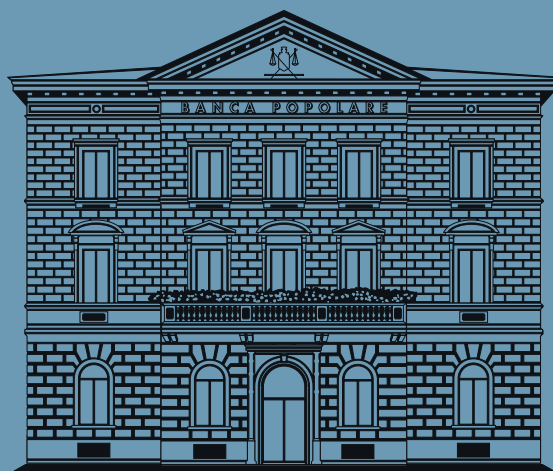




# Banca Popolare di Sondrio



## CONSOLIDATED QUARTERLY FINANCIAL REPORT AT 31 MARCH 2014



**Banca Popolare  
di Sondrio**

CONSOLIDATED  
QUARTERLY  
FINANCIAL  
REPORT AT  
31 MARCH 2014



# Banca Popolare di Sondrio

Founded in 1871

## CONSOLIDATED QUARTERLY FINANCIAL REPORT AT 31 MARCH 2014

Società cooperativa per azioni

Head office: Piazza Garibaldi 16, 23100 Sondrio, Italy

Tel. +390 342 528.111 - Fax +390 342 528.204

Website: <http://www.popso.it> - E-mail: [info@popso.it](mailto:info@popso.it)

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842

Official List of Cooperative Banks no. A160536

Parent bank of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0 -

Member of the Interbank Deposit Protection Fund

Fiscal code and VAT number: 00053810149

Share capital: € 924,443,955 - Reserves: € 833,815,944

(figures approved at 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 Chairman	LINO ENRICO STOPPANI*
Managing Director	MARIO ALBERTO PEDRANZINI**
Directors	CLAUDIO BENEDETTI PAOLO BIGLIOLI FEDERICO FALCK ATTILIO PIERO FERRARI GIUSEPPE FONTANA CRISTINA GALBUSERA* PIERO MELAZZINI* NICOLO' 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

## **Manager responsible for preparing the Company's accounting documents**

MAURIZIO BERTOLETTI

\* Members of the Chairman's Committee

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



## A) OPERATING PERFORMANCE

***Note.** The figures contained in this interim report on operations are stated in euro; the percentage changes refer to comparable statement of financial position data at the end of 2013 and to comparable income statement data for the period to 31 March 2013, unless specified otherwise.*

*Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of the same amounts expressed in different units.*





# INTERIM REPORT ON OPERATIONS AT 31 MARCH 2014

## INTRODUCTION

This consolidated quarterly financial report at 31 March 2014 has been prepared to accompany the Prospectus for the rights issue of ordinary shares to members and shareholders of Banca Popolare di Sondrio Società cooperativa per azioni, and for their admission to listing on the screen-traded market organised and managed by Borsa Italiana Spa. As a consequence, this report has been prepared in accordance with IAS 34 «Interim Financial Reporting» and has been subjected to a limited examination by the independent auditors.

This interim report on operations at 31 March 2014, prepared pursuant to art. 154 ter of the Consolidated Finance Law (T.U.F.), was approved by the Board of Directors on 14 May 2014.

The information is provided in compliance with Decree no. 195 dated 6 November 2007, which adopted Directive 2004/109/EC (the Transparency Directive).

## THE BANCA POPOLARE DI SONDRIO 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.

Factorit spa - Milan.

The Parent bank holds 60.5% of the capital of Factorit spa, 85,000,002 euro.

Sinergia Seconda Srl – Milan.

The Parent bank holds all the capital of Sinergia Seconda Srl, 60,000,000 euro.



## 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

\* equity investments not included in the banking group

\*\* held by Sinergia Seconda srl

The scope of consolidation has changed since 31 December 2013 following the entry into force of IFRS 10.

Pursuant to IFRS 10, control exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

As a consequence, the scope of consolidation now includes Centro delle Alpi RMBS S.r.l., a special purpose company formed in 2011 that is wholly owned by SVM Securitisation Vehicles Management S.r.l.. The Flex Plus and European Equity funds of Popso (Suisse) Investment Fund SICAV, a Luxembourg company, have also come within the scope of consolidation. The Group is exposed to the variable results generated by all these entities and is also able to influence them via its power of control over their significant activities.

## SHAREHOLDINGS MEASURED USING THE EQUITY METHOD:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	325,000	20.950
Arca Vita S.p.a.	Verona	208,279	14.837
Banca della Nuova Terra S.p.a.	Milan	50,000	19.609
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Rajna Immobiliare S.r.l.	Sondrio	20	50.000
Sofipo SA *	Lugano	(CHF) 2,000	30.000

\* held by Banca Popolare di Sondrio (SUISSE) SA

Further information about the reporting treatment of equity investments is provided in the «scope and methods of consolidation» section of the explanatory notes.

## INTERNATIONAL BACKGROUND

The general improvement in the economic climate has continued, despite persistent uncertainties about the ability of China to maintain

extremely high rates of growth and the occurrence of unforeseeable events, such as the crisis in the Ukraine.

The signs of recovery appear to be consolidating in Europe, although they are neither generalised nor vigorous. Indeed, the dynamics experienced in the various countries differ considerably and much time is still required before the benefits make an impact on the greatest social issue: unemployment. The doubts about the solidity of the single currency seem to have abated, although the outcome of the European elections remains to be seen.

The international stock exchanges have moved in different directions during the period: Europe and the United States have climbed higher, with the Standard & Poor's 500 reaching new historical highs; mixed performance in the emerging countries; the Japanese market fell considerably. In truth, there were various reasons for concern: from the heightening of tensions in various parts of the world, to the gradual reduction of monetary stimulus by the Federal Reserve. The Milan exchange benefited from the strong recovery of the banking sector, supported by renewed interest from international investors. As a result, the FTSE Mib rose by 14.36% during the quarter.

In Italy, economic activity during the early months of the year was basically in line with the trends seen during the final quarter of 2013. Improvements in the manufacturing sector were accompanied by an upturn in business confidence. The recovery in consumption remains fragile however, as evidenced by the prolonged and steady decline in the rate of inflation.

This is clearly explained by the difficulties faced by many families, whose purchasing power has fallen and who fear for the future, in the absence of immediate prospects for an improvement in their situation. Unemployment is the greatest cause of concern and - as mentioned - a recovery can only reasonably be expected over the medium term, after the economic upturn has had time to consolidate.

Even the public sector finances will not benefit much from the considerable efforts currently being made, unless there is a further acceleration in economic activity.

Outside of the Euro area and, more particularly, away from the crisis, the Swiss Confederation appears to be in good health due to the solidity and reliability of its manufacturing and financial systems. The outlook suggests further significant, balanced growth there during 2014.

## **DEPOSITS**

The growth in funding reported during 2013 continued throughout the first quarter, confirming the strength of the Group's relations with customers.

This progress has been achieved despite continuing efforts to reduce the cost of funding, in line with the rate trends in the monetary and



financial markets. Lower yields on Italian government securities have been slowly reflected in bank funding and, consequently, transmitted to borrowers as well.

Direct customer deposits have risen to 27,334 million, representing an increase of 2.72% over the year and 2.47% since the end of 2013. This confirms, as stated, the ability of the Group to compete under challenging economic conditions and in situations rife with uncertainty.

Indirect customer deposits total 28,178 million at market values, up by 3.06% since the end of 2013.

Insurance premium income came to 783 million, +9.00%.

Total customer deposits therefore amount to 56,295 million (+2.85%).

Amounts due to banks total 3,152 million, +2.74%. This balance includes refinancing of 1,800 million arranged with the European Central Bank.

Indirect deposits from banks amount to 1,423 million, +9.86%.

Customer and bank deposits therefore total 60,870 million, +3.00%.

Euro and currency current accounts total 20,365 million, +6.61%, while time deposit accounts have fallen to 3,353 million, -12.96%. Euro and currency accounts represent 74.50% of total direct deposits.

Bonds have contracted slightly, -0.72%, to 2,860 million

Savings deposits are essentially stable, -0.24%, at 543 million, while repo transactions have fallen by 48.24% to 109 million. Certificates of deposit have

## DIRECT CUSTOMER DEPOSITS

(in thousands of euro)	31-03-2014	%	31-12-2013	%	% Change
Savings deposits	542,638	1.99	543,921	2.04	-0.24
Certificates of deposit	6,346	0.02	9,038	0.03	-29.79
Bonds	2,860,391	10.46	2,881,231	10.80	-0.72
Repo transactions	109,188	0.40	210,968	0.79	-48.24
Bank drafts and similar	97,395	0.36	74,705	0.28	30.37
Current accounts	17,990,430	65.81	16,839,397	63.13	6.84
Time deposit accounts	3,352,767	12.27	3,852,033	14.44	-12.96
Foreign currency accounts	2,374,951	8.69	2,264,033	8.49	4.90
<b>Total</b>	<b>27,334,106</b>	<b>100.00</b>	<b>26,675,326</b>	<b>100.00</b>	<b>2.47</b>

## TOTAL DEPOSITS

(in thousands of euro)	31-03-2014	%	31-12-2013	%	% Change
Total direct customer deposits	27,334,106	44.91	26,675,326	45.14	2.47
Total indirect customer deposits	28,177,701	46.28	27,341,054	46.26	3.06
Total insurance premiums	783,476	1.29	718,808	1.22	9.00
<b>Total</b>	<b>56,295,283</b>	<b>92.48</b>	<b>54,735,188</b>	<b>92.62</b>	<b>2.85</b>
Due to banks	3,152,056	5.18	3,067,978	5.19	2.74
Indirect deposits from banks	1,422,830	2.34	1,295,125	2.19	9.86
<b>Grand total</b>	<b>60,870,169</b>	<b>100.00</b>	<b>59,098,291</b>	<b>100.00</b>	<b>3.00</b>

dropped to 6 million, -29.79%, and remain entirely marginal. Bank drafts amount to 97 million, +30.37%.

Asset management activities have confirmed the good performance achieved over the past year, both in terms of inflows and results. Assets under management total 4,198 million, up by 4.96% since the end of 2013.

## LENDING

Lending by the Group declined during 2013, but increased during the first quarter as a reflection, in large measure, of the short-term transactions arranged to employ excess liquidity.

Against a background of slightly less unfavourable conditions, the Group has continued as always to support economic activity in the territories served. This work is accompanied by the careful management of lending, supported by constant improvements in the tools available for the management of credit risk. In general terms, the situation regarding credit quality remains problematic, as demonstrated by the substantial adjustments made in application of extremely prudent assessment criteria.

Amounts due from customers total 24,600 million, down slightly over the year, -0.85%, but up 2.91% since the end of 2013. The ratio of amounts due from customers to direct customer deposits has risen to 90%, from 89.61% at the end of last year.

The various captions contribute to total customer loans in differing measure.

## DUE FROM CUSTOMERS

(in thousands of euro)	31-03-2014	%	31-12-2013	%	% Change
Current accounts	6,496,904	26.41	6,415,216	26.84	1.27
Foreign currency loans	1,526,264	6.20	1,497,522	6.26	1.92
Advances	473,938	1.93	438,528	1.83	8.07
Advances subject to collection	234,468	0.95	254,092	1.06	-7.72
Discounted portfolio	10,971	0.04	11,626	0.05	-5.63
Artisan loans	16,791	0.07	17,173	0.07	-2.22
Agricultural loans	27,469	0.11	32,363	0.14	-15.12
Personal loans	170,924	0.69	166,907	0.70	2.41
Other unsecured loans	4,065,424	16.53	4,031,078	16.86	0.85
Mortgage loans	8,934,255	36.33	8,880,310	37.15	0.61
Non-performing loans	506,162	2.06	460,681	1.93	9.87
Repo transactions	614,919	2.50	49,412	0.21	-
Factoring	1,521,061	6.18	1,649,651	6.90	-7.79
<b>Total</b>	<b>24,599,550</b>	<b>100.00</b>	<b>23,904,559</b>	<b>100.00</b>	<b>2.91</b>



Mortgage loans amount to 8,934 million, +0.61%, and represent the largest percentage (36.33%) of the total due from customers.

This balance includes loans sold but not derecognised totalling 1,298 million in relation to the securitisation arranged by the Parent bank.

These loans have not been derecognised because the requirements of IAS 39 are not met. Current account overdrafts have increased from 6,415 to 6,497 million, +1.27%. Other unsecured loans now total 4,065 million, +0.85%, while personal loans amount to 171 million, +2.41%. Repo transactions, representing the temporary employment of liquidity, have risen considerably, from 49 to 615 million.

Advances climbed 8.07% to 474 million, while foreign currency loans have increased by 1.92% to 1,526 million. On the other hand, advances subject to collection fell by 7.72% to 234 million. Factoring is also lower at 1,521 million, -7.79%.

Total doubtful loans, comprising non-performing, watchlist, restructured and past due loans, have eased to 1,822 million, -0.90%, representing 7.41% of amounts due from customers. This reflects the persistent difficulties attributable to the general economic situation. Writedowns of impaired loans total 1,310 million, representing 41.83% of the gross exposure, compared with 39.22% in December 2013. The following table gives an overview of doubtful loans.

Net non-performing loans, after writedowns, total 506 million, +9.87%, or 2.06% of total customer loans, compared with 1.93% at 31 December 2013 and 1.59% at 31 March 2013. Despite this increase, the level of net non-performing loans is far below that of the banking system as a whole.

## DUE FROM CUSTOMERS - DOUBTFUL LOANS

(in thousands of euro)		31-03-2014	31-12-2013	(+/-)	% change
<b>Impaired loans</b>	Gross exposure	3,132,248	3,024,910	107,338	3.55
	Adjustments	1,310,247	1,186,438	123,809	10.44
	<b>Net exposure</b>	<b>1,822,001</b>	<b>1,838,472</b>	<b>-16,471</b>	<b>-0.90</b>
- Non-performing loans	Gross exposure	1,317,068	1,179,504	137,564	11.66
	Adjustments	810,907	718,823	92,084	12.81
	<b>Net exposure</b>	<b>506,161</b>	<b>460,681</b>	<b>45,480</b>	<b>9.87</b>
- Watchlist loans	Gross exposure	1,381,290	1,305,665	75,625	5.79
	Adjustments	447,969	406,531	41,438	10.19
	<b>Net exposure</b>	<b>933,321</b>	<b>899,134</b>	<b>34,187</b>	<b>3.80</b>
- Restructured loans	Gross exposure	88,127	51,163	36,964	72.25
	Adjustments	11,053	8,344	2,709	32.47
	<b>Net exposure</b>	<b>77,074</b>	<b>42,819</b>	<b>34,255</b>	<b>80.00</b>
- Past due loans	Gross exposure	345,763	488,578	-142,815	-29.23
	Adjustments	40,318	52,740	-12,422	-23.55
	<b>Net exposure</b>	<b>305,445</b>	<b>435,838</b>	<b>-130,393</b>	<b>-29.92</b>

Adjustments to cover estimated losses on non-performing loans have risen to 811 million, +12.81%, representing 61.57% of the gross amount compared with 60.94% at the end of 2013. This increase in coverage reflects the prudent policy adopted in relation to provisions, especially with regard to mortgage loans in accordance with earlier recommendations made by the Supervisory Authorities.

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, have risen to 933 million, +3.80%, or 3.79% of total loans to customers, compared with 3.76% at the end of 2013.

Restructured loans total 77 million, up 80.00% due, in the main, to reclassifications from other categories of impaired loans following signature of the related restructuring agreements.

Impaired past due loans, as defined by the Supervisory Authorities, amount to 305 million, -29.92%, representing 1.24% of total loans compared with 1.82% at the end of 2013.

Total adjustments come to 1,459 million (+9.58%). Of these, provisions made for performing loans amount to 149 million, which is 0.65% of the gross amount of such loans (0.66% in December 2013).

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 75 million, local and state-owned enterprises for 434 million and various other entities for 269 million.

## **TREASURY AND PORTFOLIO OF FINANCIAL ASSETS**

At 31 March 2014, net interbank borrowing amounts to 2,182 million, down by 152 million from 2,334 million at the end of 2013. Excluding the LTRO – Long Term Refinancing Operations arranged by the Parent bank with the ECB, 1,800 million (unchanged since the end of 2013), the balance is just 382 million.

Treasury activity during the quarter was intensive once again, although the number and value of transactions were lower than in the comparative period. Work focused on lending activities in particular, since the Group continues to be highly liquid in view of the LTROs with the European Central Bank. The state of the interbank market and liquidity in general remains good, assisted by the ECB's declared intention to repeat the refinancing operations, as necessary, in order to support the recovery. At 31 March 2014, the Parent bank has 2 financing operations outstanding with the European Central Bank for a total of 1,800 million. These have a duration of three years and may be repaid early. The healthy state of liquidity is also reflected in the income-earning activities represented by the level of portfolio securities and lending. The portfolio of financial assets totals 7,015 million, up by 3.24% since year end. There were no transfers of financial assets between portfolios during the period. The following table summarises the various amounts:



## FINANCIAL ASSETS

(in thousands of euro)	31-03-2014	31-12-2013	% Change
Financial assets held for trading (HFT)	3,247,654	3,154,594	2.95
<i>of which. derivatives</i>	34,820	37,687	-7.61
Financial assets carried at fair value (CFV - Carried at Fair Value)	96,509	79,226	21.81
Financial assets available for sale (AFS - Available For Sale)	3,495,122	3,375,500	3.54
Financial assets held to maturity (HTM - Held to Maturity)	175,734	182,621	-3.77
Hedging derivatives	-	2,923	-
<b>Total</b>	<b>7,015,019</b>	<b>6,794,864</b>	<b>3.24</b>

The increase of 220.155 million is consistent with the operational decisions made in prior years, which give priority to the purchase of government securities. New investment focused in particular on BOT, BTP and CTZ, while the change in CCT was less significant.

In accordance with the requirements of Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that these portfolios include bonds that form part of the sovereign debt (i.e. issued by local and central governments) totalling 6,224 million, almost entirely relating to issues made by the Italian Government.

### Financial assets held for trading

Financial assets held for trading (HFT), shown in the following table, total 3,248 million following a 2.95% increase since 31 December 2013.

(in thousands of euro)	31-03-2014	31-12-2013	% Change
Floating-rate Italian government securities	1,816,730	1,791,494	1.41
Fixed-rate Italian government securities	1,102,234	1,037,321	6.26
Bank bonds	154,887	161,114	-3.86
Bonds of other issuers	36,658	24,830	47.64
Securitisations	35,182	33,804	4.08
Variable-yield securities and mutual funds	67,143	68,344	-1.76
Net book value of derivative contracts	34,820	37,687	-7.61
<b>Total</b>	<b>3,247,654</b>	<b>3,154,594</b>	<b>2.95</b>

The structure of the HFT portfolio remains simple, with a preference for Italian government securities. These amount to 2,919 million or 89.88% of the total, of which 1,817 million at a floating rate and 1,102 million at a fixed rate, representing respectively 55.94% and 33.94% of the portfolio.

The derivatives component has declined from 38 to 35 million, -7.61%.

The corporate bonds held are all of high standing, comprising bank bonds of 155 million, -3.86%, and the bonds of other issuers, which have

increased by 47.64% to 37 million. Securities deriving from securitisations have increased by 4.08% to 35 million and are all classified as senior. Holdings of fixed-rate government securities, BOT and BTP, have increased by 6.26% to 1,102 million. The component represented by equities and mutual funds remains marginal with respect to the portfolio as a whole, amounting to 67 million, -1.76%..

### **Financial assets carried at fair value**

Financial assets carried at fair value (CFV) come to 96 million, +21.81%. The increase mainly reflects the consolidation of two funds managed by Popso (Suisse) Investment Fund Sicav.

### **Financial assets available for sale**

The portfolio of financial assets available for sale (AFS) has increased from 3,375 million to 3,495 million, +3.54%. This increase, smaller than in 2013, was principally due to the purchase of Italian government securities, which total 3,248 million, +2.39%. They are held to contain, at least in part, the impact on the income statement of any volatility affecting the portfolio of securities as a result of turbulence in the financial markets.

Financial assets available for sale also include bank bonds of 40 million, unchanged; funds and sicavs, 119 million, +61.90%; shares, 69 million, +2.96%; bonds of other issuers, 19 million, -15.27%.

Adjustments totalling 0.174 million have been made in relation to the impairment of two funds.

### **Financial assets held to maturity**

The HTM portfolio, comprising solely fixed-yield securities, has decreased to 176 million, -3.77%, as a result of redemptions. Unrealised gains at the end of March, mostly relating to Italian government securities, amount to 6 million.

## **EQUITY INVESTMENTS**

Equity investments total 158 million at 31 March 2014, up by 2 million since the end of 2013. This change reflects the measurement of these investments using the equity method.

The following discussion relates to those investments not consolidated on a line-by-line basis.

**Rajna Immobiliare srl** (50%). This real estate company is owned by the Parent Bank jointly with Credito Valtellinese.

The company owns a valuable property in Sondrio that has been leased, together with office equipment, to Equitalia nord spa, a tax collection company owned by the Equitalia Group. Positive results were reported for the quarter.

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

The company maintains a leading position in the relevant domestic market. Expansion of the business is supported by the broadening of knowledge and an interest in innovation, backed by the professional skills of employees and the legal and fiscal advice, in particular, provided by external consultants.

Benefits also come from the contribution made by affiliates, including in particular Sofipo SA based in Lugano.

Positive results were reported for the quarter.

**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 continued to operate with professionalism during the period and achieved an increase in the volume of new loans.

Despite a further loss, the results for the period reflect the initial effects of work to rationalise the organisation and costs, as well as the strategies adopted by the company to achieve economic equilibrium.

**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. Work on the securitisation of loans is in progress at the reporting date, with a view to transferring the credit risk to the banking shareholders. The owners are also analysing possible alternative options for implementation.

**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 targeted diversification with respect to the company's principal activities.

The results for the period were positive.

**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 volume of business referred by the Bank was good, including with regard to the loss insurance activities of Arca Assicurazioni. Positive results were reported for the quarter.

**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.

Via representative offices in Hong Kong and Shanghai, the company provides advice and assistance to customers of the shareholder banks and parties interested in examining the opportunities afforded by the Chinese market. The company's Milan office specialises in the analysis of risks associated with lending systems and financial institutions, as well as sovereign risk.

Activities have continued on a routine basis.

**Sofipo SA** (30%). This company, based in Lugano, provides trust and advisory services. The equity investment is held via Banca Popolare di Sondrio (SUISSE) SA.

Activities are marked by professionalism and confidentiality, as the company gradually consolidates its portfolio of Swiss and foreign customers. The latter are typically interested in establishing business relations in Switzerland. The wide range of services in the corporate field includes the provision of fiscal and legal advice, as well as the outsourcing of certain operational activities.

The company also addresses the real estate sector.

A small profit was earned during the period.

## **PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

Property, plant and equipment and intangible assets total 269 million, up 0.49%. The first category, amounting to 246 million, is essentially unchanged. Commitments for the purchase of property, plant and equipment amount to 5.622 million, compared with 5.032 million at 31 December 2013.

The second category, totalling 23 million, has increased by 6.72% and includes goodwill of 9 million. Goodwill is subjected to annual impairment testing to check for any loss of value.

The most recent test was performed when preparing the consolidated financial statements at 31 December 2013.

It was not deemed necessary to repeat the procedure at 31 March 2014.

## PROVISIONS

These comprise employee severance indemnities of 41 million, +0.43%, and the provisions for risks and charges totalling 158 million, +3.52%.

## RISK MANAGEMENT

Work continued during the quarter on monitoring and checking the various forms of risk faced by the Group. These were discussed in full in the financial statements at 31 December 2013, both in the explanatory notes and in the report on operations. Reference is made to that analysis.

Efforts are being made to strengthen further the controls over credit risk, which is a «special case» in the current economic environment. In particular, with a view to making the allocation of positions to the different categories of impairment even more objective, new criteria have been developed - essentially linked to the time already spent in a given category - for identifying positions that, in view of the associated intrinsic risk, should perhaps be reclassified as watchlist or non-performing loans.

New IT reports have been developed to facilitate a complete analysis of the dynamics of problem loans, the related adjustments and the percentage coverage required for each category of impairment. The Lending Quality initiative launched in 2012 has also continued, with a view to taking advance action in relation to performing customers that show initial signs of difficulty and anomalies in their relations with the Group. With regard to liquidity risk, the changes to the long-term NSFR proposed in January 2014, in the context of the Basel III Accord, resulted in re-opening the project in order to align the criteria programmed into the relevant software with the new instructions.

The Parent bank is also working to comply with the EU CRR/CRDIV regulation, which requires the quantification of two liquidity indicators (Liquidity Coverage Ratio and Stable Funding Ratio). These have similarities with the ratios envisaged by the Basel Committee, but the related calculations differ in numerous, significant respects.

The analysis of average financial duration, as part of the ALM (Asset & Liability Management) system, measures the instantaneous change in the net value of assets and liabilities on a 1% increase in interest rates: this measure averaged -93.238 million during the quarter.

Market risks, being the interest rate, portfolio price and exchange rate risks, remained within established limits during the first quarter of 2014, both at a strategic level (Maximum Acceptable Risk) and at operational level (Value at Risk).

Turning to the monitoring of operational risks, accurate and timely information is known to improve the observations and internal estimates

made of risk-significant phenomena. Accordingly, work to evaluate the entire risk management process continued during the first quarter, with a view to integrating the various sources of information in an efficient manner. As a result, the methodology adopted for the monitoring and control of operational risks will become more responsive to the actual nature of operations, which are increasingly affected by technological advances and/or regulatory changes.

Particular attention has been given to revising the rules for the identification and recording of risk-related events deriving from the malfunction of IT procedures and/or equipment.

The Internal Audit Department is required to assess the adequacy of the overall system of internal controls, in which it plays the leading role. This objective is pursued mainly by the performance of third-level checks - being the audit work carried out on the business functions responsible for monitoring risk - and by the control of business processes. This work essentially seeks to identify and assess risks and the related controls, recommending improvements to the latter when necessary or appropriate. At the same time, the central and peripheral audit offices have continued to carry out routine checks on the proper functioning of central offices and the branch network, both via site visits and by the central examination of statistics and other indicators. These checks contribute to the overall assessment of the effectiveness of the system of internal controls.

The number of inspections carried out during the first quarter of 2014, including those performed at Group level, totalled 148, of which 7 were performed together with the Board of Statutory Auditors.

## HUMAN RESOURCES

The Group employs 3,047 persons at 31 March 2014, compared with 3,061 one year earlier. The slight reduction reflects the organisational rationalisation carried out by the Swiss subsidiary.

## EQUITY

Consolidated shareholders' equity at 31 March 2014, inclusive of valuation reserves and the net profit for the period, amounts to 2,006.930 million, +3.65%.

This aggregate does not reflect the effects of distributing the 2013 net profit reported by the Parent bank. These effects arose subsequent to the end of the period, following the resolutions adopted at the Ordinary Shareholders' Meeting held on 26 April 2014, which authorised the



distribution of a dividend of 0.05 euro to each of the 308,147,985 shares outstanding at 31 December 2013.

The share capital, represented by 308,147,985 ordinary shares with a par value of 3 euro, remains unchanged at 924.444 million, as does the share premium reserve of 171.450 million. Reserves increased by 54.010 million to 848.791 million, +6.80%, mainly following allocation of the net profit for 2013. The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 44.815 million, up from the positive balance of 16.782 million reported at the end of 2013.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent bank holds 3,020,000 treasury shares with a carrying amount of 24.316 million, which is unchanged since the end of 2013.

The price for BPS stock, which is listed in the Blue Chips segment of the MTA, the screen-based market of the Italian Stock Exchange, rose by 17.72% during the period.

The number of members also increased to 182,676, up by 1,459 since the end of 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.

With regard to capital adequacy, the new minimum capital ratios came into force on 1 January 2014. Italian banks must meet the following requirements at a consolidated level in 2014:

CET1 Ratio	7%
Tier 1 Capital ratio	8%
Total capital ratio	10.50%

For larger EU banks, which includes our Group, the European Central Bank has imposed (in a note dated 23 October 2013) a stricter 1% add-on to the CET 1 ratio; accordingly, the minimum value to be achieved by the Group is now 8%.

In view of the numerous changes made to supervisory reporting as a result of the new Basel III regulations, the Bank of Italy has made an exception by allowing the prudential reports at 31 March to be submitted by 30 June 2014. Since the related processing and checks are still in progress, the most recent capital adequacy ratios available are reported here, being those at 31 December 2013 when the Tier 1 ratio was 7.89% and the Total capital ratio was 10.53%. Initial processing suggests, on a sufficiently reasonable basis, that the ratios calculated on the new basis will not be greatly different to those indicated above.

With a view to strengthening the capital adequacy of the Group, the Extraordinary Meeting of the shareholders of the Parent bank, held on 26 April 2014, authorised a mixed increase in share capital. In addition to a bonus issue of ordinary shares by up to a nominal value of 100 million, a rights issue to members and shareholders by up to 350 million was also approved. A mandate was granted to the Board of Directors to decide the basis and timing of these increases. The following ratios of capital and reserves, including net profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2013:

- *capital/direct customer deposits*  
7.34% v. 7.26%
- *capital/customer loans*  
8.16% v. 8.10%
- *capital/financial assets*  
28.61% v. 28.49%
- *capital/total assets*  
5.94% v. 5.91%
- *net non-performing loans/capital*  
25.22% v. 23.79%

## RECONCILIATION OF THE EQUITY AND NET PROFIT FOR THE PERIOD REPORTED BY THE PARENT BANK WITH THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles «net profit» and «equity» as shown in the Parent bank's financial statements with the equivalent figures in the consolidated financial statements.

(in thousands of euro)

	Equity	of which: Net profit for the period
Equity of the Parent Bank at 31.03.2014	1,834,527	34,145
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	152,190	6,845
– companies measured using the equity method	20,213	756
<b>Balance at 31.03.2014, as reported in the condensed consolidated financial statements for the quarter</b>	<b>2,006,930</b>	<b>41,746</b>



## INCOME STATEMENT

Given the general situation outlined above, in which the progress made cannot compensate for the effects of the fragile macroeconomic situation that is causing considerable difficulties for firms, the results of the Group were more than satisfactory with a net profit of 41.746 million. This was 296.30% more than the 10.534 million reported in the comparative period.

Net interest income rose from 123.681 million to 147.718 million, +19.43%, as the interest rate spread widened slightly. Despite the reduction in interest income from customers, consistent with market trends, the increase in net interest income was made possible by: dedicating constant attention to the maintenance of a proper balance between remuneration and the risks accepted; an increase in the holdings of portfolio securities, despite the lower yields; a reduction in the cost of funding, although this remains high due to market distortions.

Net commission income rose from 66.728 million to 73.798 million, +10.60%, given the good performance of commissions from guarantees given, from the placement of funds, from collections and payments, and from the granting of loans.

The profits from financial activities, comprising the management of portfolio securities, foreign exchange and derivative activities, totalled 74.834 million compared with 24.130 million in the same period of 2013. The healthy increase reflects much larger profits from trading/disposals than in the prior year, as well as the recognition of significant net unrealised gains. There was also a slight improvement in exchange gains.

As a result, income from banking activities rose to 296.646 million, +38.22%. Within this aggregate, the weighting of net interest income decreased from 57.63% to 49.80%.

The signs of slow improvement detected during the early months of the year, varying by sector and geographical area, have not been sufficient to cause an inversion of the trend in net adjustments to loans. As usual during economic downturns, the banking system remains affected by the tail-end of the recession, even when the first signs of a recovery are evident.

It follows that the new adjustments to loans and AFS financial assets recorded by the Group remain high, rising in fact from 89.344 million to 121.921 million, +36.46%. In particular, the loans element rose from 86.146 million to 121.562 million, +41.11%. These statistics reflect the general situation described above, which has further increased the level of impaired loans based on the particularly prudent criteria adopted for the assessment of risk. This complies with the instructions given by the Supervisory Authorities and confirmed during the inspections carried out at the Parent bank. The ratio of net adjustments on amounts due from customers to amounts due from customers (annualised cost of lending) remains high, having risen from 1.94% at the end of 2013 to 1.98% at the reporting date.

The impairment adjustments on securities have decreased from 1.946 to 0.174 million, reflecting the writedown of units in two mutual funds held in the portfolio of AFS financial assets.

Adjustments to other financial transactions include 0.185 million in relation to guarantees given, compared with 1.252 million in the first quarter of 2013.

The net profit from financial management was therefore 174.725 million, +39.47%.

Operating costs are monitored with great care and totalled 103.047 million, +5.38%. The incidence of operating costs on income from banking activities, being the «cost income ratio», has declined to 34.74% from 45.56% in the comparative period.

Administrative expenses amounted to 114.175 million, +4.47%, comprising personnel expenses of 55.805 million, +2.67%, and other administrative expenses of 58.370 million, +6.26%; the latter increase reflects the cost of routine activities and the expansion of the branch network, legal and consultancy fees, and indirect taxes including, in particular, stamp duties and mortgage taxes.

## SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	31-03-2014	31-12-2013	(+/-)	% change
Net interest income	147,718	123,681	24,037	19.43
Dividends	296	80	216	270.00
Net commission income	73,798	66,728	7,070	10.60
Results of financial activities	74,834	24,130	50,704	210.13
<b>Income from banking activities</b>	<b>296,646</b>	<b>214,619</b>	<b>82,027</b>	<b>38.22</b>
Net adjustments to loans and financial assets	-121,921	-89,344	-32,577	36.46
<b>Balance of financial management</b>	<b>174,725</b>	<b>125,275</b>	<b>49,450</b>	<b>39.47</b>
Personnel costs	-55,805	-54,355	-1,450	2.67
Other administrative expenses	-58,370	-54,931	-3,439	6.26
Other operating income/expense	18,362	17,044	1,318	7.73
Net provisions for risks and charges	-640	1,004	-1,644	-
Adjustments to property, plant and equipment and intangible assets	-6,594	-6,549	-45	0.69
<b>Operating costs</b>	<b>-103,047</b>	<b>-97,787</b>	<b>-5,260</b>	<b>5.38</b>
<b>Operating profit (loss)</b>	<b>71,678</b>	<b>27,488</b>	<b>44,190</b>	<b>160.76</b>
Share of profit (loss) of equity investments and other investments	756	1,615	-859	-53.19
<b>Profit (loss) before tax</b>	<b>72,434</b>	<b>29,103</b>	<b>43,331</b>	<b>148.89</b>
Income taxes on current operations	-28,023	-16,672	-11,351	68.08
<b>Net result</b>	<b>44,411</b>	<b>12,431</b>	<b>31,980</b>	<b>257.26</b>
Profit pertaining to minority interests	-2,665	-1,897	-768	40.48
<b>Profit pertaining to the parent bank</b>	<b>41,746</b>	<b>10,534</b>	<b>31,212</b>	<b>296.30</b>

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



Net provisions for risks and charges amounted to 0.640 million, while the comparative period reflected a net release of excess provisions recorded in prior years totalling 1.004 million.

The depreciation of property, plant and equipment and amortisation of software amounted to 6.594 million, +0.69%.

Other operating income, net of other operating expenses, totalled 18.362 million, +7.73%; this rise largely reflects the additional taxes recovered in relation to the increases reported earlier.

Profits from equity investments and other investments amounted to 0.756 million, compared with 1.615 million in the period to 31 March 2013.

The result of ordinary operations, gross of income taxes, was 72.434 million, +148.89%.

Income taxes of 28.023 million, up 68.08%, reflect an effective tax rate (provision for taxes/profit from operations) of 38.69%. This was considerably lower than in the comparative period, when the incidence of non-deductible costs and the effects of regulatory changes were higher.

After deducting the profit attributable to minority interests of 2.665 million, the net profit for the period was 41.746 million, compared with 10.534 million in the first quarter of 2013, +296.30%.

## **DISTRIBUTION BY GEOGRAPHICAL AREA**

The Group is active in Italy and in Switzerland, via Banca Popolare di Sondrio (SUISSE) SA.

The contribution made to the Group by this subsidiary is summarised by the following statistics:

the «Suisse» holds 9.81% of direct customer deposits and 11.47% of amounts due from customers, generating 9.74% of net commission income and 6.92% of net interest income.

## **SUBSEQUENT EVENTS AND OUTLOOK FOR OPERATIONS**

With regard to events subsequent to the end of the first quarter, on 23 April 2014 the Parent bank repaid early an amount of 500 million due to the ECB under a LTRO (Long Term Refinancing Operation). The original maturity date was 26 February 2015.

As mentioned in the section on Equity, on 26 April 2014 the Extraordinary Meeting of the shareholders of the Parent bank authorised a mixed capital increase in order to strengthen the capital adequacy of the Group. In addition to a bonus issue of ordinary shares by up to a nominal value of 100 million, a rights issue to members and shareholders by up to 350

million was also approved. A mandate was granted to the Board of Directors to decide the basis and timing of these increases.

In terms of the outlook for operations, the persistent general economic difficulties suggest that the quality of lending by the banking system is unlikely to improve significantly. Given this, the performance of the financial markets will be key.

In operational terms, net interest income is expected to remain essentially stable, while the cost of lending is unlikely to improve significantly. Operating costs will increase slightly.

*Sondrio, 14 May 2014*

THE BOARD OF DIRECTORS



**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS FOR  
THE QUARTER ENDED 31 MARCH 2014**



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of euro)

ASSET ITEMS		31-03-2014	31-12-2013
10.	CASH AND BALANCES WITH CENTRAL BANKS	159,733	196,517
20.	FINANCIAL ASSETS HELD FOR TRADING	3,247,654	3,154,594
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE	96,509	79,226
40.	FINANCIAL ASSETS AVAILABLE FOR SALE	3,495,122	3,375,500
50.	FINANCIAL ASSETS HELD TO MATURITY	175,734	182,621
60.	DUE FROM BANKS	969,667	733,954
70.	DUE FROM CUSTOMERS	24,599,550	23,904,559
80.	HEDGING DERIVATIVES	-	2,923
100.	EQUITY INVESTMENTS	158,429	156,404
120.	PROPERTY, PLANT AND EQUIPMENT	245,812	245,962
130.	INTANGIBLE ASSETS	23,334	21,865
	of which:		
	- goodwill	8,959	8,959
140.	TAX ASSETS	338,741	342,310
	a) current	1,720	33,478
	b) deferred	337,021	308,832
	b1) of which as per Law 214/2011	294,769	269,858
160.	OTHER ASSETS	261,674	373,493
<b>TOTAL ASSETS</b>		<b>33,771,959</b>	<b>32,769,928</b>

THE CHAIRMAN  
Francesco Venosta

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



<b>EQUITY AND LIABILITY ITEMS</b>		<b>31-03-2014</b>	<b>31-12-2013</b>
10.	DUE TO BANKS	<b>3,152,056</b>	<b>3,067,978</b>
20.	DUE TO CUSTOMERS	<b>24,369,974</b>	<b>23,710,352</b>
30.	DEBT SECURITIES IN ISSUE	<b>2,964,132</b>	<b>2,964,974</b>
40.	FINANCIAL LIABILITIES HELD FOR TRADING	<b>32,609</b>	<b>36,550</b>
60.	HEDGING DERIVATIVES	<b>33,775</b>	<b>27,580</b>
80.	TAX LIABILITIES	<b>73,320</b>	<b>36,889</b>
	a) current	22,690	662
	b) deferred	50,630	36,227
100.	OTHER LIABILITIES	<b>862,384</b>	<b>720,873</b>
110.	RESERVE FOR TERMINATION INDEMNITIES	<b>40,702</b>	<b>40,527</b>
120.	PROVISIONS FOR RISKS AND CHARGES:	<b>157,961</b>	<b>152,593</b>
	a) post-employment benefits	102,098	100,539
	b) other provisions	55,863	52,054
140.	VALUATION RESERVES	<b>44,815</b>	<b>16,782</b>
170.	RESERVES	<b>848,791</b>	<b>794,781</b>
180.	SHARE PREMIUM RESERVE	<b>171,450</b>	<b>171,450</b>
190.	SHARE CAPITAL	<b>924,444</b>	<b>924,444</b>
200.	TREASURY SHARES (-)	<b>(24,316)</b>	<b>(24,316)</b>
210.	MINORITY INTERESTS	<b>78,116</b>	<b>75,438</b>
220.	NET PROFIT (LOSS) FOR THE	<b>41,746</b>	<b>53,033</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>33,771,959</b>	<b>32,769,928</b>

THE MANAGING DIRECTOR AND GENERAL MANAGER  
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER  
Maurizio Bertoletti





# CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS		31-03-2014		31-03-2013
10.	INTEREST INCOME AND SIMILAR REVENUES	247,541		256,213
20.	INTEREST EXPENSE AND SIMILAR CHARGES	(99,823)		(132,532)
30.	<b>NET INTEREST INCOME</b>	<b>147,718</b>		<b>123,681</b>
40.	COMMISSION INCOME	79,056		71,715
50.	COMMISSION EXPENSE	(5,258)		(4,987)
60.	<b>NET COMMISSION INCOME</b>	<b>73,798</b>		<b>66,728</b>
70.	DIVIDENDS AND SIMILAR INCOME	296		80
80.	NET TRADING INCOME	51,343		7,922
90.	NET HEDGING GAINS (LOSSES)	129		(105)
100.	GAINS/LOSSES ON DISPOSAL OR REPURCHASE OF:	21,883		13,785
	b) financial assets available for sale	21,800	13,469	
	d) financial liabilities	83	316	
110.	NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE	1,479		2,528
120.	<b>INCOME FROM BANKING ACTIVITIES</b>	<b>296,646</b>		<b>214,619</b>
130.	NET IMPAIRMENT ADJUSTMENTS TO:	(121,921)		(89,344)
	a) loans	(121,562)	(86,146)	
	b) financial assets available for sale	(174)	(1,946)	
	d) other financial transactions	(185)	(1,252)	
140.	<b>BALANCE OF FINANCIAL MANAGEMENT</b>	<b>174,725</b>		<b>125,275</b>
170.	<b>BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT</b>	<b>174,725</b>		<b>125,275</b>
180.	ADMINISTRATIVE EXPENSES:	(114,175)		(109,286)
	a) personnel expenses	(55,805)	(54,355)	
	b) other administrative expenses	(58,370)	(54,931)	
190.	NET PROVISIONS FOR RISKS AND CHARGES	(640)		1,004
200.	NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(4,025)		(4,187)
210.	NET ADJUSTMENTS TO INTANGIBLE ASSETS	(2,569)		(2,362)
220.	OTHER OPERATING CHARGES/INCOME	18,362		17,044
230.	<b>OPERATING COSTS</b>	<b>(103,047)</b>		<b>(97,787)</b>
240.	SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS	756		1,607
270.	PROFIT (LOSS) FROM DISPOSAL OF INVESTMENTS	-		8
280.	<b>PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES</b>	<b>72,434</b>		<b>29,103</b>
290.	INCOME TAXES ON CURRENT OPERATIONS	(28,023)		(16,672)
300.	<b>PROFIT (LOSS) ON CURRENT OPERATIONS AFTER INCOME TAXES</b>	<b>44,411</b>		<b>12,431</b>
320.	<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>44,411</b>		<b>12,431</b>
330.	NET PROFIT (LOSS) OF THE PERIOD OF MINORITY INTERESTS	(2,665)		(1,897)
340.	<b>NET PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT BANK</b>	<b>41,746</b>		<b>10,534</b>
	<b>BASIC AND DILUTED EPS (in euro)</b>	<b>0.135</b>		<b>0.034</b>

## STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items	31/03/2014	31/03/2013
10. <b>Net profit for the period</b>	<b>44,411</b>	<b>12,431</b>
<b>Other income items net of income taxes that will not be reclassified to profit or loss</b>		
60. Share of valuation reserves of equity investments valued at net equity	13	(18)
<b>Other income items net of income taxes that may be reclassified subsequently to profit or loss</b>		
100. Financial assets available for sale	26,613	(12,715)
120. Share of valuation reserves of equity investments valued at net equity	1,407	(438)
130. <b>Total other income items net of income taxes</b>	<b>28,033</b>	<b>(13,171)</b>
140. <b>Comprehensive income (item 10+130)</b>	<b>72,444</b>	<b>(740)</b>
150. Consolidated comprehensive income pertaining to minority interests	(2,665)	(1,897)
160. <b>Consolidated comprehensive income pertaining to the Parent Bank</b>	<b>69,779</b>	<b>(2,637)</b>



## STATEMENT OF CHANGES IN EQUITY

				Allocation of prior year result		
	Opening balance at 31.12.2013	Change in opening balances	Opening balance at 1.1.2014	Reserves	Dividends and other allocations	Changes in reserves
<b>Share capital</b>						
a) ordinary shares	958,019	10	958,019	-	-	-
c) other shares	-	-	-	-	-	-
<b>Share premium reserve</b>	<b>175,807</b>	<b>2</b>	<b>175,809</b>	-	-	-
<b>Reserves</b>						
a) from earnings	819,511	-	819,511	60,677	-	978
c) other	5,186	-	5,186	-	-	-
<b>Valuation reserves</b>	<b>16,728</b>	-	<b>16,728</b>	-	-	-
<b>Equity instruments</b>	-	-	-	-	-	-
<b>Treasury shares</b>	<b>(24,316)</b>	-	<b>(24,316)</b>	-	-	-
<b>Net profit for the period</b>	<b>60,677</b>	-	<b>60,677</b>	<b>(60,677)</b>	-	-
<b>Equity attributable to the group</b>	<b>1,936,174</b>	-	<b>1,936,174</b>	-	-	<b>977</b>
<b>Equity attributable to minority interests</b>	<b>75,438</b>	<b>12</b>	<b>75,450</b>	-	-	<b>1</b>

## STATEMENT OF CHANGES IN EQUITY

				Allocation of prior year result		
	Opening balance at 31.12.2013	Change in opening balances	Opening balance at 1.1.2014	Reserves	Dividends and other allocations	Changes in reserves
<b>Share capital</b>						
a) ordinary shares	958,019	-	958,019	-	-	-
c) other shares	-	-	-	-	-	-
<b>Share premium reserve</b>	<b>175,807</b>	-	<b>175,807</b>	-	-	-
<b>Reserves</b>						
a) from earnings	793,088	-	793,088	40,183	-	(2,282)
c) other	5,186	-	5,186	-	-	-
<b>Valuation reserves</b>	<b>(7,930)</b>	-	<b>(7,930)</b>	-	-	-
<b>Equity instruments</b>	-	-	-	-	-	-
<b>Treasury shares</b>	<b>(24,316)</b>	-	<b>(24,316)</b>	-	-	-
<b>Net profit for the period</b>	<b>40,183</b>	-	<b>40,183</b>	<b>(40,183)</b>	-	-
<b>Equity attributable to the group</b>	<b>1,869,925</b>	-	<b>1,869,925</b>	-	-	<b>(2,282)</b>
<b>Equity attributable to minority interests</b>	<b>70,112</b>	-	<b>70,112</b>	-	-	-

Changes during the period

Equity transactions							Comprehensive income	Equity attributable to the group at 31.03.2014	Equity pertaining to minority interests at 31.03.2014
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options				
-	-	-	-	-	-	-	924,444	33,585	
-	-	-	-	-	-	-	171,450	4,359	
-	-	-	-	-	-	-	845,562	35,604	
-	-	-	-	-	-	-	3,229	1,957	
-	-	-	-	-	-	28,033	44,815	(54)	
-	-	-	-	-	-	-	(24,316)	-	
-	-	-	-	-	-	44,411	41,746	2,665	
-	-	-	-	-	-	69,779	2,006,930	-	
-	-	-	-	-	-	2,665	-	78,116	

Changes during the period

Equity transactions							Comprehensive income	Equity attributable to the group at 31.03.2014	Equity pertaining to minority interests at 31.03.2014
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options				
-	-	-	-	-	-	-	924,444	33,575	
-	-	-	-	-	-	-	171,450	4,357	
-	-	-	-	-	-	-	800,712	30,277	
-	-	-	-	-	-	-	3,229	1,957	
-	-	-	-	-	-	(13,171)	(21,047)	(54)	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	(24,316)	-	
-	-	-	-	-	-	12,431	10,534	1,897	
-	-	-	-	-	-	(2,637)	1,865,006	-	
-	-	-	-	-	-	1,897	-	72,009	



## CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euro)	31-03-2014	31-03-2013
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Cash generated from operations</b>	<b>132,101</b>	<b>110,643</b>
- net profit for the period (+/-)	41,746	10,534
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	(39,188)	(1,656)
- net hedging gains (losses) (-/+)	(128)	106
- net impairment adjustments (+/-)	123,473	90,712
- net adjustments to property, plant and equipment and intangible assets (+/-)	6,596	6,549
- provisions for risks and charges and other costs/revenues (+/-)	8,234	2,924
- unpaid taxes and duties (+)	28,024	16,672
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	-	-
- other adjustments (+/-)	(36,656)	(15,198)
<b>2. Cash generated/absorbed by financial assets</b>	<b>(1,020,286)</b>	<b>(925,938)</b>
- financial assets held for trading	(39,039)	(1,116,228)
- financial assets carried at fair value	1,579	(25)
- financial assets available for sale	(90,032)	(233,006)
- due from banks: sight	(115,839)	92,905
- due from banks: other receivables	(110,377)	55,611
- due from customers	(772,997)	397,857
- other assets	106,419	(123,052)
<b>3. Cash generated/absorbed by financial liabilities</b>	<b>851,621</b>	<b>783,907</b>
- due to banks: sight	31,901	21,173
- due to banks: other payables	45,034	85,443
- due to customers	646,253	460,012
- debt securities in issue	364	3,480
- financial liabilities held for trading	(10,253)	(3,055)
- financial liabilities carried at fair value	-	-
- other liabilities	138,322	216,854
<b>Net cash generated/absorbed by operating activities</b>	<b>(36,564)</b>	<b>(31,388)</b>

	31-03-2014	31-03-2013
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash generated by</b>	<b>13,425</b>	<b>11,242</b>
- sales of equity investments	-	-
- dividends collected from equity investments	-	-
- sales and reimbursements of financial assets held to maturity	13,420	11,226
- sale of property, plant and equipment	5	16
- sale of intangible assets	-	-
- sale of business divisions	-	-
<b>2. Cash absorbed by</b>	<b>(14,227)</b>	<b>(31,142)</b>
- purchases of equity investments	-	(14,665)
- purchases of financial assets held to maturity	(6,449)	(12,071)
- purchases of property, plant and equipment	(3,920)	(1,856)
- purchases of intangible assets	(3,858)	(2,550)
- purchases of business divisions	-	-
<b>Net cash generated/absorbed by investing activities</b>	<b>(802)</b>	<b>(19,900)</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of treasury shares	-	-
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	-	-
<b>Net cash generated/absorbed by financing activities</b>	<b>-</b>	<b>-</b>
<b>NET CASH GENERATED/ABSORBED IN THE PERIOD</b>	<b>(37,366)</b>	<b>(51,288)</b>

Key:

(+) generated (-) absorbed

## RECONCILIATION

Line items	31-03-2014	31-03-2013
Cash and balances with central banks at beginning of period	196,517	183,745
Total net cash generated/absorbed in the period	(37,366)	(51,288)
Cash and balances with central banks:		
effect of change in exchange rates	582	(748)
<b>Cash and balances with central banks at end of period</b>	<b>159,733</b>	<b>131,709</b>



## EXPLANATORY NOTES

### ***Form and content of the report on the first quarter of 2014***

The consolidated financial report for the first quarter has been prepared in accordance with IAS 34 and comprises:

- interim directors' report on operations;
- statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows;
- explanatory notes that describe the amounts contained in the consolidated financial report for the quarter and contain the information required by current regulations.

This consolidated financial report for the first quarter contains the information needed for the preparation of the Prospectus for the capital increase authorised at the Shareholders' Meeting held on 26 April 2014.

### ***General information***

#### ***Declaration of compliance with International Financial Reporting Standards***

Banca Popolare di Sondrio, società cooperativa per azioni, confirms that this consolidated quarterly report has been prepared in accordance with IAS 34.

#### ***Basis of preparation***

This consolidated quarterly report has been prepared in accordance with the following general criteria specified in IAS 1:

1) Going concern. This consolidated quarterly report has 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 Group's prospects with particular attention. The underlying assumption is fully justified and there is no need for detailed supporting analyses, in addition to the information provided in the consolidated quarterly report 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, management believes - while recognising the difficulties encountered by sovereign debt securities in the recent past - 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 in the consolidated quarterly report. 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 consolidated quarterly report is prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, this consolidated quarterly report reflects the requirements of Decree 87/92, the Italian Civil Code (c.c.) and the regulations contained in the Consolidated Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

### ***Scope and methods of consolidation***

The consolidated quarterly report presents the economic and financial position at 31.3.2014 of the Banca Popolare di Sondrio banking group, which comprises the Parent bank, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.a., Sinergia Seconda and the entities that are controlled by the Group pursuant to IFRS 10.

The following companies have been consolidated on a line-by-line basis:

Name	Location	Type of relationship <sup>(1)</sup>	Share Capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) SA	Lugano	1	(CHF) 150,000	100	100
Factorit S.p.a,	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Pirovano Stelvio S.p.a.**	Sondrio	1	2,064	100	100
Immobiliare San Paolo S.r.l.**	Tirano	1	10 *	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10 *	100	100

<sup>(1)</sup> 1 = majority of voting rights at ordinary shareholders' meeting.

\* held by Sinergia Seconda S.r.l.

\*\*equity investments not included in the banking group.

The scope of consolidation has changed since 31 December 2013 following the entry into force of IFRS 10, which has revised the concept. Control exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control may therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies. As a result, the scope of consolidation now includes Centro delle Alpi RMBS S.r.l., a special purpose company that is wholly owned by SVM Securitisation Vehicles Management S.r.l. The company, formed in 2011 as a vehicle for the securitisation of performing residential mortgages, has issued both Senior and Junior securities that were subscribed for in full by the Parent bank. The scope of consolidation

also now includes the Flex Plus and European Equity funds managed by Popso (Suisse) Investment Fund SICAV, a Luxembourg company. The Group has voting rights and exposures to the risks and rewards that are considered high overall, establishing therefore the conditions whereby the Parent bank has the power to govern the related significant activities. The comparative figures presented have not been restated, despite these changes in the scope of consolidation, given that the amounts concerned are not significant. As allowed in the circumstances by the relevant accounting standards, 1 January 2014 was adopted as the reference date for the first-time consolidation of the above entities. The joint venture shown below is valued at equity (IAS 31):

Name	Location	Type of relationship <sup>(1)</sup>	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare S.r.l.	Sondrio	7	20	50	50

<sup>(1)</sup> 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:

- the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;
- the Bank takes part in the decision-making process, including decisions regarding dividends;
- there are significant transactions between the parent company and the affiliate;
- there is an exchange of managers;
- 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.	Milan	325,000	20.950
Arca Vita S.p.a.	Verona	208,279	14.837
Banca della Nuova Terra S.p.a.	Milan	50,000	19.609
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Srgpa	Milan	5,200	19.600
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	75	33.333
Sofipo S.A.	Lugano	(CHF) 2,000 *	30
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 quarterly report of Banca Popolare di Sondrio (Suisse) SA is translated to euro using the official period-end exchange rate for balance sheet items, while costs and revenues are translated to euro using the average exchange rate for the period. Differences arising on translation are booked to reserves.

### ***Subsequent events***

No events have taken place between the reference date for this consolidated quarterly report and its approval by the Board of Directors on 14/5/2014 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

### ***Other aspects***

The accounting policies adopted during the period are consistent with those adopted in relation to the financial statements for 2013, except for the entry into force pursuant to Regulation (EU) 1254/2012 of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The entry into force of IFRS 10 Consolidated Financial Statements has affected the scope of consolidation, although the amounts involved are small. In particular, as specifically required by the IAS/IFRS, the scope of consolidation now includes the investments held in SICAV funds and in the vehicle company, to the extent that effective control exists regardless of the ownership of equity interests.

The consolidated quarterly report, accompanied by the report on operations, consists of the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the financial statements.

Preparing the consolidated quarterly report 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; however, as allowed by IAS 34, this consolidated quarterly report does not include all the information provided in the consolidated financial statements at 31/12/2013.

The Parent Bank and other Group companies have defined the estimation processes that support the carrying amounts of the more significant items recognised in the consolidated quarterly report at 31 March 2014, as required by the prevailing accounting standards and relevant regulations.

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 March 2014. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterised 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 past, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts stated in the quarterly report at 31 March 2014.

The consolidated quarterly report has been subjected on a voluntary basis to a limited examination by KPMG spa, the independent auditors appointed for the nine-year period 2008/2016.

### ***Analysis of the principal captions contained in the consolidated quarterly report***

#### **1. Financial assets held for trading**

##### ***Classification***

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

##### ***Recognition***

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

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

##### ***Accounting policies***

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



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

### ***Recognition of components affecting the income statement***

The components of income generated by financial instruments held for trading are recognised in the income statement for the period in which they arise as «Net trading income». An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. The original value is not reinstated, even if the losses no longer exist. Realised gains and losses from the sale or reimbursement and unrealised gains and losses deriving from the change in the fair value of the trading portfolio, as well as the impairment of financial assets carried at cost are booked to the income statement under «net trading income». Interest income and dividends are reported in the income statement under «Interest 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 Group operates. These instruments show that equities represent the majority in this portfolio. The fair value of these investments cannot be reliably determined, given that the valuation techniques applied to them would have to make significant use of discretionary, non-market factors.

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

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

- a cumulative reduction in the fair value exceeding 20% of the original cost gives rise to the need to evaluate the presence of other characteristics which might make it necessary to carry out an impairment test.

In any case, a cumulative reduction in fair value exceeding 50% of the original cost automatically leads to an impairment test.

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

### ***Recognition of components affecting the income statement***

The interest calculated using the effective interest method, which takes account of the 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 15/10/2008 are measured at their fair value as of 1 July 2008, providing they were on the books as of 31 October 2008; those booked subsequently are shown at their fair value at the date of reclassification.



### **Accounting policies**

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

### **Recognition of components affecting the income statement**

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

### **Derecognition**

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

## **4. Receivables**

### **4.1 Cash loans and deposits**

#### **Classification**

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

#### **Recognition**

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

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:

- a) non-performing loans
- b) watchlist loans
- c) restructured loans
- d) past due loans

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

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

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

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

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

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

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

## **5. Financial assets carried at fair value**

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

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

## **6. Hedging transactions**

### ***Classification and recognition***

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

The hedging of market risks can take two different forms:

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

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

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

### ***Measurement and recognition of components affecting the income statement***

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

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

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to



the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

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

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

### ***Derecognition***

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

## **7. Equity investments**

### ***Classification***

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. Control is presumed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. A company is an associated company if the Group exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

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

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.

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

### ***Derecognition***

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

## **9. Intangible assets**

### ***Classification***

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

Intangible assets comprise software and goodwill.



### **Recognition**

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

Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units.

If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference («badwill») is booked directly to the income statements.

### **Accounting policies**

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

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

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

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable value is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

### **Recognition of components affecting the income statement**

Periodic amortisation, impairment losses and writebacks are recorded in the “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.

## INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

### Reclassified financial assets: book value, fair value and the impact on comprehensive income

Type of financial instruments ( <sup>1</sup> )	Portfolio of origin ( <sup>2</sup> )	Portfolio of destination ( <sup>3</sup> )	Net book value as of at 31.03.2014 ( <sup>4</sup> )	Fair value at 31.03.2014 ( <sup>5</sup> )	Income items without any transfer (pre-tax)		Income items recorded during the (pre-tax)	
					Valuation ( <sup>6</sup> )	Others ( <sup>7</sup> )	Valuation ( <sup>8</sup> )	Others ( <sup>9</sup> )
A. Fixed-yield securities	HFT	HTM	101,062	98,149	3,003	212	183	212

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.

### Transfer of financial assets held for trading

As in the previous year, the Parent Bank did not carry out any reclassifications of financial assets. A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments. The previous table shows the profits and losses that would have been made if the Bank had not taken advantage of this possibility.

## INFORMATION ON FAIR VALUE

### Qualitative information

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

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

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates

to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument. With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the CVA (Credit value adjustment) and represents the potential loss associated with the counterparty credit risk, while the DVA (Debit value adjustment) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

### **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.

### **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. The fair value of financial instruments does not alter significantly on changes of +/- 1 basis point in the credit spread and other input parameters.

### **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.

### **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

### Fair value hierarchy

#### Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

Assets/liabilities carried at fair value	31/03/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	3,154,531	33,398	59,725	3,059,729	36,810	58,055
2. Financial assets carried at fair value	96,509	-	-	79,226	-	-
3. Financial assets available for sale	3,381,365	-	113,757	3,257,770	-	117,730
4. Hedging derivatives	-	-	-	-	2,923	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>6,632,405</b>	<b>33,398</b>	<b>173,482</b>	<b>6,396,725</b>	<b>39,733</b>	<b>175,785</b>
1. Financial assets held for trading	500	32,109	-	29	36,521	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	33,775	-	-	27,580	-
<b>Total</b>	<b>500</b>	<b>65,884</b>	<b>-</b>	<b>29</b>	<b>64,101</b>	<b>-</b>

There were no significant transfers between the various levels during the year.

#### 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
<b>1. Opening balance</b>	<b>58,055</b>	<b>-</b>	<b>117,730</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2. Increases</b>	<b>2,473</b>	<b>-</b>	<b>1,466</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1. Purchases	-	-	92	-	-	-
2.2. Income booked to:						
2.2.1. Income statement	2,233	-	-	-	-	-
of which: gains	2,233	-	-	-	-	-
2.2.2. Equity	-	-	863	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	240	-	511	-	-	-
<b>3. Decreases</b>	<b>803</b>	<b>-</b>	<b>5,439</b>	<b>-</b>	<b>-</b>	<b>-</b>
3.1. Sales	-	-	4,193	-	-	-
3.2. Reimbursements	570	-	-	-	-	-
3.3. Losses booked to:			280			
3.3.1. Income statement	-	-	174	-	-	-
of which: losses	-	-	174	-	-	-
3.3.2. Equity	-	-	106	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	233	-	966	-	-	-
<b>4. Closing balance</b>	<b>59,725</b>	<b>-</b>	<b>113,757</b>	<b>-</b>	<b>-</b>	<b>-</b>



### 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.

### Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Financial assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/03/2014				31/12/2013			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets held to maturity	175,734	149,905	-	31,950	182,621	156,305	-	25,358
2. Due from banks	969,667	-	-	969,667	733,954	-	-	733,954
3. Due from customers	24,599,550	-	-	25,005,615	23,904,559	-	-	24,255,913
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>25,744,951</b>	<b>149,905</b>	<b>-</b>	<b>26,007,232</b>	<b>24,821,134</b>	<b>156,305</b>	<b>-</b>	<b>25,015,225</b>
1. Due to banks	3,152,056	-	-	3,152,056	3,067,978	-	-	3,067,978
2. Customer deposits	24,369,974	-	-	24,369,974	23,710,352	-	-	23,710,352
3. Debt securities in issue	2,964,132	-	2,972,635	-	2,964,974	-	2,985,293	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>30,486,162</b>	<b>-</b>	<b>2,972,635</b>	<b>27,522,030</b>	<b>29,743,304</b>	<b>-</b>	<b>2,985,293</b>	<b>26,778,330</b>

Key:

BV: Book value

L1: Level 1

L2: Level 2

L3: Level 3

### INFORMATION ON THE «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IAS 39 para. AG. 76 derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

## Information on the statement of financial position

### Assets

#### Financial assets held for trading - line item 20

##### Financial assets held for trading: breakdown by sector

Items/Amounts	31/03/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. Cash assets</b>						
1. Fixed-yield securities	3,085,965	-	59,725	2,990,507	-	58,055
1.1 Structured securities	108,910	-	9,213	116,639	-	9,035
1.2 Other fixed-yield securities	2,977,055	-	50,512	2,873,868	-	49,020
2. Variable-yield securities	44,059	-	-	42,369	-	-
3. Mutual funds	23,086	-	-	25,976	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>3,153,110</b>	<b>-</b>	<b>59,725</b>	<b>3,058,852</b>	<b>-</b>	<b>58,055</b>
<b>B. Derivatives</b>						
1. Financial derivatives:	1,421	33,398	-	877	36,810	-
1.1 for trading	1,421	33,398	-	877	36,810	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
<b>Total B</b>	<b>1,421</b>	<b>33,398</b>	<b>-</b>	<b>877</b>	<b>36,810</b>	<b>-</b>
<b>Total (A+B)</b>	<b>3,154,531</b>	<b>33,398</b>	<b>59,725</b>	<b>3,059,729</b>	<b>36,810</b>	<b>58,055</b>

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 infoproducers and for which the market cannot be considered active.

#### Financial assets carried at fair value - line item 30

##### Financial assets carried at fair value: breakdown by sector

Items/Amounts	31/03/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>493</b>	<b>-</b>	<b>-</b>	<b>493</b>	<b>-</b>	<b>-</b>
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	493	-	-	493	-	-
<b>2. Variable-yield securities</b>	<b>19,089</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>3. Mutual funds</b>	<b>76,927</b>	<b>-</b>	<b>-</b>	<b>78,733</b>	<b>-</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total</b>	<b>96,509</b>	<b>-</b>	<b>-</b>	<b>79,226</b>	<b>-</b>	<b>-</b>
<b>Cost</b>	<b>91,731</b>	<b>-</b>	<b>-</b>	<b>74,438</b>	<b>-</b>	<b>-</b>

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.



## Financial assets available for sale - line item 40

### Financial assets available for sale: breakdown by sector

Items/Amounts	31/03/2014			31/12/2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>3,257,529</b>	-	<b>49,682</b>	<b>3,181,707</b>	-	<b>53,229</b>
1.1 Structured securities	279,431	-	3,072	303,187	-	3,000
1.2 Other fixed-yield securities	2,978,098	-	46,610	2,878,520	-	50,229
<b>2. Variable-yield securities</b>	<b>16,476</b>	-	<b>52,823</b>	<b>13,862</b>	-	<b>53,440</b>
2.1 Carried at fair value	16,476	-	-	13,862	-	-
2.2 Carried at cost	-	-	52,823	-	-	53,440
<b>3. Mutual funds</b>	<b>107,360</b>	-	<b>11,252</b>	<b>62,201</b>	-	<b>11,061</b>
<b>4. Loans</b>	-	-	-	-	-	-
<b>Total</b>	<b>3,381,365</b>	-	<b>113,757</b>	<b>3,257,770</b>	-	<b>117,730</b>

Unlisted equities remain at cost, adjusted if necessary for impairment, because of the problems involved in establishing their fair value at the year end.

A comparison between the cost and net equity of these unlisted equities based on the latest available financial statements did not give rise to impairment losses.

## Financial assets held to maturity - line item 50

### Financial assets held to maturity: breakdown by sector

Type of transaction/Amounts	31/03/2014				31/12/2013			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>175,734</b>	<b>149,905</b>	-	<b>31,950</b>	<b>182,621</b>	<b>156,305</b>	-	<b>25,358</b>
- structured	16,842	-	-	16,578	16,795	-	-	16,104
- other	158,892	149,905	-	15,372	165,826	156,305	-	9,254
<b>2. Loans</b>	-	-	-	-	-	-	-	-

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 € 102.372 million at par, had been measured at fair value at the date of the financial statements, they would have been worth € 98.149 million with a loss of € 2.913 million.

## Due from banks - line item 60

### Due from banks: breakdown by sector

Type of transaction/Amounts	31/03/2014				31/12/2013			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Deposits with central banks</b>	<b>263,792</b>	-	-	<b>263,792</b>	<b>107,438</b>	-	-	<b>107,438</b>
1. Time deposits	-	-	-	-	-	-	-	-
2. Compulsory reserve	262,023	-	-	-	105,504	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-
4. Other	1,769	-	-	-	1,934	-	-	-
<b>B. Due from banks</b>	<b>705,875</b>	-	-	<b>705,875</b>	<b>626,516</b>	-	-	<b>626,516</b>
1. Loans	705,875	-	-	705,875	626,516	-	-	626,516
1.1 Current accounts and sight deposits	356,542	-	-	-	236,810	-	-	-
1.2 Time deposits	315,473	-	-	-	361,215	-	-	-
1.3 Other loans:	33,860	-	-	-	28,491	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-
- Financial leases	-	-	-	-	-	-	-	-
- Other	33,860	-	-	-	28,491	-	-	-
2. Fixed-yield securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other fixed-yield securities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>969,667</b>	-	-	<b>969,667</b>	<b>733,954</b>	-	-	<b>733,954</b>

These receivables are not specifically hedged.

Their fair value is equal to their book value as they are short-term loans repayable on demand.

## Due from customers - line item 70

### Due from customers: breakdown by sector

Type of transaction/ Amounts	31/03/2014						31/12/2013					
	Book value			Fair Value			Book value			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
<b>Loans</b>	<b>22,777,548</b>	-	<b>1,822,002</b>	-	-	<b>25,005,615</b>	<b>22,066,085</b>	-	<b>1,838,474</b>	-	-	<b>- 24,255,913</b>
1. Current accounts	6,005,754	-	840,385	-	-	-	5,915,644	-	853,997	-	-	-
2. Repurchase agreements	614,919	-	-	-	-	-	49,412	-	-	-	-	-
3. Mortgage loans	10,853,135	-	761,524	-	-	-	10,834,442	-	778,848	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	167,636	-	10,590	-	-	-	163,229	-	11,112	-	-	-
5. Financial lease	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	1,485,784	-	39,977	-	-	-	1,606,170	-	51,844	-	-	-
7. Other loans	3,650,320	-	169,526	-	-	-	3,497,188	-	142,673	-	-	-
<b>Fixed-yield securities</b>	-	-	-	-	-	-	-	-	-	-	-	-
8.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>22,777,548</b>	-	<b>1,822,002</b>	-	-	<b>25,005,615</b>	<b>22,066,085</b>	-	<b>1,838,474</b>	-	-	<b>- 24,255,913</b>

These receivables are specifically hedged in part.





Mortgage loans include € 1,302 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 Group.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

### *Hedging derivatives - line item 80*

#### **Hedging derivatives: breakdown by type of hedge and by level**

	Fair Value 31/03/2014			Nominal Value 31/03/2014	Fair Value 31/12/2013			Nominal Value 31/12/2013
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A) Financial derivatives</b>								
1) Fair value	-	-	-	-	-	2,923	-	408,521
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
<b>B) Credit derivatives</b>								
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	<b>2,923</b>	-	<b>408,521</b>

## *Equity investments - line item 100*

### **Equity investments: changes during the year**

	<b>31/03/2014</b>	<b>31/12/2013</b>
<b>A. Opening balance</b>	<b>156,404</b>	<b>146,214</b>
<b>B. Additions</b>	<b>2,646</b>	<b>22,573</b>
B.1 Purchases	-	15,390
B.2 Write-backs	-	7
B.3 Revaluations	-	-
B.4 Other changes	2,646	7,176
<b>C. Decreases</b>	<b>621</b>	<b>12,383</b>
C.1 Disposals	-	-
C.2 Adjustments	-	-
C.3 Other changes	621	12,383
<b>D. Closing balance</b>	<b>158,429</b>	<b>156,404</b>
<b>E. Total revaluations</b>	<b>-</b>	<b>-</b>
<b>F. Total write-downs</b>	<b>(229)</b>	<b>(229)</b>

Other increases and decreases derive from the measurement of affiliates under the equity method.

## *Property, plant and equipment - line item 120*

### **Property, plant and equipment: analysis of assets valued at cost**

Assets/Values	<b>31/03/2014</b>	<b>31/12/2013</b>
<b>1. owned</b>	<b>216,189</b>	<b>216,083</b>
a) land	60,477	60,462
b) buildings	131,151	131,337
c) furniture	8,072	8,294
d) IT equipment	5,362	5,490
e) other	11,127	10,500
<b>2. purchased under finance leases</b>	<b>29,623</b>	<b>29,879</b>
a) land	6,803	6,803
b) buildings	22,820	23,076
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
<b>Total</b>	<b>245,812</b>	<b>245,962</b>



### *Intangible assets - line item 130*

#### **Intangible assets: breakdown by type**

Assets/Values	31/03/2014		31/12/2013	
	Specified duration	Unspecified duration	Specified duration	Unspecified duration
<b>A.1 Goodwill</b>	-	<b>8,959</b>	-	<b>8,959</b>
A.1.1 attributable to the banking group	-	8,959	-	8,959
A.1.2 pertaining to minority interests	-	-	-	-
<b>A.2 Other intangible assets</b>	<b>14,375</b>	-	<b>12,906</b>	-
A.2.1 Carried at cost:	14,375	-	12,906	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	14,375	-	12,906	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>14,375</b>	<b>8,959</b>	<b>12,906</b>	<b>8,959</b>

Intangible assets comprise the cost of purchasing software with a finite life, normally 3 years, which is amortised over that period, and goodwill relating to the acquisition of Factorit spa. No events have been identified in relation to this goodwill that would require an impairment test to be performed.

## *Liabilities and equity*

### *Due to banks - line item 10*

#### **Due to banks: breakdown by type**

Type of transaction/Members of the Group	31/03/2014	31/12/2013
<b>1. Due to central banks</b>	<b>1,854,900</b>	<b>1,851,122</b>
<b>2. Due to banks</b>	<b>1,297,156</b>	<b>1,216,856</b>
2.1 Current accounts and sight deposits	293,626	239,938
2.2 Time deposits	666,543	606,036
2.3 Loans	334,202	364,300
2.3.1 Repurchase agreements	-	-
2.3.2 Other	334,202	364,300
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	2,785	6,582
<b>Total</b>	<b>3,152,056</b>	<b>3,067,978</b>
<b>Fair value - level 1</b>	-	-
<b>Fair value - level 2</b>	-	-
<b>Fair value - level 3</b>	<b>3,152,056</b>	<b>3,067,978</b>
<b>Total Fair value</b>	<b>3,152,056</b>	<b>3,067,978</b>

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.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

### *Due to customers - line item 20*

#### **Due to customers: breakdown by sector**

Type of transaction/Amounts	31/03/2014	31/12/2013
<b>1. Current accounts and sight deposits</b>	<b>20,285,436</b>	<b>18,951,820</b>
<b>2. Time deposits</b>	<b>3,932,351</b>	<b>4,430,611</b>
<b>3. Loans</b>	<b>126,287</b>	<b>283,142</b>
3.1 Repurchase agreements	109,188	210,968
3.2 Other	17,099	72,174
<b>4. Payables for commitments to repurchase own equity instruments</b>	-	-
<b>5. Other payables</b>	<b>25,900</b>	<b>44,779</b>
<b>Total</b>	<b>24,369,974</b>	<b>23,710,352</b>
<b>Fair value - level 1</b>	-	-
<b>Fair value - level 2</b>	-	-
<b>Fair value - level 3</b>	<b>24,369,974</b>	<b>23,710,352</b>
<b>Fair value</b>	<b>24,369,974</b>	<b>23,710,352</b>

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.



## Debt securities in issue - line item 30

### Debt securities in issue: breakdown by sector

Type of security/Amounts	31/03/2014				31/12/2013			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Securities</b>								
1. Bonds	2,860,391	-	2,868,894	-	2,881,231	-	2,901,550	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	2,860,391	-	2,868,894	-	2,881,231	-	2,901,550	-
2. Other securities	103,741	-	103,741	-	83,743	-	83,743	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	103,741	-	103,741	-	83,743	-	83,743	-
<b>Total</b>	<b>2,964,132</b>	<b>-</b>	<b>2,972,635</b>	<b>-</b>	<b>2,964,974</b>	<b>-</b>	<b>2,985,293</b>	<b>-</b>

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.

## Financial liabilities held for trading - line item 40

### Financial liabilities held for trading: breakdown by sector

Type of transaction/ Members of the Group	31/03/2014					31/12/2013						
	NV	Fair Value				FV*	VN	Fair Value				FV*
		Level 1	Level 2	Level 3	Level 1			Level 2	Level 3			
<b>A. Cash liabilities</b>												
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	-	-	-	-	-	-	-	-	-	-	-	
<b>Total A</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>B. Derivatives</b>												
1. Financial derivatives	-	500	32,109	-	-	-	29	36,521	-	-	-	
1.1 for trading	-	500	32,109	-	-	-	29	36,521	-	-	-	
1.2 connected with the fair value option	-	-	-	-	-	-	-	-	-	-	-	
1.3 Other	-	-	-	-	-	-	-	-	-	-	-	
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	
2.1 for trading	-	-	-	-	-	-	-	-	-	-	-	
2.2 connected with the fair value option	-	-	-	-	-	-	-	-	-	-	-	
2.3 Other	-	-	-	-	-	-	-	-	-	-	-	
<b>Total B</b>	<b>-</b>	<b>500</b>	<b>32,109</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29</b>	<b>36,521</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total A+B</b>	<b>-</b>	<b>500</b>	<b>32,109</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29</b>	<b>36,521</b>	<b>-</b>	<b>-</b>	<b>-</b>	

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

### Hedging derivatives: breakdown by type of hedge and by level

Type of derivatives/ Underlying assets	Fair Value 31/03/2014			Nominal Value 31/03/2014	Fair Value 31/12/2013			Nominal Value 31/12/2013
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A. Financial derivatives</b>	-	<b>33,775</b>	-	<b>1,293,505</b>	-	<b>27,580</b>	-	<b>895,528</b>
1) Fair value	-	33,775	-	1,293,505	-	27,580	-	895,528
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>33,775</b>	-	<b>1,293,505</b>	-	<b>27,580</b>	-	<b>895,528</b>

### Termination indemnities - line item 110

#### Termination indemnities: changes during the year

	31/03/2014	31/12/2013
<b>A. Opening balance</b>	<b>40,527</b>	<b>42,352</b>
<b>B. Increases</b>	<b>1,823</b>	<b>7,502</b>
B.1 Provisions	1,768	7,441
B.2 Other changes	55	61
<b>C. Decreases</b>	<b>1,648</b>	<b>9,327</b>
C.1 Payments made	205	821
C.2 Other changes	1,443	8,506
<b>D. Closing balance</b>	<b>40,702</b>	<b>40,527</b>

## ***Provisions for risks and charges - line item 120***

### **Provisions for risks and charges: breakdown**

Items/Amounts	31/03/2014	31/12/2013
<b>1. Post-employment benefits</b>	<b>102,098</b>	<b>100,539</b>
<b>2. Other provisions for risks and charges</b>	<b>55,863</b>	<b>52,054</b>
2.1 Legal disputes	35,258	34,993
2.2 Personnel expenses	18,654	15,116
2.3 Other	1,951	1,945
<b>Total</b>	<b>157,961</b>	<b>152,593</b>

The Parent Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Parent Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 427 employees and 237 pensioners.

Employees have been given the chance to join other supplementary pension schemes as laid down by law and by contract.

The adequacy of the fund with respect to the present value of the obligation at the reference date is verified periodically by an independent actuary, who makes 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.

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as non-performing or which have already been written off, other disputes that have arisen in the ordinary course of business and miscellaneous litigation. 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 31/3/2014 as the discount rate.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses.

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.

## ***Group equity - Line items 140, 170, 180, 190, 200 and 220***

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 January 2014. At the period-end, the Parent Bank held treasury shares with a carrying value of € 24.316 million.

## Other information

### Guarantees given and commitments

Operations	31/03/2014	31/12/2013
<b>1) Financial guarantees:</b>	<b>424,614</b>	<b>533,268</b>
a) Banks	34,807	115,417
b) Customers	389,807	417,851
<b>2) Commercial guarantees</b>	<b>3,628,663</b>	<b>3,674,562</b>
a) Banks	70,524	78,689
b) Customers	3,558,139	3,595,873
<b>3) Irrevocable commitments to make loans</b>	<b>1,342,188</b>	<b>1,081,813</b>
a) Banks	181,528	46,589
i) certain to be called on	169,465	34,523
ii) not certain to be called on	12,063	12,066
b) Customers	1,160,660	1,035,224
i) certain to be called on	486,441	216,615
ii) not certain to be called on	674,219	818,609
<b>4) Commitments underlying credit derivatives: protection sold</b>	<b>-</b>	<b>-</b>
<b>5) Assets lodged to guarantee the commitments of third parties</b>	<b>25,853</b>	<b>26,162</b>
<b>6) Other commitments</b>	<b>37,060</b>	<b>28,247</b>
<b>Total</b>	<b>5,458,378</b>	<b>5,344,052</b>

### Management and intermediation for third parties

Type of service	31/03/2014
<b>1. Execution of orders on behalf of customers</b>	
a) Purchases	316,795
1. settled	309,811
2. not settled	6,984
b) Sales	203,395
1. settled	197,204
2. not settled	6,191
<b>2. Portfolio management</b>	
a) Individual	1,925,067
b) Collective	-
<b>3. Custody and administration of securities</b>	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	704,889
1. securities issued by consolidated companies	-
2. other securities	704,889
b) other third-party securities on deposit (excluding portfolio management): other	17,559,261
1. securities issued by consolidated companies	3,430,001
2. other securities	14,129,260
c) Third-party securities on deposit with third parties	18,768,089
d) Own securities on deposit with third parties	6,923,378
<b>4. Other transactions</b>	





## Information on the consolidated income statement

### Interest - line items 10 and 20

#### Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	Total 31/03/2014	Total 31/03/2013
1. Financial assets held for trading	10,000	-	-	10,000	10,410
2. Financial assets carried at fair value	1	-	-	1	123
3. Financial assets available for sale	17,506	-	-	17,506	17,017
4. Financial assets held to maturity	395	-	-	395	522
5. Due from banks	-	2,989	-	2,989	3,382
6. Due from customers	-	216,636	-	216,636	224,444
7. Hedging derivatives	-	-	14	14	315
8. Other assets	-	-	-	-	-
<b>Total</b>	<b>27,902</b>	<b>219,625</b>	<b>14</b>	<b>247,541</b>	<b>256,213</b>

#### Interest and similar income: differentials on hedging transactions

Items	31/03/2014	31/03/2013
A. Positive differentials on hedging transactions	14	315
B. Negative differentials on hedging transactions	-	-
<b>C. Net total (A-B)</b>	<b>14</b>	<b>315</b>

#### Interest income and similar revenues: other information

##### Interest income and similar revenue on foreign currency assets

	31/03/2014	31/03/2013
Interest income and similar revenue on foreign currency assets	23,743	27,381

#### Interest expense and similar charges: breakdown

Items/technical forms	Payables	Securities	Other transactions	Total 31/03/2014	Total 31/03/2013
1. Due to central banks	(1,136)	-	-	(1,136)	(3,452)
2. Due to banks	(3,548)	-	-	(3,548)	(5,630)
3. Due to customers	(68,506)	-	-	(68,506)	(97,515)
4. Securities issued	-	(22,810)	-	(22,810)	(21,984)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	-	-	-
8. Hedging derivatives	-	-	(3,823)	(3,823)	(3,951)
<b>Total</b>	<b>(73,190)</b>	<b>(22,810)</b>	<b>(3,823)</b>	<b>(99,823)</b>	<b>(132,532)</b>

### Interest expense and similar charges: differentials on hedging transactions

Items	31/03/2014	31/03/2013
A. Positive differentials on hedging transactions	-	-
B. Negative differentials on hedging transactions	(3,823)	(3,951)
<b>C. Net total (A-B)</b>	<b>(3,823)</b>	<b>(3,951)</b>

### Interest expense and similar charges: other information

#### Interest expense and similar charges on foreign currency liabilities

Items	31/03/2014	31/03/2013
Interest expense and similar charges on foreign currency liabilities	(8,729)	(7,363)

#### Interest expense on finance lease transactions

Items	31/03/2014	31/03/2013
Interest expense on finance lease transactions	(14)	(17)

### Commissions - line items 40 and 50

#### Commission income: breakdown

Type of service/Amounts	31/03/2014	31/03/2013
<b>a) guarantees given</b>	<b>6,996</b>	<b>6,152</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, intermediation and consultancy services:</b>	<b>20,669</b>	<b>19,959</b>
1. trading in financial instruments	2,077	4,712
2. trading in foreign currencies	2,209	1,998
3. portfolio management	1,575	1,426
3.1. individual	1,575	1,426
3.2. collective	-	-
4. custody and administration of securities	2,514	2,152
5. custodian bank	343	276
6. placement of securities	5,631	2,971
7. order receipt and transmission	3,269	3,251
8. consultancy	-	65
8.1 investments	-	-
8.2 corporate finance	-	65
9. distribution of third-party services	3,051	3,108
9.1 portfolio management	-	-
9.1.1. Individual	-	-
9.1.2. Collective	-	-
9.2 insurance products	2,004	2,013
9.3 other products	1,047	1,095
<b>d) collection and payment services</b>	<b>17,089</b>	<b>14,338</b>
<b>e) services for securitisation transactions</b>	-	-
<b>f) services for factoring transactions</b>	<b>7,451</b>	<b>6,669</b>
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading systems</b>	-	-
<b>i) management of current accounts</b>	<b>7,383</b>	<b>7,258</b>
<b>j) other services</b>	<b>19,468</b>	<b>17,339</b>
<b>Total</b>	<b>79,056</b>	<b>71,715</b>



### Commission expense: breakdown

Services/Amounts	31/03/2014	31/03/2013
<b>a) guarantees received</b>	<b>(117)</b>	<b>(22)</b>
<b>b) credit derivatives</b>	-	-
<b>c) management and intermediation services:</b>	<b>(760)</b>	<b>(779)</b>
1. trading in financial instruments	(371)	(454)
2. trading in foreign currencies	-	-
3. portfolio management	-	-
3.1 own	-	-
3.2 delegated by third parties	-	-
4. custody and administration of securities	(389)	(325)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
<b>d) collection and payment services</b>	<b>(2,523)</b>	<b>(2,243)</b>
<b>e) other services</b>	<b>(1,858)</b>	<b>(1,943)</b>
<b>Total</b>	<b>(5,258)</b>	<b>(4,987)</b>

### *Dividends and similar income - line item 70*

#### Dividends and similar income: breakdown

Items/Income	31/03/2014		31/03/2013	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	53	6	21	37
B. Financial assets available for sale	-	-	22	-
C. Financial assets carried at fair value	237	-	-	-
D. Equity investments	-	-	-	-
<b>Total</b>	<b>290</b>	<b>6</b>	<b>43</b>	<b>37</b>

## Net trading income - line item 80

### Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>	<b>40,633</b>	<b>11,736</b>	<b>(2,300)</b>	<b>(83)</b>	<b>49,986</b>
1.1 Fixed-yield securities	35,693	4,705	(87)	(70)	40,241
1.2 Variable-yield securities	1,134	3,529	(976)	(2)	3,685
1.3 Mutual funds	129	141	(283)	(7)	(20)
1.4 Loans	-	-	-	-	-
1.5 Other	3,677	3,361	(954)	(4)	6,080
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Other financial assets and liabilities: exchange differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>
<b>4. Derivatives</b>	<b>823</b>	<b>3,404</b>	<b>(1,099)</b>	<b>(1,976)</b>	<b>1,337</b>
4.1 Financial derivatives:	823	3,404	(1,099)	(1,976)	1,337
- On debt securities and interest rates	-	1,411	(349)	(1,292)	(230)
- On equities and equity indices	544	1,780	(471)	(470)	1,383
- On currency and gold	-	-	-	-	185
- Other	279	213	(279)	(214)	(1)
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>41,456</b>	<b>15,140</b>	<b>(3,399)</b>	<b>(2,059)</b>	<b>51,343</b>

Net trading income passes from € 7.922 million to € 51.343 million. The level of realised and unrealised gains on securities was good, due to continuation of the recovery in the financial markets.

The income from trading in «other financial assets» is mainly 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.



## Net hedging gains (losses) - line item 90

### Net hedging gains (losses): breakdown

Income items/Amounts	31/03/2014	31/03/2013
<b>A. Income from:</b>		
A.1 Fair value hedging derivatives	-	5,373
A.2 Hedged financial assets (fair value)	8,538	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedges	-	-
A.5 Assets and liabilities in foreign currency	-	-
<b>Total income from hedging activities (A)</b>	<b>8,538</b>	<b>5,373</b>
<b>B. Charges from:</b>		
B.1 Derivatives hedging fair value	(8,409)	-
B.2 Hedged financial assets (fair value)	-	(5,478)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedges	-	-
B.5 Assets and liabilities in foreign currency	-	-
<b>Total charges from hedging activities (B)</b>	<b>(8,409)</b>	<b>(5,478)</b>
<b>C. Net hedging gains (losses) (A-B)</b>	<b>129</b>	<b>(105)</b>

## Gains (losses) on disposals/repurchases - line item 100

### Gains (losses) on disposals/repurchases: breakdown

Items/income items	31/03/2014			31/03/2013		
	Profits	Losses	Net result	Profits	Losses	Net result
<b>Financial assets</b>						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Financial assets available for sale	21,800	-	21,800	13,595	(126)	13,469
3.1 Fixed-yield securities	21,612	-	21,612	11,684	-	11,684
3.2 Variable-yield securities	-	-	-	-	-	-
3.3 Mutual funds	188	-	188	1,911	(126)	1,785
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
<b>Total assets</b>	<b>21,800</b>	<b>-</b>	<b>21,800</b>	<b>13,595</b>	<b>(126)</b>	<b>13,469</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Customer deposits	-	-	-	-	-	-
3. Debt securities in issue	294	(211)	83	382	(66)	316
<b>Total liabilities</b>	<b>294</b>	<b>(211)</b>	<b>83</b>	<b>382</b>	<b>(66)</b>	<b>316</b>

## Net change in value of financial assets and liabilities at fair value - line item 110

### 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 31/03/2014
<b>1. Financial assets</b>	<b>1,326</b>	<b>335</b>	<b>(184)</b>	<b>-</b>	<b>1,477</b>
1.1 Fixed-yield securities	1	-	-	-	1
1.2 Variable-yield securities	466	309	-	-	775
1.3 Mutual funds	859	26	(184)	-	701
1.4 Loans	-	-	-	-	-
<b>2. Financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
<b>3. Foreign currency financial assets and liabilities: exchange differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>4. Credit and financial derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>1,326</b>	<b>335</b>	<b>(184)</b>	<b>-</b>	<b>1,479</b>

## Net impairment adjustments - line item 130

### Net impairment adjustments to loans: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)				Total 31/03/2014	Total 31/03/2013
	Type		Portfolio	Type		Portfolio			
	Write-offs	Other			A	B	A	B	
<b>A. Due from banks</b>	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
<b>B. Due from customers</b>	<b>- (160,769)</b>	<b>(15,777)</b>	<b>(15,777)</b>	<b>106</b>	<b>21,732</b>	<b>-</b>	<b>33,146</b>	<b>(121,562)</b>	<b>(86,146)</b>
<b>Purchased impaired loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
<b>Other receivables</b>	<b>- (160,769)</b>	<b>(15,777)</b>	<b>(15,777)</b>	<b>106</b>	<b>21,732</b>	<b>-</b>	<b>33,146</b>	<b>(121,562)</b>	<b>(86,146)</b>
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	- (160,769)	(15,777)	(15,777)	106	21,732	-	33,146	(121,562)	(86,146)
<b>C. Total</b>	<b>- (160,769)</b>	<b>(15,777)</b>	<b>(15,777)</b>	<b>106</b>	<b>21,732</b>	<b>-</b>	<b>33,146</b>	<b>(121,562)</b>	<b>(86,146)</b>

Key:

A = interest

B = other write-backs



### Net impairment adjustments to available for sale financial assets: breakdown

Transactions/Income items	Adjustments (1)		Write-backs (2)		Total 31/03/2014	Total 31/03/2013
	Type		Type			
	Write-offs	Other	A	B		
A. Fixed-yield securities	-	-	-	-	-	-
B. Variable-yield securities	-	-	-	-	-	(1,132)
C. Mutual funds	-	(174)	-	-	(174)	(814)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
<b>F. Total</b>	<b>-</b>	<b>(174)</b>	<b>-</b>	<b>-</b>	<b>(174)</b>	<b>(1,946)</b>

Key:

A = interest

B = from write-back

### Net impairment adjustments on other financial transactions: breakdown

Transactions/Income items	Adjustments			Write-backs				Total 31/03/2014	Total 31/03/2013
	Type			Type		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B		
A. Guarantees given	-	(861)	(15)	-	691	-	-	(185)	(1,252)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to make loans	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
<b>E. Total</b>	<b>-</b>	<b>(861)</b>	<b>(15)</b>	<b>-</b>	<b>691</b>	<b>-</b>	<b>-</b>	<b>(185)</b>	<b>(1,252)</b>

Key:

A = interest

B = from write-back

## Administrative expenses - line item 180

### Personnel expenses: breakdown

Type of expense/Amounts	31/03/2014	31/03/2013
<b>1) Employees</b>	<b>(54,222)</b>	<b>(52,936)</b>
a) Wages and salaries	(34,421)	(36,081)
b) Social security contributions	(8,933)	(9,146)
c) Termination indemnities	-	-
d) Pension expenses	(899)	(915)
e) Provision for employee termination indemnities	(1,768)	(1,800)
f) Provision for post-employment benefits and similar commitments:	(2,324)	(1,676)
- defined contribution	-	-
- defined benefits	(2,324)	(1,676)
g) Payments to external supplementary pension funds:	(750)	(700)
- defined contribution	(750)	(700)
- defined benefits	-	-
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(5,127)	(2,618)
<b>2) Other working personnel</b>	<b>(881)</b>	<b>(776)</b>
<b>3) Directors and Statutory auditors</b>	<b>(702)</b>	<b>(643)</b>
<b>4) Retired personnel</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(55,805)</b>	<b>(54,355)</b>

### Average number of employees by category

Type of expense/Amounts	31/03/2014	31/12/2013
<b>1) Employees</b>	<b>3,043</b>	<b>3,078</b>
a) Managers	31	32
b) Officials	720	708
c) Other employees	2,292	2,338
<b>2) Other personnel</b>	<b>87</b>	<b>95</b>
	<b>31/03/2014</b>	<b>31/12/2013</b>
- Actual number of employees	3,047	3,061
- Other personnel	88	91
BRANCHES	342	338





### Other administrative expenses: breakdown

Type of service/Amounts	31/03/2014	31/03/2013
Telephone, post and data transmission	(4,189)	(4,087)
Maintenance of property, plant and equipment	(2,205)	(2,377)
Rent of buildings	(6,892)	(6,984)
Security	(1,628)	(1,631)
Transportation	(984)	(951)
Professional fees	(5,450)	(3,795)
Office materials	(678)	(667)
Electricity, heating and water	(1,695)	(1,753)
Advertising and entertainment	(681)	(516)
Legal	(3,286)	(3,058)
Insurance	(450)	(481)
Company searches and information	(1,197)	(1,267)
Indirect taxes and dues	(13,857)	(12,243)
Software and hardware rental and maintenance	(3,189)	(2,985)
Data entry by third parties	(563)	(407)
Cleaning	(1,229)	(1,142)
Membership fees	(518)	(474)
Services received from third parties	(735)	(754)
Outsourced activities	(4,988)	(5,125)
Deferred charges	(1,463)	(1,290)
Goods and services for employees	(153)	(168)
Other	(2,340)	(2,776)
<b>Total</b>	<b>(58,370)</b>	<b>(54,931)</b>

### Share of profit (loss) of equity investments - line item 240

#### Share of profit (loss) of equity investments: breakdown

Income item/Segments	31/03/2014	31/03/2013
<b>1) Joint-ventures</b>		
<b>A. Income</b>	<b>6</b>	<b>7</b>
1. Revaluations	6	7
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
<b>B. Charges</b>	<b>-</b>	<b>-</b>
1. Write-downs	-	-
2. Impairment write-downs	-	-
3. Loss from disposals	-	-
4. Other charges	-	-
<b>Net result</b>	<b>6</b>	<b>7</b>
<b>2) Associated companies</b>		
<b>A. Income</b>	<b>1,356</b>	<b>2,007</b>
1. Revaluations	1,356	2,007
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
<b>B. Charges</b>	<b>(606)</b>	<b>(407)</b>
1. Write-downs	(606)	(407)
2. Impairment write-downs	-	-
3. Loss from disposals	-	-
4. Other charges	-	-
<b>Net result</b>	<b>750</b>	<b>1,600</b>
<b>Total</b>	<b>756</b>	<b>1,607</b>

## *Gains (losses) on disposal of investments - line item 270*

### **Gains (losses) on disposal of investments: breakdown**

Income item/Segments	31/03/2014	31/03/2013
<b>A. Buildings</b>	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
<b>B. Other assets</b>	-	<b>8</b>
- Gains on disposal	-	8
- Losses on disposal	-	-
<b>Net result</b>	-	<b>8</b>

## *Earnings per share*

### **Average number of ordinary shares (fully diluted)**

There were no transactions involving share capital during the period 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.

	31/03/2014	31/03/2013
number of shares	308,147,985	308,147,985

### **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.

	31/03/2014	31/03/2013
earnings per share - €	0.135	0.034



## ***Information on risks and related hedging policy***

The information contained in this section may be based on internal data prepared for management purposes, which means that it may differ from the figures reported in the tables of this quarterly report.

### ***Risks of the Banking Group***

#### **Credit risk**

#### **QUALITATIVE INFORMATION**

Qualitative information about credit risk is provided in the financial statements at 31/12/2013.

#### **QUANTITATIVE INFORMATION**

##### **Asset quality**

##### **Impaired and performing loans: size, adjustments and trends**

##### **Distribution of financial assets by portfolio and quality of lending (book values)**

<b>Portfolio/quality</b>	<b>Banking group</b>					<b>Other businesses</b>		<b>Total 31/03/2014</b>	
	<b>Non- performing loans</b>	<b>Watchlist loans</b>	<b>Restructured exposures</b>	<b>Past due exposures, impaired</b>	<b>Past due exposures, not impaired</b>	<b>Other assets</b>	<b>Impaired</b>		<b>Other assets</b>
1. Financial assets held for trading	10	154	-	25	-	3,169,635	-	10,686	3,180,510
2. Financial assets available for sale	-	-	-	-	-	3,307,211	-	-	3,307,211
3. Financial assets held to maturity	-	-	-	-	-	175,734	-	-	175,734
4. Due from banks	-	-	-	-	5,087	963,174	-	1,406	969,667
5. Due from customers	506,161	933,321	77,074	305,445	1,280,791	21,496,601	-	157	24,599,550
6. Financial assets measured at fair value	-	-	-	-	-	493	-	-	493
7. Financial assets being sold	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
<b>Total 31/03/2014</b>	<b>506,171</b>	<b>933,475</b>	<b>77,074</b>	<b>305,470</b>	<b>1,285,878</b>	<b>29,112,848</b>	<b>-</b>	<b>12,249</b>	<b>32,233,165</b>
<b>Total 31/12/2013</b>	<b>460,686</b>	<b>899,472</b>	<b>42,819</b>	<b>435,862</b>	<b>1,049,469</b>	<b>28,257,281</b>	<b>-</b>	<b>147</b>	<b>31,145,736</b>

The word exposures is understood as excluding equities and mutual funds.

## Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Impaired assets			Performing			Total net exposure
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
<b>A. Banking group</b>							
1. Financial assets held for trading	245	56	189	-	-	3,169,635	3,169,824
2. Financial assets available for sale	-	-	-	3,307,210	-	3,307,210	3,307,210
3. Financial assets held to maturity	-	-	-	175,734	-	175,734	175,734
4. Due from banks	-	-	-	968,262	1	968,261	968,261
5. Due from customers	3,132,249	1,310,248	1,822,001	22,925,775	148,382	22,777,393	24,599,394
6. Financial assets measured at fair value	-	-	-	-	-	493	493
7. Financial assets being sold	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
<b>Total A</b>	<b>3,132,494</b>	<b>1,310,304</b>	<b>1,822,190</b>	<b>27,376,981</b>	<b>148,383</b>	<b>30,398,726</b>	<b>32,220,916</b>
<b>B. Other consolidated companies</b>							
1. Financial assets held for trading	-	-	-	-	-	10,686	10,686
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	1,406	-	1,406	1,406
5. Due from customers	-	-	-	157	-	157	157
6. Financial assets measured at fair value	-	-	-	-	-	-	-
7. Financial assets being sold	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,563</b>	<b>-</b>	<b>12,249</b>	<b>12,249</b>
<b>Total 31/03/2014</b>	<b>3,132,494</b>	<b>1,310,304</b>	<b>1,822,190</b>	<b>27,378,544</b>	<b>148,383</b>	<b>30,410,975</b>	<b>32,233,165</b>
<b>Total 31/12/2013</b>	<b>3,025,342</b>	<b>1,186,501</b>	<b>1,838,841</b>	<b>29,451,513</b>	<b>144,619</b>	<b>29,306,894</b>	<b>31,145,735</b>

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.



### Banking group - Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
<b>A. Cash exposures</b>				
a) Non-performing loans	-	-	-	-
b) Watchlist loans	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Impaired past due exposures	-	-	-	-
e) Other assets	1,240,789	-	1	1,240,788
<b>Total A</b>	<b>1,240,789</b>	<b>-</b>	<b>1</b>	<b>1,240,788</b>
<b>B. Off-balance sheet exposures</b>				
a) Impaired	-	-	-	-
b) Other	175,775	-	-	175,775
<b>Total B</b>	<b>175,775</b>	<b>-</b>	<b>-</b>	<b>175,775</b>
<b>Total A+B</b>	<b>1,416,564</b>	<b>-</b>	<b>1</b>	<b>1,416,563</b>

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).

### Banking group - Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
<b>A. Cash exposures</b>				
a) Non-performing loans	1,317,073	810,907	-	506,166
b) Watchlist loans	1,381,290	447,969	-	933,321
c) Restructured exposures	88,127	11,053	-	77,074
d) Impaired past due exposures	345,763	40,318	-	305,445
e) Other assets	29,263,899	-	148,381	29,115,518
<b>Total A</b>	<b>32,396,152</b>	<b>1,310,247</b>	<b>148,381</b>	<b>30,937,524</b>
<b>B. Off-balance sheet exposures</b>				
a) Impaired	88,725	14,954	-	73,771
b) Other	5,223,134	-	5,897	5,217,237
<b>Total B</b>	<b>5,311,859</b>	<b>14,954</b>	<b>5,897</b>	<b>5,291,008</b>
<b>Total A+B</b>	<b>37,708,011</b>	<b>1,325,201</b>	<b>154,278</b>	<b>36,228,532</b>

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).

### Banking group - Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
<b>A. Opening gross exposure</b>	<b>1,179,509</b>	<b>1,305,666</b>	<b>51,162</b>	<b>488,578</b>
- of which: sold but not eliminated from the balance sheet	3,750	14,799	-	22,693
<b>B. Increases</b>	<b>164,361</b>	<b>284,133</b>	<b>51,301</b>	<b>179,825</b>
B.1 transfers from performing loans	22,068	92,848	23,837	162,857
B.2 transfers from other categories of impaired exposure	132,539	158,885	13,295	10,922
B.3 other increases	9,754	32,400	14,169	6,046
<b>C. Decreases</b>	<b>26,797</b>	<b>208,509</b>	<b>14,336</b>	<b>322,640</b>
C.1 transfers to performing loans (including past due exposures, not impaired)	-	21,673	1,949	127,777
C.2 write-offs	8	-	-	-
C.3 collections	21,800	43,298	7,995	22,798
C.4 proceeds from disposals	-	-	-	-
C.4 bis loss from disposals	-	-	-	-
C.5 transfers to other categories of impaired exposure	806	138,620	4,392	171,822
C.6 other decreases	4,183	4,918	-	243
<b>D. Closing gross exposure</b>	<b>1,317,073</b>	<b>1,381,290</b>	<b>88,127</b>	<b>345,763</b>
- of which: sold but not eliminated from the balance sheet	5,920	16,915	-	14,658

### Banking group - Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
<b>A. Total opening adjustments</b>	<b>718,822</b>	<b>406,531</b>	<b>8,344</b>	<b>52,740</b>
- of which: sold but not eliminated from the balance sheet	1,073	2,612	-	1,818
<b>B. Increases</b>	<b>101,508</b>	<b>105,866</b>	<b>5,512</b>	<b>22,902</b>
B.1 transfers from performing loans	59,182	84,847	1,305	20,637
B.1 bis loss from disposals	-	-	-	-
B.2 transfers from other categories of impaired exposure	42,121	20,478	4,110	1,488
B.3 other increases	205	541	97	777
<b>C. Decreases</b>	<b>9,423</b>	<b>64,428</b>	<b>2,803</b>	<b>35,324</b>
C.1 write-backs on valuation	399	10,570	1,155	1,144
C.2 -backs due to collections	7,935	4,777	-	566
C.2 bis profit from disposals	-	-	-	-
C.3 write-offs	8	-	-	-
C.4 transfers to other categories of impaired exposure	1,039	45,877	1,291	19,988
C.5 other decreases	42	3,204	357	13,626
<b>D. Total closing adjustments</b>	<b>810,907</b>	<b>447,969</b>	<b>11,053</b>	<b>40,318</b>
- of which: sold but not eliminated from the balance sheet	1,715	3,142	-	1,688



## Banking group - Market risk

Qualitative information about interest rate, price and exchange rate risks is provided in the financial statements at 31/12/2013.

### Derivative instruments

#### Financial derivatives

Trading portfolio for supervisory purposes:  
notional amounts at period end and average amounts

Underlying assets/Type of derivative	Total 31/03/2014		Total 31/12/2013	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>1. Fixed-yield securities and interest rates</b>	<b>622,989</b>	-	<b>638,851</b>	-
a) Options	39,926	-	46,023	-
b) Swaps	581,045	-	592,828	-
c) Forwards	2,018	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>	-	<b>102,221</b>	-	<b>67,865</b>
a) Options	-	102,221	-	67,865
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currency and gold</b>	<b>2,843,028</b>	-	<b>3,262,418</b>	-
a) Options	106,934	-	95,774	-
b) Swaps	-	-	-	-
c) Forwards	2,736,094	-	3,166,644	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>17,229</b>	-	<b>14,003</b>	-
<b>5. Other underlying assets</b>	-	-	-	-
<b>Total</b>	<b>3,483,246</b>	<b>102,221</b>	<b>3,915,272</b>	<b>67,865</b>
<b>Averages</b>	<b>3,699,259</b>	<b>85,043</b>	<b>4,176,231</b>	<b>64,923</b>

Bank book: notional amounts at period end and averages

For hedging

Underlying assets/Type of derivative	Total 31/03/2014		Total 31/12/2013	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>1. Fixed-yield securities and interest rates</b>	<b>1,293,505</b>	<b>-</b>	<b>1,304,049</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	1,293,505	-	1,304,049	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currency and gold</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>5. Other underlying assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>1,293,505</b>	<b>-</b>	<b>1,304,049</b>	<b>-</b>
<b>Averages</b>	<b>1,298,777</b>	<b>-</b>	<b>1,258,220</b>	<b>-</b>





## Financial derivatives: gross positive fair value - breakdown by product

Underlying assets/Type of derivative	POSITIVE FAIR VALUES			
	Total 31/03/2014		Total 31/12/2013	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>33,309</b>	<b>1,421</b>	<b>36,810</b>	<b>877</b>
a) Options	1,853	1,421	1,761	877
b) Interest rate swap	14,697	-	13,604	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	16,040	-	21,003	-
f) Futures	-	-	-	-
g) Other	719	-	442	-
<b>B. Bank book - for hedging purposes</b>	<b>-</b>	<b>-</b>	<b>2,923</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	-	-	2,923	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Bank book - other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>33,309</b>	<b>1,421</b>	<b>39,733</b>	<b>877</b>

## Financial derivatives: gross negative fair value - breakdown by product

Underlying assets/Type of derivative	NEGATIVE FAIR VALUES			
	Total 31/03/2014		Total 31/12/2013	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>32,110</b>	<b>500</b>	<b>36,520</b>	<b>29</b>
a) Options	1,793	500	1,702	29
b) Interest rate swap	13,442	-	12,249	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	16,176	-	22,151	-
f) Futures	-	-	-	-
g) Other	699	-	418	-
<b>B. Bank book - for hedging purposes</b>	<b>33,775</b>	<b>-</b>	<b>27,580</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	33,775	-	27,580	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Bank book - other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>65,885</b>	<b>500</b>	<b>64,100</b>	<b>29</b>



### **Banking group - Liquidity risk**

Qualitative information about liquidity risk is provided in the financial statements at 31/12/2013.

### **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 Parent 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 Parent 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; these ratings will be monitored throughout the operation. 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.

### **Banking group - Operational risks**

Qualitative information about operational risks is provided in the financial statements at 31/12/2013.

### **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 we communicate that the overall exposure of the Group as at 31/03/2014 amounted to € 7,001 million and was structured as follows:

- a) Italian government securities: € 6,193 million;
- b) Securities of other issuers: € 31 million;
- c) Loans to government departments: € 10 million;
- d) Loans to local governments: € 64 million;
- e) Loans to state-owned or local government-owned enterprises: € 434 million;
- f) Loans to other public administrations and miscellaneous entities: € 269 million.

## *Information on consolidated equity*

### *Consolidated 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 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. The Shareholders' Meeting held on 26 April 2014 authorised a combined bonus capital increase and rights issue. The EGM authorised 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 was also authorised to reach agreement, on the terms and conditions usual in such cases, with an underwriting syndicate of leading institutions that will 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.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.



## QUANTITATIVE INFORMATION

The component parts and amounts of the Group's equity are described in the following tables.

### Consolidated equity broken down by type of businesses

Equity items	Banking group	Insurance companies	Other businesses	Consolidated eliminations and adjustments	31/03/2014
<b>1. Share capital</b>	<b>958,019</b>	-	<b>10</b>	-	<b>958,029</b>
<b>2. Share premium reserve</b>	<b>175,807</b>	-	<b>2</b>	-	<b>175,809</b>
<b>3. Reserves</b>	<b>869,637</b>	-	<b>(102)</b>	<b>16,817</b>	<b>886,352</b>
<b>4. Equity instruments</b>	-	-	-	-	-
<b>5. (Treasury shares)</b>	<b>(24,316)</b>	-	-	-	<b>(24,316)</b>
<b>6. Valuation reserves</b>	<b>41,929</b>	-	<b>192</b>	<b>2,640</b>	<b>44,761</b>
- Financial assets available for sale	58,926	-	-	-	58,926
- 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) related to defined-benefit pension plans	(16,997)	-	-	-	(16,997)
- Portions of valuation reserves related to subsidiaries carried at equity	-	-	-	2,640	2,640
- Special revaluation regulations	-	-	192	-	192
<b>7. Net profit (loss) for the period of the Group and of minority interests</b>	<b>43,389</b>	-	<b>266</b>	<b>756</b>	<b>44,411</b>
<b>Total</b>	<b>2,064,465</b>	-	<b>368</b>	<b>20,213</b>	<b>2,085,046</b>

### Valuation reserves for financial assets available for sale: breakdown

Assets/Values	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		Total 31/03/2014	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	55,839	(3,872)	-	-	-	-	-	-	55,839	(3,872)
2. Variable-yield securities	4,591	(202)	-	-	-	-	-	-	4,591	(202)
3. Mutual funds	2,710	(141)	-	-	-	-	-	-	2,710	(141)
4. Loans	-	-	-	-	-	-	-	-	-	-
<b>Total 31/03/2014</b>	<b>63,140</b>	<b>(4,215)</b>	-	-	-	-	-	-	<b>63,140</b>	<b>(4,215)</b>
<b>Total 31/12/2013</b>	<b>36,843</b>	<b>(4,530)</b>	-	-	-	-	-	-	<b>36,843</b>	<b>(4,530)</b>

### Valuation reserves for financial assets available for sale: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
<b>1. Opening balance</b>	<b>29,052</b>	<b>2,452</b>	<b>809</b>	-
<b>2. Positive changes</b>	<b>35,179</b>	<b>2,033</b>	<b>1,939</b>	-
2.1 Increases in fair value	35,179	2,033	1,939	-
2.2 Release to the income statement of negative reserves	-	-	-	-
- from impairment	-	-	-	-
- from disposals	-	-	-	-
2.3 Other changes	-	-	-	-
<b>3. Negative changes</b>	<b>12,264</b>	<b>95</b>	<b>179</b>	-
3.1 Reductions in fair value	80	95	41	-
3.2 Impairment writedowns	-	-	-	-
3.3 Transfer to income statement from positive reserves: from disposals	12,109	-	138	-
3.4 Other changes	75	-	-	-
<b>4. Closing balance</b>	<b>51,967</b>	<b>4,390</b>	<b>2,569</b>	-

### 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. This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

## ***Related-party transactions***

### **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	11,637	1	64	-	-
Statutory auditors	837	255	7	1	-	20
Management	3	1,403	-	8	23	-
Family members	1,740	23,902	18	117	36	7,196
Subsidiaries	1,898,108	793,950	16,388	1,805	265,556	36,818
Associated companies	501,331	245,185	1,603	860	106,404	3,169
Other related parties	282,874	180,365	1,022	698	30,826	30,409

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA and Factorit spa, while loans to associated companies relate for € 375 million to Alba Leasing SpA and for € 89 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 188 million granted to the affiliate Release spa.

## Segment information

### Primary format

#### Distribution by business segment: income statement

Items	Businesses	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/03/2014
Interest income	177,624	147,214	-	89,261	414,099	-166,558	247,541
Interest expense	-57,896	-92,485	-	-116,000	-266,381	166,558	-99,823
<b>Net interest income</b>	<b>119,728</b>	<b>54,729</b>	<b>-</b>	<b>-26,739</b>	<b>147,718</b>	<b>-</b>	<b>147,718</b>
Commission income	39,390	18,380	19,484	2,032	79,286	-230	79,056
Commission expense	-2,461	-1,703	-1,106	185	-5,085	-173	-5,258
Dividends and similar income	-	-	-	296	296	-	296
Net trading income	-	-	-	50,954	50,954	389	51,343
Net hedging profit (loss)	-	561	-	-432	129	-	129
Gains/losses on disposals or repurchases	-	-	-	21,883	21,883	-	21,883
Net change in value of financial assets and liabilities at fair value	-	-	-	1,479	1,479	-	1,479
<b>Income from banking activities</b>	<b>156,657</b>	<b>71,967</b>	<b>18,378</b>	<b>49,658</b>	<b>296,660</b>	<b>-14</b>	<b>296,646</b>
Adjustments to the net value of financial assets	-101,672	-20,076	-	-173	-121,921	-	-121,921
<b>Balance of financial management</b>	<b>54,985</b>	<b>51,891</b>	<b>18,378</b>	<b>49,485</b>	<b>174,739</b>	<b>-14</b>	<b>174,725</b>
Administrative expenses	-30,077	-37,964	-12,904	-19,760	-100,705	-13,470	-114,175
Provisions for risks and charges	660	-908	-	-392	-640	-	-640
Net adjustments to property, plant and equipment	-951	-1,477	-509	-1,088	-4,025	-	-4,025
Net adjustments to intangible assets	-718	-1,061	-350	-440	-2,569	-	-2,569
Other operating income/expense	3,515	2,688	147	-1,472	4,878	13,484	18,362
Share of profit/loss of equity investments	-	-	-	756	756	-	756
Profit/loss from disposal of investments	-	-	-	-	-	-	-
<b>Gross profit</b>	<b>27,414</b>	<b>13,169</b>	<b>4,762</b>	<b>27,089</b>	<b>72,434</b>	<b>-</b>	<b>72,434</b>





Items	Items	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/03/2013
Interest income	193,420	162,978	-	100,940	457,338	-201,125	256,213
Interest expense	-73,998	-119,722	-	-139,937	-333,657	201,125	-132,532
<b>Net interest income</b>	<b>119,422</b>	<b>43,256</b>	<b>-</b>	<b>-38,997</b>	<b>123,681</b>	<b>-</b>	<b>123,681</b>
Commission income	36,128	16,473	17,981	1,452	72,034	-319	71,715
Commission expense	-2,259	-1,558	-1,732	710	-4,839	-148	-4,987
Dividends and similar income	-	-	-	80	80	-	80
Net trading income	-	-	-	7,476	7,476	446	7,922
Net hedging profit (loss)	-	253	-	-358	-105	-	-105
Gains/losses on disposals or repurchases	-	-	-	13,785	13,785	-	13,785
Net change in value of financial assets and liabilities at fair value	-	-	-	2,528	2,528	-	2,528
<b>Income from banking activities</b>	<b>153,291</b>	<b>58,424</b>	<b>16,249</b>	<b>-13,324</b>	<b>214,640</b>	<b>-21</b>	<b>214,619</b>
Adjustments to the net value of financial assets	-81,066	-6,332	-	-1,946	-89,344	-	-89,344
<b>Balance of financial management</b>	<b>72,225</b>	<b>52,092</b>	<b>16,249</b>	<b>-15,270</b>	<b>125,296</b>	<b>-21</b>	<b>125,275</b>
Administrative expenses	-29,536	-35,423	-12,491	-20,132	-97,582	-11,704	-109,286
Provisions for risks and charges	643	383	-	-22	1,004	-	1,004
Net adjustments to property, plant and equipment	-1,011	-1,491	-527	-1,158	-4,187	-	-4,187
Net adjustments to intangible assets	-650	-943	-329	-440	-2,362	-	-2,362
Other operating income/expense	3,091	2,541	190	-503	5,319	11,725	17,044
Share of profit/loss of equity investments	-	-	-	1,607	1,607	-	1,607
Profit/loss from disposal of investments	-	-	-	8	8	-	8
<b>Gross profit</b>	<b>44,762</b>	<b>17,159</b>	<b>3,092</b>	<b>-35,910</b>	<b>29,103</b>	<b>-</b>	<b>29,103</b>

#### Distribution by business segment: balance sheet

Items	Businesses	Individuals and other customers	Securities	Central functions	Total 31/03/2014
Financial assets	15,500,329	10,241,068	-	7,001,268	32,742,665
Other assets	-	-	-	760,148	760,148
Property, plant and equipment	49,419	72,825	23,936	99,632	245,812
Intangible assets	4,089	5,909	1,906	11,430	23,334
Financial liabilities	6,952,195	20,393,503	-	3,206,848	30,552,546
Other liabilities	33,668	5,169	-	896,867	935,704
Provisions	69,543	79,491	19,718	29,911	198,663
Guarantees given	3,485,155	488,645	-	105,330	4,079,130
Commitments	757,972	331,259	108,491	181,526	1,379,248

Items	Items	Individuals and other customers	Securities	Central functions	<b>Total 31/12/2013</b>
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

## Secondary format

### Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	<b>Total</b>	Reconciliation	<b>Total 31/03/2014</b>
Interest income	345,455	53,588	17,054	416,097	-168,556	247,541
Interest expense	-222,407	-36,330	-10,081	-268,818	168,995	-99,823
<b>Net interest income</b>	<b>123,048</b>	<b>17,258</b>	<b>6,973</b>	<b>147,279</b>	<b>439</b>	<b>147,718</b>
Commission income	58,041	14,156	7,709	79,906	-850	79,056
Commission expense	-3,383	-1,808	-522	-5,713	455	-5,258
Dividends and similar income	293	-	3	296	-	296
Net trading income	48,111	-	2,934	51,045	298	51,343
Net hedging profit (loss)	-	-	561	561	-432	129
Gains/losses on disposals or repurchases	21,883	-	-	21,883	-	21,883
Net change in value of financial assets and liabilities at fair value	1,479	-	-	1,479	-	1,479
<b>Income from banking activities</b>	<b>249,472</b>	<b>29,606</b>	<b>17,658</b>	<b>296,736</b>	<b>-90</b>	<b>296,646</b>
Adjustments to the net value of financial assets	-114,619	-6,923	-379	-121,921	-	-121,921
<b>Balance of financial management</b>	<b>134,853</b>	<b>22,683</b>	<b>17,279</b>	<b>174,815</b>	<b>-90</b>	<b>174,725</b>
Administrative expenses	-78,999	-9,719	-12,940	-101,658	-12,517	-114,175
Provisions for risks and charges	-216	-32	-392	-640	-	-640
Net adjustments to property, plant and equipment	-3,100	-310	-615	-4,025	-	-4,025
Net adjustments to intangible assets	-2,042	-239	-288	-2,569	-	-2,569
Other operating income/expense	5,266	1,099	30	6,395	11,967	18,362
Share of profit/loss of equity investments	-	-	-	-	756	756
Profit/loss from disposal of investments	-	-	-	-	-	-
<b>Gross profit</b>	<b>55,762</b>	<b>13,482</b>	<b>3,074</b>	<b>72,318</b>	<b>116</b>	<b>72,434</b>



Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/03/2013
Interest income	381,452	63,203	17,446	462,101	-205,888	256,213
Interest expense	-278,240	-49,704	-10,814	-338,758	206,226	-132,532
<b>Net interest income</b>	<b>103,212</b>	<b>13,499</b>	<b>6,632</b>	<b>123,343</b>	<b>338</b>	<b>123,681</b>
Commission income	52,044	12,421	8,513	72,978	-1,263	71,715
Commission expense	-3,099	-1,532	-1,180	-5,811	824	-4,987
Dividends and similar income	80	-	-	80	-	80
Net trading income	4,655	-	2,299	6,954	968	7,922
Net hedging profit (loss)	-	-	253	253	-358	-105
Gains/losses on disposals or repurchases	13,785	-	-	13,785	-	13,785
Net change in value of financial assets and liabilities at fair value	2,528	-	-	2,528	-	2,528
<b>Income from banking activities</b>	<b>173,205</b>	<b>24,388</b>	<b>16,517</b>	<b>214,110</b>	<b>509</b>	<b>214,619</b>
Adjustments to the net value of financial assets	-82,141	-6,832	-371	-89,344	-	-89,344
<b>Balance of financial management</b>	<b>91,064</b>	<b>17,556</b>	<b>16,146</b>	<b>124,766</b>	<b>509</b>	<b>125,275</b>
Administrative expenses	-76,144	-9,237	-13,140	-98,521	-10,765	-109,286
Provisions for risks and charges	977	49	-22	1,004	-	1,004
Net adjustments to property, plant and equipment	-3,188	-318	-681	-4,187	-	-4,187
Net adjustments to intangible assets	-1,771	-205	-386	-2,362	-	-2,362
Other operating income/expense	5,881	869	38	6,788	10,256	17,044
Share of profit/loss of equity investments	-	-	-	-	1,607	1,607
Profit/loss from disposal of investments	8	-	-	8	-	8
<b>Gross profit</b>	<b>16,827</b>	<b>8,714</b>	<b>1,955</b>	<b>27,496</b>	<b>1,607</b>	<b>29,103</b>

#### Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	Total 31/03/2014
Financial assets	26,566,756	2,480,317	3,695,592	32,742,665
Other assets	657,344	-	102,804	760,148
Property, plant and equipment	210,174	16,500	19,138	245,812
Intangible assets	20,754	1,376	1,204	23,334
Financial liabilities	18,845,785	8,140,450	3,566,311	30,552,546
Other liabilities	909,232	6,832	19,640	935,704
Provisions	173,136	21,923	3,604	198,663
Guarantees given	3,124,770	763,650	190,710	4,079,130
Commitments	1,005,297	336,152	37,799	1,379,248

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

## Certification of the Financial Reporting Officer

The Financial Reporting Officer, Maurizio Bertoletti, certifies pursuant to art. 154 bis, para. 2, of the Consolidated Finance Law, that the accounting information contained in this consolidated financial report for the quarter ended 31 March 2014 agrees with the underlying documents, registers and accounting entries.

The Financial Reporting Officer  
Maurizio Bertoletti





**KPMG S.p.A.**  
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**(Translation from the Italian original which remains the definitive version)**

## **Auditors' report on review of condensed interim consolidated financial statements**

To the board of directors of  
Banca Popolare di Sondrio S.C.p.A.

### **Introduction**

We have reviewed the condensed interim consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the three months ended 31 March 2014, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on the condensed interim consolidated financial statements based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of condensed interim consolidated financial statements consists of making inquiries, primarily of the parent's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The condensed interim consolidated financial statements present the corresponding figures of the prior year annual consolidated financial statements and condensed interim consolidated financial statements for comparative purposes. We audited the prior year annual consolidated financial statements and issued our report thereon on 4 April 2014.

We did not examine the prior year condensed interim consolidated financial statements. Accordingly, our opinion does not extend to the comparative data as such.



## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the three months ended 31 March 2014 have not been prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 29 May 2014

KPMG S.p.A.

(signed on the original)

Paolo Valsecchi  
Director of Audit



**FINANCIAL STATEMENTS  
OF THE PARENT BANK  
AT 31 MARCH 2014**





## STATEMENT OF FINANCIAL POSITION

ASSET ITEMS		31-03-2014	31-12-2013
10.	CASH AND BALANCES WITH CENTRAL BANKS	82,304,725	109,512,487
20.	FINANCIAL ASSETS HELD FOR TRADING	3,257,724,511	3,167,660,707
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE	76,041,752	79,226,036
40.	FINANCIAL ASSETS AVAILABLE FOR SALE	3,492,866,636	3,373,245,002
50.	FINANCIAL ASSETS HELD TO MATURITY	175,734,394	182,620,516
60.	DUE FROM BANKS	1,619,545,348	1,481,714,447
70.	DUE FROM CUSTOMERS	21,354,087,999	20,843,577,225
100.	EQUITY INVESTMENTS	411,739,750	411,739,750
110.	PROPERTY, PLANT AND EQUIPMENT	156,175,835	155,622,700
120.	INTANGIBLE ASSETS	13,022,587	11,676,361
130.	TAX ASSETS	298,425,944	300,623,482
	a) current	-	28,625,878
	b) deferred	298,425,944	271,997,604
	b1) of which as per Law 214/2011	268,090,315	243,011,732
150.	OTHER ASSETS	223,812,120	345,496,620
<b>TOTAL ASSETS</b>		<b>31,161,481,601</b>	<b>30,462,715,333</b>

THE CHAIRMAN  
Francesco Venosta

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



<b>EQUITY AND LIABILITY ITEMS</b>		<b>31-03-2014</b>	<b>31-12-2013</b>
10.	DUE TO BANKS	<b>3,621,118,782</b>	<b>3,692,634,209</b>
20.	DUE TO CUSTOMERS	<b>21,824,386,815</b>	<b>21,208,780,218</b>
30.	DEBT SECURITIES IN ISSUE	<b>2,839,327,297</b>	<b>2,850,637,840</b>
40.	FINANCIAL LIABILITIES HELD FOR TRADING	<b>63,306,024</b>	<b>60,308,903</b>
80.	TAX LIABILITIES	<b>61,970,092</b>	<b>27,955,834</b>
	a) current	21,884,246	-
	b) deferred	40,085,846	27,955,834
100.	OTHER LIABILITIES	<b>730,788,330</b>	<b>668,480,929</b>
110.	RESERVE FOR TERMINATION INDEMNITIES	<b>38,419,653</b>	<b>38,264,866</b>
120.	PROVISIONS FOR RISKS AND CHARGES	<b>147,639,751</b>	<b>141,885,236</b>
	a) post-employment benefits	102,098,355	100,538,997
	b) other provisions	45,541,396	41,346,239
130.	VALUATION RESERVES	<b>41,970,590</b>	<b>15,357,661</b>
160.	RESERVES	<b>686,832,506</b>	<b>638,000,834</b>
170.	SHARE PREMIUM RESERVE	<b>171,449,522</b>	<b>171,449,522</b>
180.	SHARE CAPITAL	<b>924,443,955</b>	<b>924,443,955</b>
190.	TREASURY SHARES (-)	<b>(24,316,346)</b>	<b>(24,316,346)</b>
200.	NET PROFIT OF THE PERIOD	<b>34,144,630</b>	<b>48,831,672</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>31,161,481,601</b>	<b>30,462,715,333</b>

THE MANAGING DIRECTOR AND GENERAL MANAGER  
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER  
Maurizio Bertoletti



# INCOME STATEMENT

ITEMS		31-03-2014	31-03-2013
10.	INTEREST INCOME AND SIMILAR REVENUES	222,196,902	229,328,735
20.	INTEREST EXPENSE AND SIMILAR CHARGES	(91,631,623)	(123,012,627)
30.	<b>NET INTEREST INCOME</b>	<b>130,565,279</b>	<b>106,316,108</b>
40.	COMMISSION INCOME	63,916,561	56,764,157
50.	COMMISSION EXPENSE	(3,715,924)	(3,346,333)
60.	<b>NET COMMISSION INCOME</b>	<b>60,200,637</b>	<b>53,417,824</b>
70.	DIVIDENDS AND SIMILAR INCOME	54,779	80,255
80.	NET TRADING INCOME	48,328,092	5,107,372
100.	GAINS/LOSSES ON DISPOSALS OR REPURCHASES OF:	21,883,081	13,785,326
	b) financial assets available for sale	21,799,844	13,469,167
	d) financial liabilities	83,237	316,159
110.	NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE	703,530	2,528,482
120.	<b>INCOME FROM BANKING ACTIVITIES</b>	<b>261,735,398</b>	<b>181,235,367</b>
130.	NET IMPAIRMENT ADJUSTMENTS TO:	(119,958,571)	(85,507,288)
	a) loans	(119,474,957)	(82,161,519)
	b) financial assets available for sale	(174,242)	(1,945,769)
	d) other financial transactions	(309,372)	(1,400,000)
140.	<b>BALANCE OF FINANCIAL MANAGEMENT</b>	<b>141,776,827</b>	<b>95,728,079</b>
150.	ADMINISTRATIVE EXPENSES:	(95,854,713)	(91,010,990)
	a) personnel expenses	(44,360,401)	(42,498,160)
	b) other administrative expenses	(51,494,312)	(48,512,830)
160.	NET PROVISIONS FOR RISKS AND CHARGES	(849,702)	1,050,568
170.	NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(2,938,486)	(3,035,373)
180.	NET ADJUSTMENTS TO INTANGIBLE ASSETS	(2,266,443)	(1,963,041)
190.	OTHER OPERATING INCOME/EXPENSE	18,105,486	17,120,460
200.	<b>OPERATING COSTS</b>	<b>(83,803,858)</b>	<b>(77,838,376)</b>
240.	GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS	(161)	3,055
250.	<b>PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES</b>	<b>57,972,808</b>	<b>17,892,758</b>
260.	INCOME TAXES ON CURRENT OPERATIONS	(23,828,178)	(13,316,763)
270.	<b>PROFIT (LOSS) ON CURRENT OPERATIONS AFTER INCOME TAXES</b>	<b>34,144,630</b>	<b>4,575,995</b>
290.	<b>NET PROFIT OF THE PERIOD</b>	<b>34,144,630</b>	<b>4,575,995</b>





