purposes and total risk-weighted assets, which at the end of the year came to 10.53%, with an excess of 253 basis points compared with the minimum requirement of 8% mentioned above. In absolute terms, the excess capital compared with the minimum requirement – what is called «free capital» – amounts to € 602 million.

The following table provides information of a quantitative nature on risk assets and capital ratios, reflecting prudent management of the various types of risks with a limited absorption of capital. Capital for supervisory purposes is absorbed for around 69% by credit risk, around 1.50% by market risks, around 5.5% by operational risks, while the other 24% is free capital. The reduction in supervisory capital since the end of 2012 reflects a fall in supplementary capital by 78.705 million, mainly following the partial repayment of subordinated loans in accordance with their amortisation schedules. Core capital does not include any innovative capital instruments. Accordingly, Core Tier 1 and Tier 1 are the same.

Following the operations authorised by the Parent Bank and due to be completed in the current year, comprising the capital increase by 350 million and the issue of a subordinated bond for 500 million, the supervisory capital of the Bank will be sufficient to comply with both current and future capital adequacy requirements.

B. QUANTITATIVE INFORMATION

	Unweighted amounts		Weighted amounts/requirements	
Categories/Amounts	**31/12/2013**	**31/12/2012**	**31/12/2013**	**31/12/2012**
A. **Assets at risk**				
A.1 Credit and counterparty risk	31,838,208	32,251,211	21,572,775	22,444,131
1. Standardised approach	31,838,208	32,251,211	21,572,775	22,444,131
2. Approach based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	–	–	–	–
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk	–	–	1,725,822	1,795,530
B.2 Market risks	–	–	38,379	27,618
1. Standard methodology	–	–	38,379	27,618
2. Internal models	–	–	–	–
3. Concentration risk	–	–	–	–
B.3 Operational risk	–	–	136,261	118,165
1. Basic method	–	–	136,261	118,165
2. Standardised approach	–	–	–	–
3. Advanced method	–	–	–	–
B.4 Other precautionary requirements	–	–	–	–
B.5 Other calculation elements	–	–	–	–
B.6 Total precautionary requirements	–	–	1,900,462	1,941,313
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets	–	–	23,755,775	24,266,413
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	7.89%	7.59%
C.3 Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)	–	–	10.53%	10.50%

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Poplare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
MELAZZINI PIERO	Chairman	1/1/2013-31/12/2013	31/12/2013	952	–	–	191
PEDRANZINI MARIO ALBERTO (*)	Deputy Chairman	1/1/2013-31/12/2013	31/12/2013	152	–	–	–
NEGRI MILES EMILIO	Deputy Chairman	1/1/2013-31/12/2013	31/12/2013	93	–	–	–
VENOSTA FRANCESCO	Director	1/1/2013-31/12/2013	31/12/2015	100	–	–	25
BENEDETTI CLAUDIO	Director	1/1/2013-31/12/2013	31/12/2014	41	–	–	–
BIGLIOLI PAOLO	Director	1/1/2013-31/12/2013	31/12/2013	42	–	–	–
FALCK FEDERICO	Director	1/1/2013-31/12/2013	31/12/2015	40	–	–	–
FERRARI ATTILIO PIERO	Director	1/1/2013-31/12/2013	31/12/2014	40	–	–	–
FONTANA GIUSEPPE	Director	1/1/2013-31/12/2013	31/12/2014	40	–	–	–
GALBUSERA CRISTINA	Director	1/1/2013-31/12/2013	31/12/2015	42	–	–	–
MELZI DI CUSANO NICOLÒ	Director	1/1/2013-31/12/2013	31/12/2015	39	–	–	–
PROPERSI ADRIANO	Director	1/1/2013-31/12/2013	31/12/2014	40	–	–	–
SOZZANI RENATO	Director	1/1/2013-31/12/2013	31/12/2014	78	–	–	3
STOPPANI LINO ENRICO	Director	1/1/2013-31/12/2013	31/12/2013	48	–	–	13
TRIACCA DOMENICO	Director	1/1/2013-31/12/2013	31/12/2015	60	–	–	–
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	1/1/2013-31/12/2013	31/12/2014	91	–	–	12
BERSANI PIO	Auditor	1/1/2013-31/12/2013	31/12/2014	69	–	–	17
VITALI MARIO	Auditor	1/1/2013-31/12/2013	31/12/2014	66	–	–	26
PEDRANZINI MARIO ALBERTO (*)	General Manager	1/1/2013-31/12/2013	–	_	86	300	687
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2013-31/12/2013	–	_	33	172	911

(*) also Managing Director.

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the Parent Bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.598 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.102 thousand for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Parent Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Group such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Group just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	48	11,463	2	317	–	–
Statutory auditors	830	187	27	4	22	20
Management	2	1,728	–	46	23	–
Family members	1,716	26,765	72	779	69	9,493
Subsidiaries	2,227,390	913,962	33,394	27,191	296,527	34,818
Associated companies	478,530	136,969	6,362	2,936	106,395	3,159
Other related parties	303,866	140,028	4,057	5,398	31,083	30,530

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 € 365 million to Alba Leasing SpA and for € 76 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 191 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.

A. Primary format

A.1 Distribution by business segment: income statement

The following sub-segments are discussed:

- *Businesses*: these comprise «non-financial companies» and «family»; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers*: these comprise «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities*: this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions*: this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables present the pre-tax results of the above sub-segments for 2013 and 2012. Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment. This aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2013**
Interest income	761,371	625,562	–	380,027	1,766,960	-748,846	1,018,114
Interest expense	-276,095	-413,336	–	-518,367	-1,207,798	748,846	-458,952
Net interest income	**485,276**	**212,226**	**–**	**-138,340**	**559,162**	**–**	**559,162**
Commission income	157,272	69,900	72,047	7,432	306,651	-1,072	305,579
Commission expense	-9,621	-6,253	-6,726	812	-21,788	-790	-22,578
Dividends and similar income	–	–	–	2,699	2,699	–	2,699
Net trading income	–	–	–	109,241	109,241	1,814	111,055
Net hedging profit (loss)	–	-301	–	256	-45	–	-45
Gains/losses on disposals or repurchases	–	–	–	52,720	52,720	–	52,720
Net change in financial assets and liabilities carried at fair value	–	–	–	5,387	5,387	–	5,387
Income from banking activities	**632,927**	**275,572**	**65,321**	**40,207**	**1,014,027**	**-48**	**1,013,979**
Adjustments to the net value of financial assets	-423,348	-54,055	–	-12,882	-490,285	–	-490,285
Balance of financial management	**209,579**	**221,517**	**65,321**	**27,325**	**523,742**	**-48**	**523,694**
Administrative expenses	-118,382	-142,157	-50,067	-82,714	-393,320	-47,855	-441,175
Provisions for risks and charges	-274	-2,575	–	-1	-2,850	–	-2,850
Net adjustments to property, plant and equipment	-4,139	-6,096	-2,114	-4,707	-17,056	–	-17,056
Net adjustments to intangible assets	-3,535	-4,959	-1,650	-2,216	-12,360	–	-12,360
Other operating income/expense	14,287	10,485	503	287	25,562	47,903	73,465
Share of profit/loss of equity investments	–	–	–	1,620	1,620	–	1,620
Gains/losses on disposal of investments	–	–	–	10	10	–	10
Gross profit	**97,536**	**76,215**	**11,993**	**-60,396**	**125,348**	**–**	**125,348**

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2012**
Interest income	776,899	712,255	–	520,150	2,009,304	-996,871	1,012,433
Interest expense	-368,422	-481,765	–	-633,011	-1,483,198	996,871	-486,327
Net interest income	**408,477**	**230,490**	**–**	**-112,861**	**526,106**	**–**	**526,106**
Commission income	163,750	67,970	72,976	5,204	309,900	-1,765	308,135
Commission expense	-10,336	-8,718	-6,961	2,545	-23,470	-672	-24,142
Dividends and similar income	–	–	–	2,934	2,934	–	2,934
Net trading income	–	–	–	158,855	158,855	2,386	161,241
Net hedging profit (loss)	–	571	–	44	615	–	615
Gains/losses on disposals or repurchases	–	–	–	9,573	9,573	–	9,573
Net change in financial assets and liabilities carried at fair value	–	–	–	6,273	6,273	–	6,273
Income from banking activities	**561,891**	**290,313**	**66,015**	**72,567**	**990,786**	**-51**	**990,735**
Adjustments to the net value of financial assets	-430,312	-56,318	–	-5,269	-491,899	–	-491,899
Balance of financial management	**131,579**	**233,995**	**66,015**	**67,298**	**498,887**	**-51**	**498,836**
Administrative expenses	-122,454	-132,752	-50,045	-81,616	-386,867	-39,440	-426,307
Provisions for risks and charges	-2,022	-449	–	-696	-3,167	–	-3,167
Net adjustments to property, plant and equipment	-4,455	-5,781	-2,154	-4,655	-17,045	–	-17,045
Net adjustments to intangible assets	-3,958	-4,698	-1,646	-2,187	-12,489	–	-12,489
Other operating income/expense	7,037	6,480	497	8,800	22,814	39,491	62,305
Share of profit/loss of equity investments	–	–	–	4,416	4,416	–	4,416
Gains/losses on disposal of investments	–	–	–	280	280	–	280
Gross profit	**5,727**	**96,795**	**12,667**	**-8,360**	**106,829**	**–**	**106,829**

A.2 Distribution by business segment: balance sheet

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 31/12/2013**
Financial assets	15,366,246	10,426,936	–	5,796,599	31,589,781
Other assets	–	–	–	912,320	912,320
Property, plant and equipment	50,398	70,572	23,446	101,546	245,962
Intangible assets	3,755	5,149	1,678	11,283	21,865
Financial liabilities	6,924,866	19,562,405	–	3,320,163	29,807,434
Other liabilities	46,262	6,783	–	704,717	757,762
Provisions	69,947	78,313	18,855	26,005	193,120
Guarantees given	3,550,449	489,436	–	194,107	4,233,992
Commitments	890,775	134,037	38,660	46,588	1,110,060

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 31/12/2012**
Financial assets	16,715,253	10,276,070	–	4,460,902	31,452,225
Other assets	–	–	–	642,529	642,529
Property, plant and equipment	49,370	60,541	21,717	100,817	232,445
Intangible assets	3,974	4,845	1,731	11,377	21,927
Financial liabilities	6,456,203	19,522,444	–	3,500,975	29,479,622
Other liabilities	34,381	972	–	707,102	742,455
Provisions	75,710	67,785	18,389	25,128	187,012
Guarantees given	3,466,097	421,538	–	148,397	4,036,032
Commitments	1,154,220	136,408	27,992	38,731	1,357,351

Summary discussion of results

The results of the various sub-segments are discussed below.

Businesses: a fundamental contribution has come from Factorit, with a positive result in this area of € 46,130 thousand, substantially unchanged on last year and slightly lower than that of the Parent Bank (€ 46,398 thousand),

This segment contributes 77.8% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 15,366 million and € 6,925 million respectively.

With respect to income from banking activities, net adjustments for the impairment of financial assets represent 66.9% of the total, while administrative expenses absorb 18.7%.

Comparison with the prior year shows a significant increase in the segment result, mainly because of the Parent Bank's contribution with a rise of 224.1%, mainly attributable to a combination of following factors:

- a positive trend in net interest income (+23.0%), principally due to a considerable increase in the spread on loans, which more than offset the slight decrease in financial assets and in spreads on deposits which, even if rising, are still showing much lower volumes;
- a substantial stability in commission flows (-0.1%), due above all to the satisfactory increase in the components relating to the granting of endorsement loans, offset by the elimination of overdraft commissions on the concession of borrowing facilities as a result of legislative changes;
- a modest increase in adjustments to financial activities (+2.7%), due to a significant increase in provisions offset by a marked decrease in losses;
- a significant reduction in administrative expenses, mainly due to a decline in sector personnel (-4.5%, of which other costs -0.3%, personnel costs -8.9%);
- an important rise in operating income/expense (+147.3%), due to the introduction of the rapid enquiry fee in the granting of loans.

Individuals and other customers: the contribution made by the Swiss subsidiary is also significant, with a result in this area that is 24.0% of that of the parent bank.

This segment contributes 60.8% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 10,427 million and € 19,562 million respectively.

With respect to income from banking activities, net adjustments for the impairment of financial assets represent 19.6% of the total, while administrative expenses absorb 51.6%.

Comparison with the prior year shows a significant decrease in the segment result, mainly because of the Parent Bank's contribution with a decline of 22.7%, mainly attributable to a combination of following factors:

- a decrease in net interest income (-9.3%), due to satisfactory growth in direct deposits in a context of significant spread erosion, not offset by a sufficient rise in spreads on loans, which, even if rising, are still showing much lower volumes;
- a substantial stability in commission flows (-0.01%), due to the satisfactory increase in the components relating to the granting of endorsement loans and to the collections and payments segment, offset by the elimination of overdraft commissions on the concession of borrowing facilities as a result of legislative changes;
- a substantial decrease in adjustments to financial assets (-6.5%), mainly due to the decline in provisions and losses;
- a significant increase in administrative expenses, mainly due to a rise in sector personnel (+8.8%, of which other costs +8.1%, personnel costs +9.5%).

Securities: a fundamental contribution has come from the Swiss subsidiary, with a positive result in this area of € 9,754 thousand, substantially in line with the previous year and significantly higher than that obtained by the Parent Bank (€ 2,239 thousand).

This segment contributes 9.6% of overall results.

With respect to income from banking activities, administrative expenses absorb 76.6% of the total.

Comparison with the prior year reflects a slight decrease in results, mainly due to the contribution of the Parent Bank, which reported a decline of 29.2%, mainly attributable to the following factors:

- a slight reduction in commission flows (-1.6%), due to a lower result from the custodian bank business, partly offset by the good performance of the placement of financial instruments;
- a modest increase in administrative expenses (+1.6%, of which other costs +2.7%, personnel expenses +0.7%).

Central functions: this segment contributes -48.2% of overall results.

The contribution of the Swiss subsidiary and of Factorit totalling 41,655 thousand euro is relevant.

While this result shows a significant improvement on the previous year (+20.3%), it does not compensate for the negative trend recorded by the Parent Bank, which posted a drop of 123.1%, mainly due to a substantial decrease in net interest income (owing to the decline in the internal rate of transfer) and out-of-period income (presence of substantial operating income from the sale of the custodian bank business in the previous year) and to an increase in write-downs of equity investments.

B. Secondary format

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparties, does not give significantly different results.

Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.

There are differences between the parent bank and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market.

B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2013**
Interest income	1,480,043	235,329	66,860	1,782,232	-764,118	1,018,114
Interest expense	-1,026,465	-159,407	-38,430	-1,224,302	765,350	-458,952
Net interest income	**453,578**	**75,922**	**28,430**	**557,930**	**1,232**	**559,162**
Commission income	223,651	51,296	34,235	309,182	-3,603	305,579
Commission expense	-12,906	-7,006	-4,498	-24,410	1,832	-22,578
Dividends and similar income	20,267	–	3	20,270	-17,571	2,699
Net trading income	100,595	–	9,337	109,932	1,123	111,055
Net hedging profit (loss)	–	–	-301	-301	256	-45
Gains/losses on disposals or repurchases	52,720	–	–	52,720	–	52,720
Net change in financial assets and liabilities carried at fair value	5,387	–	–	5,387	–	5,387
Income from banking activities	**843,292**	**120,212**	**67,206**	**1,030,710**	**-16,731**	**1,013,979**
Adjustments to the net value of financial assets	-448,369	-38,461	-3,455	-490,285	–	-490,285
Balance of financial management	**394,923**	**81,751**	**63,751**	**540,425**	**-16,731**	**523,694**
Administrative expenses	-305,917	-37,760	-53,409	-397,086	-44,089	-441,175
Provisions for risks and charges	725	-5	-3,570	-2,850	–	-2,850
Net adjustments to property, plant and equipment	-13,157	-1,320	-2,579	-17,056	–	-17,056
Net adjustments to intangible assets	-9,823	-1,146	-1,391	-12,360	–	-12,360
Other operating income/expense	25,473	3,835	739	30,047	43,418	73,465
Share of profit/loss of equity investments	-6,563	–	–	-6,563	8,183	1,620
Gains/losses on disposal of investments	10	–	–	10	–	10
Gross profit	**85,671**	**45,355**	**3,541**	**134,567**	**-9,219**	**125,348**

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2013**
Interest income	1,699,824	265,673	66,320	2,031,817	-1,019,384	1,012,433
Interest expense	-1,282,716	-181,261	-42,909	-1,506,886	1,020,559	-486,327
Net interest income	**417,108**	**84,412**	**23,411**	**524,931**	**1,175**	**526,106**
Commission income	228,913	51,380	33,141	313,434	-5,299	308,135
Commission expense	-15,658	-7,077	-4,311	-27,046	2,904	-24,142
Dividends and similar income	5,562	–	8	5,570	-2,636	2,934
Net trading income	150,416	–	9,925	160,341	900	161,241
Net hedging profit (loss)	–	–	571	571	44	615
Gains/losses on disposals or repurchases	9,573	–	–	9,573	–	9,573
Net change in financial assets and liabilities carried at fair value	6,273	–	–	6,273	–	6,273
Income from banking activities	**802,187**	**128,715**	**62,745**	**993,647**	**-2,912**	**990,735**
Adjustments to the net value of financial assets	-444,416	-42,346	-5,137	-491,899	–	-491,899
Balance of financial management	**357,771**	**86,369**	**57,608**	**501,748**	**-2,912**	**498,836**
Administrative expenses	-297,071	-36,693	-56,059	-389,823	-36,484	-426,307
Provisions for risks and charges	-2,156	-315	-696	-3,167	–	-3,167
Net adjustments to property, plant and equipment	-12,736	-1,303	-3,006	-17,045	–	-17,045
Net adjustments to intangible assets	-10,055	-1,190	-1,244	-12,489	–	-12,489
Other operating income/expense	22,741	2,727	-88	25,380	36,925	62,305
Share of profit/loss of equity investments	-2,085	–	–	-2,085	6,501	4,416
Gains/losses on disposal of investments	280	–	–	280	–	280
Gross profit	**56,689**	**49,595**	**-3,485**	**102,799**	**4,030**	**106,829**

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2013**
Financial assets	25,496,187	2,431,299	3,662,295	31,589,781
Other assets	807,358	–	104,962	912,320
Property, plant and equipment	210,227	16,355	19,380	245,962
Intangible assets	19,555	1,227	1,083	21,865
Financial liabilities	18,838,657	7,429,015	3,539,762	29,807,434
Other liabilities	728,671	10,014	19,077	757,762
Provisions	168,278	21,262	3,580	193,120
Guarantees given	3,295,178	762,410	176,404	4,233,992
Commitments	752,211	324,955	32,894	1,110,060

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2013**
Financial assets	25,233,280	2,671,729	3,547,216	31,452,225
Other assets	548,261	–	94,268	642,529
Property, plant and equipment	195,921	14,701	21,823	232,445
Intangible assets	19,075	1,186	1,666	21,927
Financial liabilities	18,408,539	7,657,781	3,413,302	29,479,622
Other liabilities	707,954	9,893	24,608	742,455
Provisions	165,830	21,182	–	187,012
Guarantees given	3,087,703	793,965	154,364	4,036,032
Commitments	938,156	380,173	39,022	1,357,351

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 separate financial statements during the course of the period from 1 January 2013 to 31 December 2013.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the "Internal Control - Integrated Framework (CoSO)", issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the consolidated financial statements at 31 December 2013:
– 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, 24 March 2014

The Managing Director
Mario Alberto Pedranzini

The Financial Reporting Officer
Maurizio Bertoletti

KPMG

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Banca Popolare di Sondrio S.C.p.A.

1 We have audited the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2013, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 4 April 2013 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2013 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Banca Popolare di Sondrio Group as at 31 December 2013, the results of its operations and its cash flows for the year then ended.

4 The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of a directors' report on operations and a report on the corporate governance and the ownership structure, published in the "informativa societaria" section of Banca Popolare di Sondrio S.C.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and the ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and the ownership structure are consistent with the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2013.

Milan, 4 April 2014

KPMG S.p.A.

(signed on the original)

EXTRAORDINARY PART

Shareholders,

Today's Extraordinary Shareholders' Meeting is called upon to resolve upon the proposed increase in capital (a combined bonus and rights issue), which the Board of Directors submits for your approval. The main characteristics of this operation are as follows:

1. a bonus issue of shares, par value 3 euro each, with regular dividend rights, by a maximum nominal amount of 100 million euro, which amount would be transferred from the «share premium reserve» to «share capital»;
2. a simultaneous extraordinary issue of shares for cash under option to the members and the shareholders, up to a maximum amount of 350 million euro including any share premium;
3. payment of an expense reimbursement in proportion to the number of new shares subscribed for in cash, to be determined by the Extraordinary Shareholders' Meeting or by the Board of Directors with a mandate from the shareholders;
4. delegation of the widest powers to the Board of Directors by the Extraordinary Meeting to determine the date for the operation at any time during the current year, as well as to establish all other terms, conditions and procedures, including the allotment ratio for the bonus shares, the option ratio and the subscription price, including any share premium, for the part issued for cash.

This report, prepared pursuant to article 125-ter of Legislative Decree 58 of 24 February 1998 and subsequent amendments and on the basis of the provisions of Appendix 3/A of the Regulations adopted by Consob resolution no. 11971 of 14 May 1999, as amended, sets out the reasons and the content of this project to increase the share capital of Banca Popolare di Sondrio.

1.1 Reason and purpose of the increase in capital

The decision of the Board of Directors to propose an increase in capital to the shareholders and to the market is based above all on the company's positive performance and on the prospects of further growth in size and operations, while maintaining the autonomy of the Bank and the Banking Group.

This means that it also depends on the Bank's ability to compete in an increasingly incisive way in its key markets, a clear sign of the trust and good reputation that the Bank and its subsidiaries enjoy in the communities, businesses and institutions of the area. These are factors of considerable value, which are reflected in the constant increase in customers and shareholders.

Having noted that the last extraordinary increase in capital by the Bank dates back to 2007 and that the frequency of the previous increases was clearly greater compared with the current proposal, the Board of Directors would like to point out that the substantial growth in volumes achieved by the bank in the meantime requires an adjustment in the share capital, also in the prospect of further growth in the future. This with a view to operational equilibrium, traditionally oriented to progressive operational development and to the quality of services, as well as to strengthening the capital ratios set by the Supervisory Authority's rules, which are leading to more and more stringent limits. The latter factor that, as is widely known and specified below, is also determined by the transfer of the main credit institutions, including Banca Popolare di Sondrio, under the supervision of the European Central Bank.

As a further premise it is required to point out that, at system level, the prolonged crisis in the economy has reflected heavily on the profitability of banks, which have been forced to make drastic writedowns of the loans granted to customers, significantly reducing their self-financing capacity by means of retained earnings. In this difficult context, however, Banca Popolare di Sondrio has always achieved profits, supported by solid fundamentals, the effectiveness of consolidated management policies, commercial competitiveness and, last but not least, by the diligent and passionate commitment of its staff.

In terms of operational support, the availability of adequate capital resources has always been the basic premise for gradual development and is the condition to continue this process with the same intensity. The comparison shown in the following table between 31 December 2007 and 31 December 2013, the period of six years since the last increase in capital, indicates that it is opportune, even if not essential, to reestablish greater coherency between the consolidated tier 1 capital, essentially equity and reserves, and the size of the main aggregates in the consolidated financial statements:

(consolidated figures in millions of euro)	31/12/2007	31/12/2013	% change
Capital for supervisory purposes	1,508	2,502	+ 65.92%
– of which: Tier 1 capital	1,567	1,875	+ 19.66%
Customer deposits	14,846	26,675	+ 79.68%
Due from customers			
– cash loans	13,269	23,905	+ 80.16%
– overdraft facilities	2,309	4,234	+ 83.37%
Financial assets	3,694	6,795	+ 83.95%
Equity investments	66	156	+ 136.36%

The proceeds of the increase in capital will go towards the financial support that the bank traditionally grants to meritorious households and companies - i.e. the local economies of the areas where we are present - alsoconsidering larger companies, which among other things, make it possible to provide a variety of services with attractive volumes. In fact, the Bank has never implemented tight credit policies, ensuring adequate support even during the prolonged economic crisis which is still underway, albeit subject to a certain natural selectivity due to cyclical trends. Our intention is also to respond actively to the hoped-for recovery in the demand for credit that is likely to arise from the reversal of the trend in the production cycle, followed by growth. Hence the need for wider margins by increasing our own funds, so that we can support the evolution of our risk assets with suitable caution.

The proceeds of the operation will also be used in the following areas:

– support for the expected structural growth, also through the annual opening of around ten new branches as a concrete expression of the intention to continue the Bank's independent and organic growth;
– targeted reinforcement of relationships with affiliates;
– projects of expansion and modernisation of branches, plus the ability to acquire prestigious downtown properties in cities where the Bank intends to open, if the right opportunities arise;
– reinforcement of controls in relation to various risk profiles, with particular regard to credit risk;
– capital investment needed to acquire innovative IT systems, so as to improve operational efficiency and support the evolution of the virtual channel.

In relation to the previous points, it is worth pointing out, as regards the Bank's territorial development, the consolidation of its regional dimensions, with important projections in the main areas of Northern Italy and the progressive expansion of the network in the city and province of Rome.

In the 2007-2013 period mentioned previously, the number of branches has increased from 247 to 318. Also of considerable importance was the acquisition of control of Factorit spa in 2010; the company specializes in the financing and management, with or without collateral, of domestic and international trade receivables. The subsidiary, which has been successfully integrated into the Banking Group and that in 2013 achieved satisfactory economic results, operates to support businesses, with services that are complementary to those offered by the Bank. Significant investments have also been made in recent years to strengthen the share capital of Banca Popolare di Sondrio (SUISSE) SA, which is steadily increasing its customer portfolio and volumes handled, and of other affiliates, which specialise in providing competitive products and services that complement the range typically offered by a bank.

As stated in the introduction, the increase in capital is also designed to strengthen the Bank's capital ratios, particularly the Common Equity Tier 1 ratio (CET1 ratio), which is the ratio between equity (share capital and retained earnings) and risk-weighted assets. This in relation to the current and prospective valuations following the introduction of the criteria for defining capital for supervisory purposes under Basel III and the Bank of Italy's determination to accelerate implementation of the new limits.

With respect to the general period of adoption foreseen by the EC regulations, namely by 2019, Italian banks are being asked to achieve the minimum ratios on a regular basis by 2015. In particular, an additional requirement has been imposed immediately on the better quality capital, called a «capital conservation buffer» of 2.5%. To summarise, Italian banks are being called upon to meet the following requirements at consolidated level:

(consolidated figures in millions of euro)	CET1 ratio	Tier 1 capital ratio	Total capital ratio
from 1 January 2014	7.0%	8.0%	10.5%
from 1 January 2015	7.0%	8.5%	10.5%

For larger EU banks, which includes the Banca Popolare di Sondrio Group, the European Central Bank has imposed (with a note of 23 October 2013) a 1% add-on to the CET1 ratio, the minimum value of which is therefore 8.0%, a stricter limit compared with the previous values.

At the end of 2013, the Bank had the following capital ratios at consolidated level, based on the regulations in force at the time (Basel II):

(actual)	Tier 1 capital ratio	Total capital ratio
31 December 2013	7.89%	10.53%

Internal estimates according to the rules in force from 1 January 2014 are substantially in line with these limits. The following result includes the so-called «SME supporting factor», which permits a lower level of capital absorption for exposures to small and medium-sized companies:

(estimate)	CET1 ratio	Tier 1 capital ratio	Total capital ratio
31 December 2013	8.03%	8.04%	10.88%

Assuming that the cash portion of the proposed increase in capital is carried out for the maximum amount of Euro 350 million, this together with the expected contribution from self-financing and the issue of subordinated bonds for a total of Euro 500 million leads to a consolidated capital for supervisory purposes estimated at the end of 2014 of Euro 3,379 million, including common equity (tier 1) capital of Euro 2,348 million, and related consolidated coefficients of approximately the following amounts:

(estimate)	CET1 ratio	Tier 1 capital ratio	Total capital ratio
31 December 2014	9.45%	9.45%	13.60%

The margin achieved will also allow the Bank to cope with any impacts resulting from the «comprehensive assessment» that the banks due to be supervised by the European Central Bank will be subject to, including ourselves, as we said previously. This exercise consists of the following three elements: supervisory risk assessment, assets quality review and stress test. The outcome of these enquiries, which could highlight the need to allocate additional capital resources to hedge risks, induced a many of the national banking intermediaries involved in this process to launch initiatives to strengthen their equity, with particular reference to their high quality capital, i.e. with the aim of increasing their CET1 ratio.

This coefficient should then benefit from a further significant strengthening from the positive effects of the process of validating internal credit risk ratings; this is a very laborious process that is unlikely to be improved in the short term, but which the Bank intends to start in any case.

1.2 Results of 2013

The Directors' report to the Ordinary Shareholders' Meeting, which took place at the same time as the Extraordinary Meeting for the proposed increase in capital, and publicised in the same way, explains among other things the results of the separate and consolidated financial statements for 2013, in addition to the outlook for the current year, together with considerable detail, also in the notes, to which reference is made.

1.3 Existence of underwriting and/or placement syndicates, their composition, methods and terms of intervention

The Directors intends to appoint a syndicate made up of leading institutions, according to market practice for transactions of this type, to ensure the subscription of any option rights that may not be taken up at the end of the cash offering for a maximum of Euro 350 million. There is no provision for a pre-guarantee.

The related assessments are currently in course, for which the Board of Directors has delegated the Chairman's Committee to define any agreements governed by the terms and conditions that are usual for this type of operation.

1.4 Any other forms of placement provided for

Being a rights issue, the shares will be offered to members and shareholders directly by the Bank. No other forms of placement are provided for.

1.5 Criteria for determining the issue price of the new shares

The cash part of the proposed increase in capital provides for a rights issue under option to the members and shareholders of new ordinary shares with a par value of Euro 3 each, up to the maximum of Euro 350 million including any share premium.

The proposal is to delegate to the Board of Directors the broadest powers to decide on the timing of the operation, to be carried out by the end of the current year, and to determine the terms, methods and conditions, including the option ratio and the subscription price, including any share premium, of the new shares issued on a cash basis.

The Board of Directors will therefore take steps to decide:

– nearer the start of the offer period, the issue price of the ordinary shares for payment and their par value of Euro 3, including any share premium, in consideration of the market conditions, the market price of the shares and the Bank's current and prospective economic and financial situation. This price may also be determined by applying a discount in accordance with the current market practice and methods, to the extent established by the Board of Directors, in relation to the theoretical ex-rights price of the shares;
– consequently, the number of ordinary shares with a par value of Euro 3 each, offered under option, with the option ratio in proportion to the shares held, making any roundings where necessary;
– the amount of the increase in capital for payment, within the overall maximum limit (par value plus any share premium) of Euro 350 million;
– the amount of any unit expense reimbursement in proportion to the number of new shares subscribed for cash;
– the number of ordinary bonus shares with a par value of Euro 3 allocated free of charge, with the related allocation ratio in proportion to the number of shares held, making any roundings where necessary;
– the amount of the bonus increase in capital, within the overall maximum limit of Euro 100 million;
– the exact timing of the operation, to be completed by 31 December 2014.

1.6 Members and shareholders who have expressed their willingness to subscribe for the new shares

At the date of this report, the Bank had not received any expression of interest from members and shareholders to subscribe, in proportion to the shares already held, for the new shares arising from the increase in capital and/or any option rights not taken up.

1.7 Expected period for execution of the increase in capital

The increase in capital is expected to be carried out before the end of the current year, 2014, subject to obtaining the go-ahead from the Supervisory Authority and, after approval of theshareholders' meeting, authorisation from Consob for publication of the prospectus.

1.8 Date of dividend rights of the new shares

The new ordinary shares will have regular dividend rights and will give holders the same rights as the Bank's ordinary shares currently in circulation.

1.9 Financial effects of the increase in capital

As regards the impact on the Bank's capital and the strengthening of its capital ratios in particular,, see point 1.1 above, where the effects have been estimated for a cash increase in capital for the maximum amount of Euro 350 million. The operation does not involve any effects that are likely to result in concrete changes in the Bank's economic and financial situation.

1.10 Dilutive effects of the unit value of the shares

The rights issue of shares for cash does not have any dilutive effects, both as regards the percentage participation in the bank's share capital, versus the members and shareholders who subscribe for the new shares in relation to their own option rights.

Given that the issue price of the new shares has not yet been decided, the number of shares to be issued and the related option ratio, it is not currently possible to calculate or even estimate the dilutive effect on the unit value of the shares for the members and shareholders who do not exercise all or part of their option rights. For the same reasons, it is not possible to calculate the dilutive effect of the increase in share capital on the unit value of the shares.

1.11 Other information

Subscription of the shares by exercising the option rights can take place at all authorised intermediaries belonging to the Monte Titoli S.p.A. centralised management system. The securities will be made available for applicants through authorised intermediaries belonging to Monte Titoli S.p.A.

The Bank will advertise the operation on a timely basis through the press, the branch network, the Bank's website «www.popso.it» and will communicate to the individual members the terms and conditions of the increase in capital, remaining available through the entire structure, for related explanations and execution of the necessary formalities.

2.1 Reasons for the bonus issue

The proposed increase in capital by means of a combined bonus and rights issue is established practice at Banca Popolare di Sondrio, which the shareholders and the market have appreciated in the past, with numerous operations of this kind carried out successfully.

So even though it is not done frequently by other companies, the Board of Directors decided to repeat the bonus issue part of the increase in capital, in the hope that the operation is still comprehensible and transparent, as usual. This, of course, also in relation to the availability of funds, for a maximum proposed amount of Euro 100 million, to be transferred from the «share premium reserve» to «share capital».

This allocation of bonus shares, which does not change the situation of members and shareholders in terms of their interest in the Bank's capital, as it is purely for accounting purposes, is a distinguishing feature of the increases in capital carried out by the Bank over time. In addition, absorption of a higher number of shares by the market helps to promote trading in the shares, thereby creating more coherent and meaningful prices.

2.2 Method of implementation of the bonus issue

The bonus part of the proposed increase in capital provides for the allocation, free of charge, to the members and shareholders in proportion to the number of shares already held of new ordinary shares with a par value of Euro 3 up to the maximum nominal amount of Euro 100 million, which amount will be transferred from the «share premium reserve» to «share capital».

As part of the overall combined increase in capital increase in mixed form, the proposal is to delegate to the Board of Directors the broadest powers to decide on the timing of the operation, to be carried out by the end of the current year, and to determine the terms, methods and conditions, including the allocation ratio for the new bonus shares.

2.3 Date ofdividend rights of the new bonus shares

The new bonus ordinary shares will have regular dividend rights and will give holders the same rights as the Bank's ordinary shares currently in circulation.

Shareholders,

We now invite you to vote on the various proposals made by the Board of Directors, by submitting the following resolutions for your approval:

Resolution relating to point 1 of the agenda:

Resolution relating to point 1 of the agenda:
– combined bonus and rights issue increase in capital.

«The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio:
– having heard the report of the Board of Directors;
– having taken note of the report of the Board of Statutory Auditors;

hereby resolves:

1) to approve the combined bonus and rights issue increase in capital in the terms proposed by the Board of Directors, as specified below:

– allocation free of charge of new bonus shares, of par value Euro 3 each, with normal dividend rights, by a maximum nominal amount of Euro 100 million, which amount is to be transferred from the «share premium reserve» to «share capital»;
– a simultaneous extraordinary issue of ordinary shares for cash of par value Euro 3 each to be offered under option to the members and the shareholders, up to a maximum amount of Euro 350 million, or an overall amount not significantly less than this, also for the purposes of achieving an exact option ratio for the members and shareholders, including any share premium, which amount is to be decided by the Board of Directors at the time of implementation;
– payment of an expense reimbursement in proportion to the number of new shares subscribed for in cash, to be determined by the Board of Directors;

2) to delegate to the Board of Directors, at the time of implementation, the broadest powers to determine all of the terms, procedures and conditions of the transaction with respect to the resolution referred to in point 1) above, and in particular:
– nearer the start of the offer period, the issue price of the ordinary shares for payment and their par value of Euro 3 (three euros) each, including any share premium, in consideration of the market conditions, the market price of the shares and the Bank's current and prospective economic and financial situation;
– the number of ordinary bonus shares with a par value of Euro 3 (three euros) each, allocated free of charge, with the related allocation and option ratios in proportion to the number of shares held, making any roundings where necessary;
– the exact timing of the operation, to be completed by the end of the current year;
– the amount of any unit expense reimbursement in proportion to the number of new shares subscribed for cash;

in addition:
– to offer the option rights not taken up, in accordance with article 2441, third paragraph, of the Italian Civil Code;
– to withdraw from the «share premium reserve» the amounts to be transferred to «share capital» in connection with the bonus issue.»

Resolution relating to point 1 of the agenda:
– combined bonus and rights issue increase in capital.

«To complete the decisions taken today on point 1 of the agenda, the

Extraordinary General Shareholders' Meeting of Banca Popolare di Sondrio,

hereby resolves:

to delegate to the Chairman, Vice-Chairmen and Managing Director, severally, the powers needed to publicise and execute these shareholders' resolutions, according to the law; in addition, to make amendments, cancellations and/or additions to these resolutions, also in relation to any recommendation on the part of the competent authorities for the purposes of approval, filing, registration and publication as required by law.»

Sondrio, 25 March 2014

THE BOARD OF DIRECTORS

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

Shareholders,

The Board of Directors submits for your approval the proposed resolution for an increase in capital with the following main characteristics:

– bonus issue of shares, of par value 3 euro each, with regular dividend rights, by a maximum nominal amount of € 100 million, which amount is to be transferred from the «share premium reserve» to «share capital»;
– simultaneous extraordinary issue of shares for cash under option to the members and the shareholders, up to a maximum amount of € 350 million inclusive of any share premium;
– delegation of the widest powers to the Board of Directors by the Extraordinary Meeting to determine the timing of the operation at any time during the current year, as well as to establish all other terms, conditions and procedures, including the allocation ratio for the bonus shares, the option ratio and the subscription price, including any share premium, for the part issued for cash, as well as the reimbursement of expenses in proportion to the number of new shares subscribed for in cash.

Having examined the technical profile and legitimacy of the proposed increase in capital, we can say that it complies with the law, in particular the provisions of arts. 2438 et seq. of the Civil Code.

We can therefore therefore express a favourable opinion with regard to the legitimacy of the operation and its compliance with the law.

In this regard, and from the point of view of whether the operation is opportune, we agree in expressing a favourable opinion for the following reasons.

The expected flow of new resources, intended to strengthen the capital, will allow the Bank to exercise its entrepreneurial vocation with a greater safety margin, to the advantage of its operational flexibility and its investment and development activities. The decision is also opportune because of the general need to strengthen capital ratios as requested by the Supervisory Authorities, also versus the provisions of the European Central Bank to which we are subject as a result of the size that the Bank has now reached. Taking note of this scenario, it is appropriate to strengthen the Bank's capital because, even though it is not strictly necessary for regulatory purposes, it will ensure the Bank's immediate achievement of the thresholds required for the increasingly stringent capital ratios, while leaving a reasonable margin for growth. In its report, the Board of Directors has outlined the purposes for which the increase in capital is intended, so we refer you to that section. Within our own sphere of competence, we would emphasise the fact that this resolution is consistent with the Bank's planned objectives: strengthening the Bank's capital is in fact intended to ensure ongoing growth over time and the strategic aim to maintain the Bank's autonomy and firm intention to retain its status as a cooperative bank. In this context, there is no doubt that in the presence of a situation that is still uncertain and in the expectation of greater competition within the banking system in terms of intermediation and services, it is essential for the Bank to upgrade its structure and organisation constantly, which in turn requires an adequate level of capital.

The Bank has shown that it is able to move in the right direction, having regard to the leading position that it has achieved within the banking system. We therefore believe that the proposed increase in capital merits success from a technical point of view and deserves your support.

Sondrio, 4 April 2014

THE BOARD OF
STATUTORY AUDITORS
Piergiuseppe Forni, Chairman
Pio Bersani, Auditor
Mario Vitali, Auditor

RESOLUTIONS OF THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING

of 26 April 2014 (at second calling)

AGENDA

Ordinary part

1) *Presentation of the financial statements as of 31 December 2013: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;*
2) *Mandate to the Board of Directors to buy and sell treasury shares in accordance with art. 21 of the articles of association;*
3) *Approval of the document entitled "Compensation Policies of the Banca Popolare di Sondrio Banking Group" and information on how these compensation policies were implemented in 2013, as required by the Bank of Italy;*
4) *Approval of the Remuneration Report, as per art. 123-bis of Decree 58/98 (Consolidated Finance Act);*
5) *Determination of directors' emoluments;*
6) *Appointment of five Directors for the three-year period 2014-2016.*

Extraordinary part

1) *Proposed increase in share capital via a bonus issue and for cash:*
   – *bonus issue of shares, of par value 3 euro each, with regular dividend rights, by a maximum nominal amount of 100 million euro, which amount is to be transferred from the "share premium reserve" to "share capital";*
   – *simultaneous extraordinary issue of shares for cash under option to the members and the shareholders, up to a maximum amount of 350 million euro inclusive of any share premium;*
   – *delegation of the widest powers to the Board of Directors by the Extraordinary Meeting to determine the date for the operation at any time during the current year, as well as to establish all other terms, conditions and procedures, including the allotment ratio for the bonus shares, the option ratio and the subscription price, including any share premium, for the part issued for cash, as well as the reimbursement of expenses in proportion to the number of new shares subscribed for in cash;*
2) *Related and consequent resolutions and granting of powers.*

The Shareholders' Meeting, which had a quorum, began dealing with the matters on the agenda.

For the ordinary part.

Point 1) on the agenda

Having heard the directors' report on operations for 2013 and the proposed allocation of the net profit for the year, having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors, having taken as read the statement of financial position, 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 2013, comprising the statement of financial position, income statement and related explanatory notes; the financial statements that show a net profit for the year of € 48,831,672. The Shareholders' Meeting also approved the allocation of net profit for the year of € 48,831,672 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	€	4,883,167.20
– 30% to the statutory reserve	€	14,649,501.60
b) to pay a dividend of € 0.05 to each of the 308,147,985 shares in circulation at 31/12/2013 with dividend rights as from 1/1/2013, 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	€	15,407,399.25
c) to allocate the residual net profit:		
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	13,791,603.95

In accordance with the Stock Exchange calendar, the dividend has been paid from 8 May 2014, going ex-coupon (no. 34) on 5 May 2014.

Point 2) on the agenda

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

Purchases and sales of treasury shares – namely the ordinary shares of Banca Popolare di Sondrio of par value Euro 3 each – have to be carried out on organised markets according to operating methods that ensure parity of treatment between shareholders and which do not permit direct matching of purchase and sale offers.

Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2014 financial statements. Purchases have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned "Reserve" of Euro 93,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 5% of the shares making up the share capital. Sales have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned "Reserve" of Euro 93,000,000.

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

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

Point 3) on the agenda

The Meeting approved the document "Compensation Policies of the Banca Popolare di Sondrio Banking Group" and information on how these compensation policies were implemented in 2013.

Point 4) on the agenda

The Shareholders' Meeting approved the first Section of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act).

Point 5) on the agenda

The Meeting set the remuneration of the directors in accordance with the current "Compensation Policies of the Banca Popolare di Sondrio Banking Group".

Point 6) on the agenda

The Meeting appointed the following as members of the Board of Directors for the three-year period 2014-2016: Piero Melazzini, Mario Alberto Pedranzini, Annalisa Rainoldi, Lino Enrico Stoppani and Paolo Biglioli. The Meeting also elected, by acclamation, Piero Melazzini as honorary chairman.

For the extraordinary part,

Point 1) on the agenda

Having heard the directors' report on operations and having taken note of the report of the Board of Statutory Auditors, the Meeting

resolved

1) to approve the combined bonus and rights issue increase in capital in the terms proposed by the Board of Directors, as specified below:
   - allocation free of charge of new bonus shares, of par value Euro 3 each, with normal dividend rights, by a maximum nominal amount of Euro 100 million, which amount is to be transferred from the "share premium reserve" to "share capital";

– a simultaneous extraordinary issue of ordinary shares for cash of par value Euro 3 each to be offered under option to the members and the shareholders, up to a maximum amount of Euro 350 million, or an overall amount not significantly less than this, also for the purposes of achieving an exact option ratio for the members and shareholders, including any share premium, which amount is to be decided by the Board of Directors at the time of implementation;
– payment of an expense reimbursement in proportion to the number of new shares subscribed for in cash, to be determined by the Board of Directors;

2) to delegate to the Board of Directors, at the time of implementation, the broadest powers to determine all of the terms, procedures and conditions of the transaction with respect to the resolution referred to in point 1) above, and in particular:
   – nearer the start of the offer period, the issue price of the ordinary shares for payment and their par value of Euro 3 (three euros) each, including any share premium, in consideration of the market conditions, the market price of the shares and the Bank's current and prospective economic and financial situation;
   – the number of ordinary bonus shares with a par value of Euro 3 (three euros) each, allocated free of charge, with the related allocation and option ratios in proportion to the number of shares held, making any roundings where necessary;
   – the exact timing of the operation, to be completed by the end of the current year;
   – the amount of any unit expense reimbursement in proportion to the number of new shares subscribed for cash;

   in addition:
   – to offer the option rights not taken up, in accordance with article 2441, third paragraph, of the Italian Civil Code;
   – to withdraw from the "share premium reserve" the amounts to be transferred to "share capital" in connection with the bonus issue.

Point 2) on the agenda

To complete the decisions taken on point 1 of the agenda, the Extraordinary General Shareholders' Meeting of Banca Popolare di Sondrio,

resolved

to delegate to the Chairman, Vice-Chairmen and Managing Director, severally, the powers needed to publicise and execute these shareholders' resolutions, according to the law; in addition, to make amendments, cancellations and/or additions to these resolutions, also in relation to any recommendation on the part of the competent authorities for the purposes of approval, filing, registration and publication as required by law.

THE BANK'S GROWTH SINCE ITS FOUNDATION, KEY FINANCIAL DATA

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital & reserves) euro	Net profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210
2011	5,742,516,051	20,606,382,386	24,261,565,885	1,676,472,699	57,283,707	0.090
2012	7,098,208,844	22,390,051,929	27,490,789,964	1,711,323,846	25,822,369	0.033
2013	8,696,206,457	20,843,577,225	27,752,052,266	1,773,767,299	48,831,672	0.050

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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